Borough Council of
King's Lynn &
West Norfolk

Audit Committee

Agenda

Monday, 11th July, 2016
at 6.00 pm

in the

Meeting Rooms 1, 2 & 3
King's Court
Chapel Street
King's Lynn
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
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1st July 2016

Dear Member

Audit Committee

You are invited to attend a meeting of the above-mentioned Panel which will be held on **Monday, 11th July, 2016 at 6.00 pm** in **Meeting Rooms 1, 2 and 3, King's Court, Chapel Street, King's Lynn** to discuss the business shown below.

Please note that the meeting will be preceded by a training session on the Corporate Risk Register, starting at 5.30pm.

Yours sincerely

Chief Executive

AGENDA

1. Apologies

2. Minutes (Pages 7 - 11)

To approve the minutes from the Audit and Risk Committee held on 20 June 2016.

3. Declarations of Interest

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

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

4. Urgent Business Under Standing Order 7

To consider any business which, by reason of special circumstances, the Chairman proposed 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 the Committee had previously made. (NB some of the relevant Council bodies may meet after dispatch of the agenda).

At the Cabinet meeting held on 28 June 2016 the following responses were made to the recommendations from the Audit Committee meeting held 20 June 2016, on the following items:-.

Capital Programme and Resources 2016-2020

RESOLVED: That the Committee support the recommendations to Cabinet as follows:

1) That Cabinet note the outturn of the Capital Programme for 2015/2016 of £13,924,624.

2) That the financing arrangements for the 2015/2016 Capital Programme be noted.

3) That Cabinet approve the revised 2016/2020 Capital Programme and financing as detailed in the report.

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

Revenue Outturn 2015/2016

RESOLVED: That the Committee support the recommendation to Cabinet as follows:

The revenue outturn and proposed transfers to reserves for 2015/2016.

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

8. **Corporate Risk Monitoring Report April 2016** (Pages 12 - 19)

9. **Internal Audit Annual Report and Opinion 2015/16** (Pages 20 - 27)

10. **Internal Audit Plan 2015/16 -End of Year Progress Report** (Pages 28 - 39)

11. **Annual Treasury Report** (Pages 40 - 53)

12. **Exclusion of Press and Public**

To consider passing the following resolution:

"That under Section 100(A)(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act".

13. **Internal Audit Service** (To Follow)

RETURN TO OPEN SESSION

14. **Committee Work Programme 2016/2017** (Pages 54 - 55)

To note the Committee's Work Programme for 2016/2017.

15. **Date of Next Meeting**

To note that the date of the next meeting of the Audit and Risk Committee will take place on Monday 5 September 2016.

To:

Audit Committee: Mrs J Collingham, J Collop, P Gidney, M Hopkins, P Kunes, C Manning, D Pope, T Smith and T Wing-Pentelow

Portfolio Holders:

Councillor N Daubney – Portfolio Holder for Performance
Councillor B Long – Leader of the Council and Portfolio Holder for Environment

Management Team Representatives:

Debbie Gates, Executive Director Head of Central & Community Services
Lorraine Gore, Assistant Director
Geoff Hall, Executive Director, Development and Environment
Ray Harding, Chief Executive

Appropriate Officers:

Toby Cowper – Principal Accountant
Kate Littlewood – Audit Manager

Executive Directors
Press

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

AUDIT COMMITTEE

Minutes from the Meeting of the Audit Committee held on Monday, 20th June, 2016 at 6.00 pm in the Card Room, Town Hall, Saturday Market Place, King's Lynn

PRESENT: Councillor D Pope (Chairman)
Councillors Mrs S Fraser (substitute), P Gidney, M Hopkins (Vice-Chairman), P Kunes, C Manning and T Smith

Officers:
Lorraine Gore, Assistant Director

Observing:
Councillor Mrs K Mellish – Portfolio Holder, Human Resources and Shared Services
Councillor I Devereux – Deputy Cabinet Member, Performance

A1 **APPOINTMENT OF CHAIRMAN FOR THE MUNICIPAL YEAR 2016/2017**

RESOLVED: Councillor D Pope be appointed Chairman of the Audit Committee for the Municipal Year 2016/2017.

A2 **APPOINTMENT OF VICE CHAIRMAN FOR THE MUNICIPAL YEAR 2016/2017**

RESOLVED: Councillor M Hopkins be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2016/2017.

A3 **APOLOGIES**

Apologies for absence were received from Councillors J Collop, Mrs J Collingham.and T Wing-Pentelow.

A4 **MINUTES**

The Minutes of the meeting held on 23 February 2016 were agreed as a true record and signed by the Chairman.

A5 **DECLARATIONS OF INTEREST**

Councillor P Gidney advised that he was involved with HLF projects.

A6 **URGENT BUSINESS UNDER STANDING ORDER 7**

There was none.

A7 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

There were no Members present under Standing Order 34.

A8 **CHAIRMAN'S CORRESPONDENCE (IF ANY)**

There was none.

A9 **MATTERS REFERRED TO THE COMMITTEE FROM OTHER COUNCIL BODIES AND RESPONSES MADE TO PREVIOUS COMMITTEE RECOMMENDATIONS/REQUESTS**

None.

A10 **CAPITAL PROGRAMME AND RESOURCES 2015/19**

The Assistant Director presented the report which provided details of the outturn of the 2015/2016 Capital Programme and outlined amendments and rephasing to the spending on schemes, revising the programme for 2016/2020. The Capital Programme outturn for 2015/2016 totalled £13,924,624 against an approved budget of £15,746,950.

The Committee was advised that it had been necessary to rephase a total of £1,988,850 of scheme costs to future years. The Assistant Director explained that it had been necessary to rephrase a total of £1,988,850 of scheme costs to future years. Useable capital receipts generated in the year totalled £1,043,237. The capital resources available to fund expenditure in 2015/2016 were set out in section 3 of the report.

Members' attention was drawn to the following section of the report:

- Capital Programme 2015/2016.
- Financing of the Capital Programme 2015/2016.
- Minimum Revenue Provision.
- Capital Programme 2016/2020.
- Capital Resources 2016/2020.
- Equality Impact Assessment.
- Financial Implications.
- Risk Implications and Sensitivity Analysis.
- Appendix 1.
- Appendix 2.

The Assistant Director responded to questions and comments from the Committee, a summary of which are set out below.

In response to a question on miscellaneous movements, the Assistant Director explained that the £19,167 amounted to small underspends and gave examples set out at Appendix 1.

Following questions on the budget allocated to replacing brown garden bins, the Assistant Director explained that the budget allocated was used to purchase replacement bins, supply of bins for new properties and additional bins for those residents on the waiting list.

In response to a question regarding financing of the Capital Programme, the Assistant Director explained that the Capital Programme was funded from capital receipts, reserves, borrowing, specific grants and Section 106 contributions. The Committee was informed that Table 5 at section 6.1 provided details of the revised estimated capital resources for 2016/2020 updated after funding the 2015/2016 Capital Programme, and included amendments and rephrasing.

Following comments on the Section 106 contributions and the Community Infrastructure Levy (CIL), the Group Accountant explained that details were currently awaited regarding CIL.

In response to question regarding the joint housing venture with Norfolk County Council, the Assistant Director explained that Norfolk County Council had contributed £1m set up costs, whilst the Borough Council had contributed land to the value of £1m. The scheme was designed to regenerate the area in order to break even and the aim was not to make a surplus. However, if any surplus was made it would be split 50/50 between Norfolk County Council and the Borough Council.

Following comments on the Borough Council's future target savings, the Assistant Director explained that details would be included in future budget monitoring reports.

The Chairman, Councillor Pope thanked the Assistant Director for presenting the report.

RESOLVED: The Committee support the recommendations to Cabinet as follows:

1) That Cabinet note the outturn of the Capital Programme for 2015/2016 of £13,924,624.

2) That the financing arrangements for the 2015/2016 Capital Programme be noted.

3) That Cabinet approve the revised 2016/2020 Capital Programme and financing as detailed in the report.

A11 **<u>REVENUE OUTTURN 2015/16</u>**

The Group Accountant presented the report which set out in summary the revenue outturn of 2015/2016 for the General Fund (council tax accounts). The report showed details of the major differences between actual costs/income and the *revised* estimates for 2015/2016 reported in February 2016 monitoring.

Members were advised that the accounts showed actual Borough spend of £18,021,900, which was £48,790 less than the February Revised Estimate for 2015/2016. This additional saving would be held within the General Fund balance that was carried forward to 2016/2017.

The Group Accountant explained that the Council's continuing strategy was to identify budget savings in year, as part of the monitoring process and at year end. The savings were then transferred to the General Fund Balance for use in future years.

The Group Accountant responded to questions and comments from the Committee, a summary of which is set out below.

In response to questions regarding bad debt provision, the Group Accountant explained that the calculation of bad debt was based on the age of the debt and gave the following examples:

- 30 days = 5%.
- 365 days = 50%.

The Group Accountant advised that the bad debt provision had been included in sundry debtors at year end. The Borough Council made every effort to recover bad debts and used recovery agencies when appropriate.

Following questions on "movements to be explained", the Group Accountant explained that details of service analysis were set out at section 3.1 onwards in the report.

In response to a question as to how it was decided the amount to be transferred to reserves, the Group Accountant explained that money would be transferred for a specific purpose and gave examples as set out below:

- Resurfacing of car parks.
- Projects within the Capital Programme.
- Works to be undertaken – Hunstanton Promenade Survey.

The Chairman, Councillor Pope thanked the Group Accountant for presenting the report.

RESOLVED: The Committee support the recommendation to Cabinet as follows:

It is recommended that Cabinet approves:

The revenue outturn and proposed transfers to reserves for 2015/2016.

A12 **WORK PROGRAMME 2016/2017**

The Committee noted the Work Programme for 2016/2017.

The Chairman, Councillor Pope invited any Councillor to put forward any worthwhile items for the Committee to consider at future meetings.

Following a discussion on the Corporate Risk Register, it was suggested that training be organised for the Committee.

The Chairman, Councillor Pope stated that it was important for the Committee to scrutinise reports as appropriate now that the Cabinet Scrutiny Committee had been abolished. He added that if a Member of the Committee was unable to attend a meeting, it was important to arrange a substitute.

RESOLVED: 1) The Work Programme for 2016/2017 be noted.

2) A training session on the Corporate Risk Register be scheduled to take place on 11 July 2016 at 5.30 pm prior to the Audit Committee at 6.00 pm.

A13 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee will take place on 11 July 2016 at 6 pm.

The meeting closed at 6.40 pm

AUDIT AND RISK COMMITTEE REPORT

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

Committee: **Audit & Risk Committee**
Date: **11th July 2016**
Subject: **Corporate Risk Monitoring Report April 2016**

Summary This report presents the changes to the Risk Register since the last monitoring report in October 2015 and gives details of the risks falling into the 'Very High' category and the associated work to mitigate the effects.

Recommendation To note the report.

1.0 Introduction and Background

1.1 The Risk Management Policy and Risk Management Strategy were presented to the Audit and Risk Committee in February 2016 and approved by Cabinet on 1st March 2016.

1.2 The Terms of Reference for the Audit and Risk Committee include responsibility for monitoring the management of risk by Management Team. To this end,the Committee receives reports on a half-yearly basis on the position of the Corporate Risk Register, with the last one being presented in October 2015.

1.3 Each risk on the register is scored in terms of Impact and Likelihood, according to criteria defined within the Corporate Risk Strategy. The definitions are attached for reference in **Appendix 2**.

1.4 The Risk Register is reviewed by the Executive Directors on a 6-monthly basis. Any existing entries on the register are considered for changes to the nature of the risk, progress to be reported and any adjustments to the risk scores. Risks that are no longer relevant are removed and new risks considered in the context of current circumstances are added. The risk reference numbers are not reallocated when risks are removed from the register, to enable the history to be maintained.

1.5 A summary of the changes to the Risk Register since the last monitoring report are detailed in section 2 below. Details of the 'Very High' risks are given in **Appendix 1** together with a list of the 'High' risks.

1.6 The full Risk Register, as agreed by Management Team, is placed on InSite, within the Risk Management section on the Corporate Documents tab.

2.0 Changes to the Register

2.1 The Risk Management Policy states that to '*ensure it is effective, risk management needs to be aligned with corporate aims, objectives and priorities'*. As such the format of the risk register has been re-ordered to reflect the Priorities as contained in the Corporate Business Plan. This makes the link between the Priorities and the management of associated risks clearer. The existing reference numbers have been retained (and are shown in brackets) for now so that the connection to the old style plan is maintained and new reference numbers allocated to reflect the revised layout.

2.2 Apart from updates on progress for various entries, the main changes since October 2015 are listed below.

2.3 **Risks to be removed**:
Four risks have been removed from the register, all under Priority 1:

<u>'Loss of Staff' and 'Loss of King's Court'</u>
Both these risks were concerned with Business Continuity issues. They have now been incorporated into '1.1 - Business Continuity (Internal) Including loss of staff and loss of King's Court' as a generic risk.

<u>'Business Rates Appeals' and 'Loss of Major Businesses'</u>
These were specific risks relating to potential reductions in Business Rates and potentially several new risks could be added along the same lines, all with the same consequences – reduction in revenue. Therefore a new over-arching risk for 'Business Rates' has replaced these specific entries.

2.4 **New risks identified**:
Four new risks have been added to the register:

<u>1.16 – 'Business rates'</u>
As noted above, there are several potential individual entries that could be made to the register in relation to Business Rates risks. This over-arching risk will replace the existing two previous entries and cover future risks arising.

3.4 – ‘Waste and Recycling’
The issues with the Kier Contract raise significant concerns about the ongoing viability of the contract.

4.1 ‘Improvements to Heritage Buildings’
The new Corporate Business Plan includes a priority relating to the improvement of the heritage buildings. In order to deliver this priority the Council needs to ensure that there are sufficient funds available if required as part of any grants received.

6.1 ‘Conflicting aims (with Partners)’
Another new priority is to work with our partners. The risk is that the aims of our partners do not complement those of the Council and that use of valuable resources is not maximized.

2.5 **Risk Rating Amendments**

Two risk scores have been amended:

1.7 – Loss of Server
The connection of the back-up site at Fakenham to the internet means that staff will be able to use Citrix to access data from home if necessary. This has reduced the Impact from Extreme to Moderate, reducing the overall risk score from High to Medium.

1.8 – ICT failure of back-up
Significant investment in back-up processes has resulted in a more resilient system. As a result the Impact has been reduced from Extreme to Major, reducing the overall risk score from High to Medium

3.0 Conclusion

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

CORPORATE RISK MONITORING REPORT
APRIL 2016

Risk name: 5-year Land Supply	Responsible Director: Environment and Planning

Ref	Description	Mitigation	Progress
(Old ref. 2.10) New ref. 2.4	The risk is that: The Planning Inspectorate does not agree that the Council has identified an adequate supply of land designated as housing development land for the next 5 years, and consequently this will lead to development approved in areas that the Council does not want developed.	Work on the LDF to ensure the Council can evidence that sufficient land is available. Also approve applications to boost the supply in the short-medium term.	The Council currently has a 5-year plan, but this may change as a result of an appeal being heard this month, and then another appeal in the autumn.

Risk Score:		
Impact	Major	4
Likelihood	Almost certain	5
Total score		20
Risk Category		Very High

CORPORATE RISK MONITORING REPORT
APRIL 2016

Risk name: Business Rates	**Responsible Director: Assistant Director (s151 Officer)**

Ref	Description	Mitigation	Progress
1.16	The risk is that: The financial plan may be adversely affected as a result of substantial events that affect the Business Rates due to the Council. Such events may be appeals being agreed leading to substantial Rateable Value reductions; reliefs being granted; failure to grow the business rate tax base or closure of a large business; and uncertainty relating to the 100% retention of Business Rates in future and the revaluation due in 2017.	Reserves created for measurable risks and membership of the Norfolk Business Rates Pool. Continue to monitor potential areas of risk and work with LGA where possible. Continue working with major businesses to reduce the possibility of closure.	Power station appeal against the 2005 list has been withdrawn although the 2010 appeal remains outstanding. Reserves have been created to protect against closure of major businesses and the position of major businesses continues to be monitored and proactively managed

Risk Score:		
Impact	Extreme	5
Likelihood	Possible	3
Total score		15
Risk Category		Very High

APPENDIX 1

CORPORATE RISK MONITORING REPORT
APRIL 2016

Risks categorized as 'High Risk' (Score 10-12)

(2.7) 1.6 – Capital receipts

(5.2) 1.1 – Fraud and Corruption

(5.4) 1.12 – Financial Plan

(5.14) 1.13 – VAT – Trust arrangements

(5.15) 1.14 – Land Charges

(2.5) 2.2 – Empty retail properties/ Town centre decline

(2.9) 2.3 – Major housing developments

(2.12) 2.6 – Major Planning Applications

(1.4) 3.1 – Emergency Response (External)

3.4 – Waste and Recycling Contract

(4.1) 3.5 – Health and Safety

APPENDIX 2

CORPORATE RISK MONITORING REPORT
APRIL 2016

LIKELIHOOD					
5 Almost Certain	(5) (Green)	(10) (Orange)	(15) (Red)	(20) (Red) 2.4.	(25) (Red)
4 Likely		(8) (Green)	(12) (Orange) 1.14.	(16) (Red)	(20) (Red)
3 Possible		(6) (Green) 2.5.	(9) (Green) 1.2, 1.3, 1.5, 1.9, 3.3, 4.1, 6.1.	(12) (Orange) 1.6, 1.10, 1.12, 1.13, 2.2, 2.3, 2.6, 3.1, 3.5.	(15) (Red) 1.16,.
2 Unlikely			(6) (Green) 1.7, 1.11, 1.14, 3.2.	(8) (Green) 1.1, 1.4, 1.8, 1.15, 2.1.	(10) (Orange) 3.4.
1 Rare					(5) (Green)
	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Extreme

IMPACT

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

Likelihood

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

Impact

Score	Impact on service	Personal safety	Financial loss	Legal and Regulatory	Corporate objective	Environmental impact	Reputation
1 Insignificant	Little	No injury	<£25,000 or 1% of budget	Minor civil litigation or regulatory criticism	No effect on delivery	None or insignificant	No damage
2 Minor	Some	Minor injury	>£25,000 or >2.5% of budget	Minor regulatory enforcement	Little effect on delivery	Minor damage	Minimal damage (minimal coverage in local press)
3 Moderate	Significant	Violence or threat of serious injury	>£175,000 or >5% of budget	Major civil litigation and/or public enquiry	Possible impact on delivery	Moderate damage	Significant coverage in local press
4 Major	Service not available for 2-7 days	Extensive or multiple injuries	>£500,000 or >10% of budget	Major civil litigation and/or national public enquiry.	Significant impact on delivery	Major damage	Coverage in national press
5 Extreme	Service not available for >7 days	Fatality	>£1m or >15% of budget	Section 151 or government intervention or criminal charges	Non delivery	Significant damage locally or nationally	Requires resignation of Chief Exec, Exec Director or Leader

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	
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: **11th July 2016**
Subject: **Internal Audit Annual Report and Opinion 2015-16**

Summary This report provides Members with an overview of the work undertaken by the Internal Audit Section during the 2015-16 financial year against the Strategic Audit Plan, 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 2015, the Council '*must conduct a review of the effectiveness of the system of internal control'.* The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.

1.2 Public Sector Internal Audit Standards (PSIAS), which are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, state that the Audit Manager '*must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement'.* This report fulfils that requirement.

1.3 The Internal Audit Annual Report describes the work conducted by Internal Audit and states the Audit Manager's opinion on the system of internal control and the sources of assurance used to form this opinion.

1.4 To support the stated opinion, this report describes the work carried out by Internal Audit during 2015-16 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 internal control, including in particular:

- the key controls operating within and around the core financial systems
- financial management in each Directorate 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 2015-16, with sound controls in all key areas.

3.0 Effectiveness of the Internal Audit team

3.1 During 2015/16, the Internal Audit team consisted of a full time Audit Manager, 1.8 FTE Auditors and 1 full time Investigation Officer/Internal Auditor. The Audit Manager is a Chartered Member (CMIIA) of the Chartered Institute of Internal Auditors (CIIA). The Internal Auditors have either achieved a Practitioner status of the IIA or hold equivalent qualifications. The Investigation Officer/ Internal Auditor is PINS (Professionalism in Security) qualified and also an Accredited Counter Fraud Manager, and is currently training as an Internal Auditor.

3.2 All members of the team undertake training as part of their Continued Professional Development (CPD). This can take the form of attending externally run courses or in-house provision. A list of the courses attended is attached as **Appendix 1**. The training covers not only technical audit issues, but also subjects that the team have to consider as part of the various audits. This all forms part of the 'Knowledge of the Business' that is fundamental to the conduct of constructive audits. The team are also expected to be aware of reports going to the various panels and committees.

3.3 Where specialist IT audit skills are required the Audit Manager has the facility to use the IT audit services provided under the contract between Eastern Internal Audit Services (formerly the Norfolk Internal Audit Consortium), based at South Norfolk District Council, and TIAA Ltd. There is budget provision to enable the Audit Manager to call on this resource if required as part of the Strategic Audit plan.

3.4 The Internal Audit service is independent of any operational responsibilities and manages its own budget. During 2015-16 line management was through the Assistant Director (s151 Officer), but direct access to the Chief Executive, Leader, or Chair of the Audit and Risk Committee was available if required.

3.5 Internal Audit have Terms of Reference which were approved by the Audit and Risk Committee on 25th June 2013. These describe the scope and objectives of the service, confirm the independent status, authority and standards by which the team operate, and define the responsibilities. The audit style and content, reporting lines and resources are also included. An update of the Terms of Reference is being completed and will be presented to the Audit Committee for approval in due course.

3.6 All work in 2015-16 has been performed according to the PSIAS. The standards, which are based on the mandatory elements of the CIIA's International Professional Practices Framework, and augmented by the Local Government Application Notes (LGAN), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

3.7 To ensure the internal audit function meets the PSIAS requirements, an independent external quality assessment is required every five years. Such a review was carried out in 2014 by the CIIA and the subsequent report was presented to the Audit and Risk Committee on 28th October 2014.

3.8 Of the 56 standards, Internal Audit was found to be compliant with 50. Recommendations were made in respect of the six standards that were not compliant and subsequent actions taken to correct these were reported to the Committee on 21st July 2015.

3.9 A self-assessment checklist, consisting of 207 questions, has been completed this year to ensure that the team continue to comply and the overall result was positive. The completed checklist is available to Members of the Audit Committee on InSite.

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 2015-16 was agreed on 23rd June 2015.

4.2 The Strategic Audit Plan for the year is constructed using the Assurance Framework as a basis, with no limitations in scope. The Assurance Framework is a risk based tool that divides the activities of the Council into five high level, and a sixth operational/ service based domains. Within these domains various activities are risk assessed and the frequency of audits for each area is based on the results. The risk assessment includes any assurance that can be gained from external sources such as the internal audit carried out by Bedford Borough Council for payroll processing. Other sources include the work of Health and Safety specialists and Security Industry Authority 'Approved Contractor' status for CCTV.

In addition to the Assurance Framework, the Audit Manager has regard for:

- Corporate Business Plan
- Discussions with the Executive Directors
- Entries on the Corporate Risk register
- Comments from the external auditors

4.3 At the end of each audit a formal report is issued, containing an action plan agreed with the relevant managers to address any control weaknesses identified during the audit. The audit reports are 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.

4.6 During the year 20 internal audit reports have been issued and the results are summarised in the table at **Appendix 2**.

Whilst most of the audits indicate a 'Full' or 'Substantial' level of assurance, in one case the audit produced a result of 'No Assurance', and another showed 'Limited Assurance'.

The 'No Assurance' was the result of the Allotments audit and a comprehensive plan of action was put in place. The nature of the required corrective work meant that a longer timescale than normal was necessary but ongoing monitoring by the auditor has indicated a very good level of implementation. As a result the level of assurance had improved to 'Limited' at the initial follow-up carried out six months after the audit report was issued.

The 'Limited Assurance' result was for the audit of Alive Leisure and Alive Management. The new employment and management structures are still being refined and embedded, and an action plan has been agreed with managers to resolve the issues.

Each audit is followed up approximately six months after the report has been issued to establish if recommendations are being implemented in accordance with the agreed action plan. Follow-up reports for 2015-16 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.

4.7 Progress against the strategic plan, including summaries of the reports issued and any amendments to the plan were reported to the Audit and Risk Committee during the year.

5.0 Anti-Fraud and Anti-Corruption Procedures

5.1 Work with the National Fraud Initiative (NFI) has continued this year, with checks on most of the matches from the 2014/15 exercise and the Flexible Matching Service being completed. In total 3,770 matches were received, of which 3,269 have been processed and 492 are waiting to be processed and a total in excess of £105,000 is being recovered as a result.

5.2 The Internal Audit Team did not conduct any internal fraud investigations during 2015/16.

6.0 Risk Management

6.1 The process for reviewing and updating the Risk Register is currently co-ordinated by the Audit Manager, but responsibility for risk management lies with the Senior Management Team (SMT). As well as receiving the Internal Audit reports for their respective areas, which provide an indication of any weaknesses in the control environment, the SMT also review the Corporate Risk register on a 6-monthly basis in April and October. If any significant issues arise in the intervening period, they are discussed at the time and the register amended. The Audit and Risk Committee receive the Corporate Risk Register after it has been updated at the regular 6-monthly intervals.

6.2 The Council's Risk Management Policy and Strategy were reviewed and the final versions approved by Cabinet in March 2016.

7.0 Conclusion

7.1 The system of internal control is designed to manage risk to a reasonable level, and therefore cannot provide absolute assurance.

7.2 Notwithstanding the above, based on the audit work completed during 2015-16, 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.

Training undertaken by Internal Audit 2015/16 included:

Report writing
Preventing and Detecting Housing Fraud
An introduction to Internal Auditing
Psychology of Criminal Profiling Level 3
An Introduction to Information Systems Auditing
Procurement and Contract Management
Risk Appetite – making it real
Financial Management Risk and Financial Controls
Child Protection Training – CSE awareness

In addition more corporate wide training was completed relating to:

Business Continuity (E-learning)
VDU (E-learning)
IT security (E-learning)
Managing Change
Data Protection, FOI and EIR (E-learning)

Audit reports issued during 2015/16 showing assurance levels

Audit title	Overall Conclusion
Public Open Space – Street Cleansing	Substantial Assurance
Public Open Space – Allotments	No Assurance
General Ledger and Budgetary Control (2014/15)	Substantial Assurance
Resort Services	Full Assurance
Leisure Trust (2014/15)	Substantial Assurance
Council Tax (2014/15)	Substantial Assurance
Creditors and Payments (2014/15)	Full Assurance
Payroll (2014/15)	Full Assurance
Annual Governance Statement Review	Substantial Assurance
Performance and Appraisal	Full Assurance
Non-Domestic Rates and Business Rate Retention Scheme (2014/15).	Substantial Assurance
Recruitment	Full Assurance
Civil Enforcement and Car Parking	Substantial Assurance
Civic Expenses and Administration	Full Assurance
Accounts Receivable	Substantial Assurance
Payroll	Full Assurance
Treasury and Cashflow Management	Substantial Assurance
CCTV	Substantial Assurance
Data Protection, Freedom of Information and Environmental Information Regulations.	Substantial Assurance
Alive Leisure and Alive Management	Limited Assurance

AUDIT AND RISK COMMITTEE REPORT

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

Committee: **Audit & Risk Committee**
Date: **11th July 2016**
Subject: **Internal Audit Plan 2015/16 –End of Year Progress report.**

Summary	This report shows the Internal Audit activity against the Strategic Audit Plan and fraud work for the second half 2015/16.
Recommendation	Members are asked to note the report on the Internal Audit workplan 2015/16.

1.0 Introduction and Background

1.1 The Strategic Audit Plan 2015/16, endorsed by the Audit and Risk Committee on 23rd June 2015, sets out the work Internal Audit expect to carry out during the year. This work complies with the requirement under section 3 of the Accounts and Audit Regulations 2015 for the Council to

'*ensure that it has a sound system of internal control which*:

a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives
b) Ensures that the financial and operational management of the authority is effective.'

1.2 Performance Standard 2060 of the Public Sector Internal Audit Standards (PSIAS) requires the Audit Manager to report to the Audit and Risk Committee on the internal audit activity and performance relative to this plan.

1.3 The Terms of Reference for the Audit and Risk Committee require the Committee to monitor delivery of the internal audit activity.

2.0 Audit work in second half 2015/16.

2.1 On completion of each audit a formal report is issued to the relevant line managers, the Executive Director and Portfolio Holder. Copies are also sent to the Chief Executive, Assistant Director (s151 Officer) and the external auditors, Ernst and Young. Each report contains an action plan, with target dates, that has been agreed with the managers to address the observations and recommendations raised by Internal Audit. This forms the basis of the follow-up audit, which is carried out approximately six months later to assess progress in implementing the agreed actions.

2.2 *Reports issued*

The following audits have been completed during the second half of 2015/16 and reports issued as described above:

- Recruitment
- Civil enforcement and car parking
- Civic expenses and administration
- Accounts receivable
- Payroll
- Treasury and Cashflow Management
- CCTV
- Data Protection, Freedom of Information and Environmental Information Regulations
- Alive Leisure and Alive Management
- Planning Support f/up
- Public Open Space – Street Cleansing f/up
- Public Open Space – Allotments f/up

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

2.3 W*ork ongoing*

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

- ICT Disaster Recovery
- Business Continuity
- Creditors and Payments
- Council Tax and Business Rates
- General Ledger and Budgetary Control
- Housing Benefits
- Asset Register and Inventory Control
- Contracts

In most cases the majority of the testing work had been completed and the report was being finalised.

2.4 *Other work carried out*

Apart from the standard audits, Internal Audit also undertook other work during the second half of the year including the following:

- A VAT healthcheck on the Leisure arrangements was carried out by the Councils' external VAT specialist, with some input from the Internal Audit team.
- Safeguarding Children – to review what measures, in respect of safeguarding, the Council has in place when dealing with 3rd parties who are acting on the Council's behalf or leasing Council property, receiving grant/ funds from the Council or obtaining licences to carry out an activity.
- Repair and Renew Grant – audit of the allocation of grant money from DEFRA to improve the flood resilience of properties damaged in the storms in 2013/14.
- Additional audit work requested by Alive Leisure in respect of Data Protection Act provisions, Service Improvement Plans and Governance arrangements.

2.5 *Changes to the Audit Plan*

Some audit work has been carried over to the 2016/17 audit plan. It is not unusual for this to happen as the timing of the planned work is not exact and this was the case for the audits of Policies and the Transparency Agenda.

Some other audits have been carried over for specific reasons and these have been explained in each case below:

- S106 funds/ CIL
  The CIL arrangements are still being finalised.

- Housing Option and Allocations
  The Housing Options team have been transferring to a new IT system.

- Communications
  Staff changes in the Communications team meant that resources were not available to enable the audit to be undertaken.

- Careline Community Services
  The service had been the subject of a LEAN review and as a result the software was being changed to a new system.

These audits take priority in the new work year and most are ongoing at the time of writing this report.

3.0 Performance Indicators

3.1 Delivery of the Audit Plan – a target of 95% has been set to take in to account any work that may overlap at year end and also to allow for any additional work that may arise during the year. The table below summarises the position against the planned audits contained in the Audit Plan 2015/16.

2015/16 Status of Audits	Audit days used	Percentage of Plan (in days)
Completed and reported	181	44%
In Progress	135	33%
Carried over to 2016/17	95	23%
Total Planned Audits	**411**	**100%**

3.2 Planned audit time – a target of 60% has been set for the full year with an actual figure of 61%. This refers to the proportion of the total available time that is spent on planned audit work rather than management, training, general administration and holidays.

4.0 Work planned for April to September 2016

4.1 As well as completing the ongoing work listed in paragraph 2.3, the following audits are planned for the first half of 2016/17:

Audit Title	Days
Policies	15
External Communications/ Informing the Customer	10
Transparency Agenda	15
Careline	15
Food Hygiene, Health & Safety and Public Health	15
PRP and Cost of Living calculations check	2
Review of Statement of Accounts	5
Total	**77**

The Audit Team also undertake the Internal Audit service for the Water Management Alliance, which generates a small income. This audit will be carried out during April.

5.0 Investigation work October 2015 to March 2016

5.1 NFI update

There are currently two active NFI reporting sites:

- The Flexible Matching Service site
- The NFI 2014/15 Site

There are 1,738 matches within the "Flexible Matching Service Site" of which 1,503 have now been processed. These matches mainly consist of Council Tax Single Person Discount (SPD) review matches. All 'Recommended' (these are completed on a high priority basis) matches have now been completed. A total of 161 matches highlighted errors resulting in £58,356.96 of additional revenue being identified which is being recovered. Of the remaining matches, 131 require further investigation.

There are 2,032 matches within the "NFI 2014/15 Site" of which 1,766 have now been processed. These matches are spread over 47 different reports, covering Housing Benefit and Creditor matches. There are currently six reports with outstanding matches, mainly Creditor matches (**Appendix 2**).

All ‘Recommended’ (these are completed on a high priority basis) matches have now been completed.

In total there were 3,770 matches received, of which 3,269 have now been processed and 492 are waiting to be processed.

5.2 Tenancy fraud

The Investigator commenced his position within the team on 1st April 2015. To date work has been carried out to produce an investigation manual to provide guidance, support and assistance within all types of criminal investigations including Tenancy Fraud, which is a new area of investigation for the Council.

We have conducted one investigation with Circle Housing Wherry which resulted in a successful prosecution of a tenant who had unlawfully sub-let his social housing property to gain an unlawful profit. The tenant was convicted and given:

- A two year conditional discharge
- The full amount of Unlawful profits of £3,687.64 was awarded to the Housing Association
- Full costs of £1,363.70 were awarded to the Council
- A victims surcharge of £15.00 was also issued to the offender
- The tenancy was terminated and the property returned to the Housing Association and new tenants are already in the property.

Tenancy Fraud training was completed in October 2015 with officers from the Housing Team, and two of the larger Housing Associations in the Borough as well as the Internal Audit team attending.

The Prevention of Social Housing Fraud Act 2013 states that Local Authorities have been given the authority to conduct Social Housing Fraud investigations on behalf of Social Housing providers. Steps are being taken to expand this service to local Social Housing providers for which a fee will be charged to cover the cost of the investigation.

5.3 Council Tax Reduction Scheme

Due to the transfer of Housing Benefit Investigations to the Department for Work and Pensions (DWP) with effect from 1 April 2015, a new referral procedure has been produced because some types of Council Tax Reduction Scheme investigations will be affected by the actions of the DWP. The Investigator has held briefing sessions with the Benefit Assessment staff and also the Benefit Advice and Review Team, in order to relay the new procedures and also provide further information about what types of allegations need to be referred. The DWP send through forms known as Local Authority Exchange of Information Forms (LAEIF), these are to be checked by the Investigator to identify any cases that require Council Tax Support Investigations to be conducted. An analysis has been carried out by the Investigator to establish the potential caseload:

During the period 01/01/14 to 31/12/14 the former Benefit Enquiry Unit processed 628 referrals covering Housing Benefit, Council Tax Benefit and Council Tax Support claims. This was based upon an approximate claim base of 14,000.

The claim base for ‘Council Tax Support only’ claims that can be considered for investigation (as at 08/02/16) was 3,394. This analysis reflects that the referrals being received has been consistent with previous years.

5.4 Debtor/Absconder tracing

The Investigator has assisted other departments within the Council during the financial year to trace seven debtors/absconders who owed a total of £31,222.87 and recovery actions are now being taken against these individuals with £2,996.61 of the debts having been paid back during 2015/16.

This tracing service is being provided to all areas of the Council who may require it.

5.5 Identified Fraud and Error figures

The following figures reflect the fraud and error identified following investigations being carried out for the period 1 October 2015 to 31 March 2016:

Housing Benefit (inc Discretionary Housing Payments) & Council Tax Benefit	**£5,971.52**
Council Tax Reduction Scheme	**£208.18**
Council Tax	**£3,760.50**
National Non-Domestic Rates	**£624.59**
Duplicate Creditor Invoice	**£4,153.76**
Unlawful Profit Orders and Investigation Costs	**£5,051.34**
Total fraud and error identified	**£19,769.89**

6.0 Conclusion

6.1 The service reviews taking place throughout the Council are having an impact on the audit plan as it is not a good use of audit time to review a service that is going through change. Time is then needed afterwards to accumulate enough data/ information to test and base an opinion on.

6.2 Additional work has also encroached on time allocated to planned audit work, resulting in a substantial amount of work still ongoing at the end of the year.

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

Notes to support the summary in Appendix 1

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

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

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

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

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

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

APPENDIX 1

Audits completed October to March 2015-16	Overall Opinion
<u>Recruitment</u> Report published October 2015. 2 Medium recommendations were made. One was to review relevant policies and procedures to ensure they reflect current legislation and the second was to remind managers recruiting seasonal staff of the pre-employment checks to be carried out before employment commences.	Full assurance
<u>Civil Enforcement and Car Parking</u> Report published March 2016. The report contained 1 High and 2 Medium recommendations. The High recommendation related to the need to differentiate between levels of access rights to the 3Sixty software used to manage Civil Enforcement. One Medium recommendation was to reprint and reissue the Service Level Agreement to the bailiffs with the intended amendments, and the second recommended that some form of written record of meetings with North Norfolk District Council officers was produced after each meeting.	Substantial assurance
<u>Civic Expenses and Administration</u> Report published October 2015. The report contained 1 Medium recommendation to set up a simple stock record detailing the gifts obtained for borough hospitality and to recharge other service areas when stock is used for events other than Mayor’s events.	Full Assurance
<u>Accounts Receivable</u> Report published January 2016. The report contained 5 Medium recommendations to carry out a review of procedure notes; maintain a clear record of rents and charges applicable to each industrial unit; clarify that the ‘fee’ shown on the Council website for disabled access to Gayton Road Cemetery is a refundable deposit; clarify on the website that grave digging fees apply to Walpole St Andrew, Marshland and Upwell cemeteries; and retain documentary evidence to support write offs up to £250 with the write-off schedule.	Substantial Assurance

APPENDIX 1

Audits completed October to March 2015-16	Overall Opinion
Payroll Report published April 2016 The report contained 1 Medium recommendation to monitor receipt of the Return to Work forms and report to Management Team where forms are not being received within two weeks of the employee's return.	Full Assurance
Treasury and Cashflow Management Report published May 2016. The report contained 2 High, 3 Medium and 2 Low recommendations. The High recommendations are to update the Authorised Signatory lists and to ensure that sufficient evidence is retained to support the bank reconciliation. The Medium recommendations are to remind staff in the treasury function of the need to take care with recording transactions and the evidence required to support CHAPS payment; at the end of the financial year ensure all expenditure is recorded in the correct codes in respect of the NWES funding; and re-title treasury reports to more accurately reflect the content and consider the use of Treasury Management software.	Substantial Assurance
CCTV Report published February 2016. The report contained 3 Medium recommendations to review and update the Code of practice; regularly evaluate existing cameras to confirm if they are still necessary and proportionate; and review the scale of fees and internal recharges with the Service Accountant to ensure the reflect the costs of the service accurately.	Substantial Assurance
Data Protection, Freedom of Information and Environmental Information Regulations Report published December 2015. The report contained 7 Medium and 3 Low recommendations. The 7 Medium recommendations are to produce written procedures on how to handle DPA, FOI and EIR requests; maintain a record of Subject Access requests; expand the Staff Guidance to include Members and regular reminders to staff to clear desks of any confidential information at the end of the day; and monitor	Substantial Assurance

Audits completed October to March 2015-16	Overall Opinion
and report on the non-completion of the e-learning relating to DPA, FOI and EIR.	
<u>Alive Leisure and Alive Management</u> Report published January 2016 The report contained 2 High and 2 Medium recommendations. The High recommendations are that the procedures and responsibilities for starting and terminating staff, the process for reporting sickness and submitting payroll should be examined and procedures specifically for Alive venues produced; and that all venues to adopt the HMRC guidance for the retention of records: current year plus 3 years. The Medium recommendations are that the Authorised Signatory lists should be reviewed and update; and that the use of casual staff should be monitored as Casual staff who develop a regular working pattern over 2 years could accrue employment rights such as redundancy pay and maternity leave.	Limited Assurance

Follow-up audits completed October to March 2015-16	Original report	Follow-up progress
<u>Planning Support</u> The report published in November 2014 (initial follow-up carried out in October 2015) contained 5 High, 6 Medium and 3 Low recommendations. All but two of the recommendations have been implemented satisfactorily. The two outstanding issues relate to reconciliation of planning income records to Accountancy reports.	November 2014 Substantial Assurance	April 2016 Adequate
<u>Public Open Space – Street Cleansing</u> The report published in January 2015 contained 1 High, 4 Medium and 1 Low recommendations. All recommendations have been implemented satisfactorily.	January 2015 Substantial Assurance	October 2015 Very Good
<u>Public Open Space - Allotments</u> The report published in April 2015 contained 5 High and 14 Medium recommendations. It was known at the time of the audit that implementation of the accepted recommendations would constitute a long term programme of work. 18 out of 19 recommendations were accepted, and of those 18, 17 have either made progress or an appropriate plan is in place for future progression and the assurance level in this case improved to Limited Assurance. A further audit of Allotments has been included in the Audit Plan for 2016/17 and the work is planned to take place in Quarter 2 (July-September).	April 2015 No Assurance	October 2015 Good

APPENDIX 2

NFI 2014/15 Exercise Data Matches
Summary of Progress

(Shaded grey = Closed)

Dataset	NFI Matches report	No. matches	Comment
Payroll	66.0 : Payroll to Payroll, between bodies	2	Both investigated and no issues arising. File closed.
Payroll	80 - Payroll to Creditors same bank account	26	All investigated and no issues arising. File closed.
Payroll	81 - Payroll to Creditors address quality	14	6 matches have been investigated and closed with no issues arising. Work is continuing on the remaining matches.
Insurance	180.6 - Insurance Claimants to Insurance Claimants	7	Matches being investigated. 2 have been closed with no issue arising.
Creditors Standing Data	701. - Duplicate creditors by creditor name	222	190 matches have been investigated and closed with no issues arising. Work is continuing on the remaining matches.
Creditors Standing Data	702 – Duplicate creditors by address detail	176	15 matches have been investigated and closed with no issues arising. Work is continuing on the remaining matches.
Creditors Standing Data	703 – Duplicate creditors by bank account number	41	40 matches have been investigated and closed with no issues arising. The remaining match is being checked.
Creditors History	707.0 : Duplicate records by invoice reference, invoice amount and creditor reference	86	85 matches have been investigated and 83 have been closed with no issues identified. Overpayments have been identified in 2 cases and are being pursued for recovery. I case is still being investigated.
Creditors History	708.0 : Duplicate records by invoice amount and creditor reference	339	All investigated. Overpayments have been identified in 2 cases, and are being pursued for recovery. File closed
Creditors History	709.0 : VAT overpaid	4	All investigated and no issues arising. File closed.
Creditors History	710.0 : Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference	1	No issue arising. File closed.
Creditors History	711.0 : Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	24	All investigated. Overpayment has been identified in 1 case, and is being pursued for recovery. File closed
Creditors History	713.0 : Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date	7	All investigated and no issues arising. File closed.
Benefits	Matches requiring investigation have been referred to the Single Fraud Investigation Service with the DWP.		

REPORT TO AUDIT COMMITTEE

Type of Report: Statutory	**Portfolio(s):** Performance and Leader
Will be subject to a future Cabinet Report: **YES**	
Author Name: Toby Cowper	**Consultations:** **Lorraine Gore,** **Management Team**
Tel: 01553 616523	
Email: toby.cowper@west-norfolk.gov.uk	
OPEN	

Date of meeting: 7 July 2016

ANNUAL TREASURY OUTTURN REPORT 2015/2016

Summary
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.

This Annual Treasury Outturn Report looks backwards at 2015/2016 and covers:

1. The 2015/2016 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary
4. Implications of the Brexit Vote

Additional supporting information:

Appendix 1 - Investments as at 31st March 2016
Appendix 2 - Borrowing as at 31st March 2016
Appendix 3 - Prudential Indicators
Appendix 4 - Treasury Benchmarking Group
Appendix 5 - The Economy 2015/2016

The Council's Treasury Policy Statement 2015/2016 and annual Treasury Strategy Statement 2015/2016 was approved by Cabinet on the 3 March 2015.
A copy of which can be found here: Documents for Cabinet 3rd March, 2015

Recommendations
Audit Committee is asked to note the actual treasury outturn 2015/2016.

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. The 2015/2016 Treasury Outturn

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council's Code of Practice on Treasury Management require that the Audit Committee consider an Annual Treasury Outturn Report.

1.2 During the year the Council maintained a cautious approach to investment and management of debt.

1.3 The Councils portfolio position as at 31 March 2016 was:

	31 March 2015 Actual £million	31 March 2016 Actual £million
Borrowing	13.40	17.20
Investments	(26.63)	(28.30)
Net Position	**(13.23)**	**(11.10)**

1.4 During 2015/2016 investments returned at an average return of 1.19%. This exceeding the 7 day LIBID (London Inter Bank Bid Rate) benchmark rate which was 0.36% and the 'Treasury Benchmarking Group' which was 0.87%.

Details of the 'Treasury Benchmarking Group' can be found in *Appendix 4*

Budgeted Interest Receivable	Actual Interest Received
(£288,000)	(£379,459)

1.5 During 2015/2016 interest on external debt was paid at an average rate of 2.72%.

Budgeted Interest Payable	Actual Interest Paid
£465,000	£492,155

Details of the investment portfolio as at the 31 March 2016 can be found in *Appendix 1*

Details of the borrowing portfolio as at the 31 March 2016 can be found in *Appendix 2*

2. Compliance with Treasury Limits

2.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement 2015/2016 and annual Treasury Strategy Statement 2015/2016. The outturn for the Prudential Indicators is shown in *Appendix 3*.

3. Outturn Summary - In summary the Council:

3.1 Did not pursue any debt rescheduling as long term loans were reviewed against future long term rates and early repayment penalties.

3.2 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%).

3.3 Ensured counterparty listings on our lending lists were maintained and updated regularly, and reported in monthly monitoring reports as necessary.

3.4 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.

3.5 Undertook benchmarking with other local Councils to ensure that experiences were shared and investment instruments were consistent, while maintaining good credit quality and security *(Appendix 4)*.

4 Implications of the Brexit Vote

4.1 Due to the unprecedented financial conditions resulting from the 'Brexit Vote' on the 23 June 2016 it is considered prudent to review the 2016/2017 investment strategy. Separate report to Cabinet on the 2 August 2016.

4.2 Officers advised by Capita Asset Services will continue to monitor the situation closely and act accordingly.

4.3 For further information on economic conditions during 2015/2016 and the credit Implications of the Brexit Vote please see *Appendix 5*

APPENDIX 1 - Investments as at 31st March 2016:

Institution	Principal	Start Date	End Date	Rate %	Ratings
Natwest (RBS)	2,000,000	28/04/2014	30/08/16	1.68	A
Bank of Scotland	2,000,000	13/04/2015	13/04/2016		A
Natwest (RBS)	2,500,000	22/05/2015	22/05/2017	1.33	A
Fife Council	3,000,000	12/11/2015	13/11/2017		A
Santander	5,000,000	10/12/2015		1.15	A
Goldman Sachs International Bank	2,000,000	04/01/2016	04/07/2016	0.59	A
Qatar NB	3,000,000	01/06/2015	01/06/2016		A
Wyre Forest District Council	2,000,000	14/07/2014	14/07/2016	0.95	AAA
Newcastle City Council	2,000,000	04/08/2014	04/08/2016	1.00	AAA
Cheshire West & Chester Council	2,000,000	20/01/16	19/01/2018	0.99	AAA
BNP (Banque Nationale de Paris) – Money Market Fund	300,000	15/03/16		0.51	AAA
Total Investments	**25,800,000**			**1.14**	
Norfolk & Waveney Enterprise Services (LEP)***	500,000	27/03/2014	30/11/2018	1.80	AAA
Norfolk & Waveney Enterprise Services (LEP)***	274,275	27/03/2015	30/11/2018	1.80	AAA
Norfolk & Waveney Enterprise Services (LEP)***	339,864	29/06/2015	30/11/2018	1.80	AAA
Norfolk & Waveney Enterprise Services (LEP)***	539,865	04/09/2015	30/11/2018	1.80	AAA
Norfolk & Waveney Enterprise Services (LEP)***	240,616	18/09/2015	30/11/2018	1.80	AAA
Norfolk & Waveney Enterprise Services (LEP)***	233,795	28/10/2015	30/11/2018	1.80	AAA
Norfolk & Waveney Enterprise Services (LEP)***	371,585	02/12/2015	30/11/2018	1.80	AAA
Total NWES Investments	**2,500,000**			**1.80**	
Total Overall Investments	**28,300,000**			**1.19**	

***see also Appendix 2 borrowings from Suffolk County Council

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%.

APPENDIX 2 - Borrowing as at 31st March 2016:

Start Date	End Date	Loan No	Value £	Institution	Rate	Term
21.03.16	15.04.16	3795	4,000,000	Greater Manchester Pension Fund	0.52%	Short Term - fixed
Total Short Term			**4,000,000**			
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	700,000	PWLB	2.92%	Long Term – fixed for 10 years
27.03.14	30.11.18	3789	2,500,000	Suffolk County Council (LEP)	1.80%	**see note below
Total Long Term			**13,200,000**			
Total Borrowing			**17,200,000**		**2.72%**	

**A loan was taken out, on behalf of Norfolk and Waveney Enterprise Services Ltd (NWES), with Suffolk County Council for the Local Enterprise Partnership. A corresponding investment is shown in Appendix 1 with NWES at the same rate of interest (£500,000 drawn down in 2013/2014, a further £274,275 followed in 2014/2015, with the remainder in 2015/2016).

APPENDIX 3: Prudential Indicators

PRUDENTIAL INDICATOR	2014/2015 Actual £'000	2015/2016 Actual £'000
Capital Expenditure	8,894	11,218
Ratio of financing costs to net revenue stream	2.91%	2.24%
Net borrowing		
brought forward 1 April	16,600	13,400
carried forward 31 March	13,400	17,200
Change in year	(3,200)	3,800
Net Investment		
brought forward 1 April	31,335	26,625
carried forward 31 March	26,625	28,300
Change in year	4,710	(1,675)

Capital Financing Requirement

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 2015/2016 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources

CFR	31 March 2015 Actual £000's	31 March 2016 Actual £000's
Opening Balance	14,783	18,590
Add unfinanced capital expenditure	4,933	582
Less MRP	325	306
Less voluntary/additional MRP	753	863
Less finance lease repayments (where the Council is the lessor)	48	15
Closing CFR	**18,590**	**17,988**

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 2015/2016 plus the expected changes to the CFR over 2016/17 and 2017/18. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2015/2016. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2015 Actual £million	31 March 2016 Actual £million
Borrowing	13.40	17.20
Investments	26.63	28.30
Net Position	**(13.23)**	**(11.10)**
Closing CFR	**18.60**	**17.99**

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).

	2015/2016
Authorised limit	£35m
Maximum gross borrowing position	£17.2m
Operational boundary	£30m
Average gross borrowing position	£13.4m
Financing costs as a proportion of net revenue stream	2.24%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2014/2015 £'000	2015/2016 £'000
Authorised limit for external debt -		
Borrowing	30,000	35,000
Operational boundary for external debt -		
Borrowing	25,000	30,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	30,000	35,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	25,000	25,000

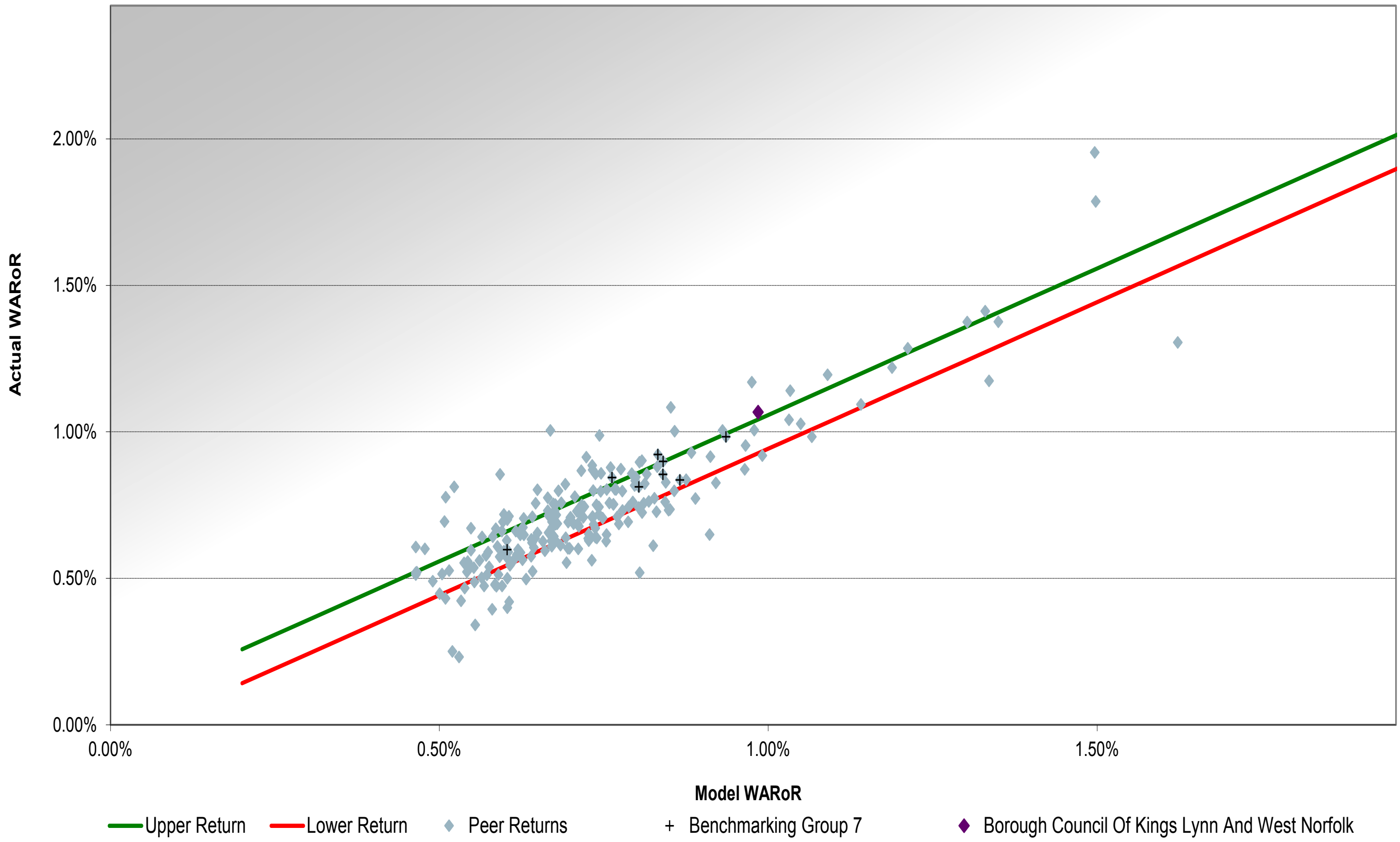
Maturity structure of fixed rate borrowing during 2015/2016	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 5: Treasury Benchmarking Group

The Council is also a member of a Treasury Benchmarking Group, where Capita Treasury clients from neighbouring authorities (including those in Norfolk, Suffolk and Cambridgeshire) meet to discuss treasury instruments relevant to their authority and discuss ideas for borrowing and investments.

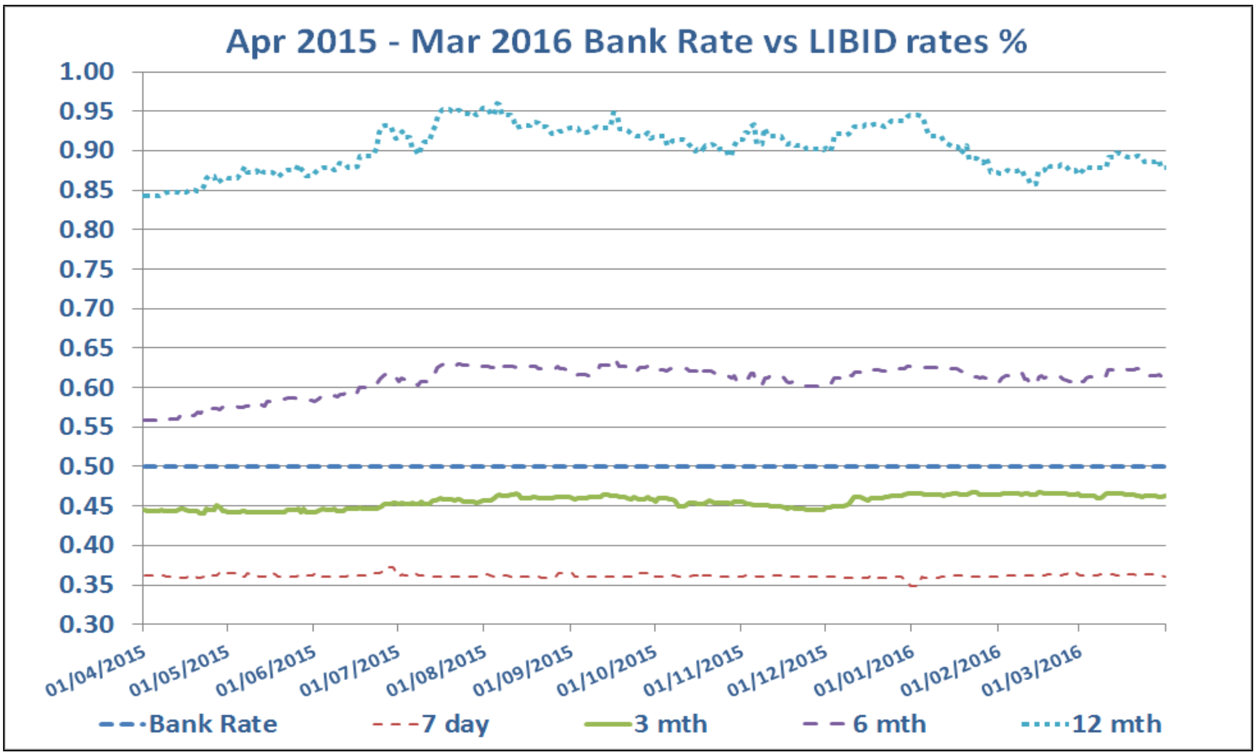
All authorities want to try to maximise their returns, whilst maintaining good credit quality and security during the difficult financial climate. In addition to this, percentage rate returns are disclosed at each quarterly meeting.

The Councils return of 1.14% is the highest return for the last quarter against the group with the average return being 0.87%.



APPENDIX 4: The Economy 2015/2016
Investment Rates in 2015/2016

Bank Rate remained at its historic low of 0.50% throughout the year; it has now remained unchanged for seven years.



Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling materially. These rates continued at very low levels during 2015/16.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

Credit Implications of the Brexit Vote

This note was provided by our Treasury Advisors, Capita Treasury Solutions, on the current implications of the Brexit Vote:

The following note provides an update on recent rating action taken on the UK sovereign rating. It also provides the latest position with regards to the implications for rated UK banks and Building Societies (banks collectively).

Sovereign Rating Action

As regards to the sovereign rating, the following has taken place since the Brexit vote was announced:

- Fitch

  Sovereign rating downgraded by one notch, from AA+ to AA.
  Outlook lowered to Negative, from Stable.
- Moody's

  Sovereign rating affirmed, at Aa1 (equivalent to AA+ from Fitch / S&P).

Outlook lowered to Negative, from Stable.

- Standard & Poor's (S&P)
  Sovereign rating downgraded by two notches, from AAA to AA.
  Remains on Negative Outlook.

We would suggest clients' review their Investment Strategy documents to see if these changes alone have any impact on investment limits. Where sovereign criteria is in place, we would suggest that this excludes the UK.

Bank Rating Action

At the time of writing, none of the three major rating agencies have taken any action in relation to UK entity ratings. As previously stated, part of the evolution of financial market regulations has seen the link between sovereigns and their respective banks materially weakened. Part of this was to break the "negative feedback loop" that has been evidenced in Europe, where concerns over banks have weighed on sovereigns, which then exacerbates the negative sentiment towards the banks…and then the process starts all over again. The result of the breakage of the link has meant that there is little or no "sovereign uplift" to any major bank ratings in the UK and beyond. Therefore, rating action at the sovereign level does not automatically mean that bank ratings will be similarly affected, certainly not in the case of the UK and its financial institutions.

However, as we have previously stated, the reasons for the change to a sovereign rating can equally impact on bank ratings. In this case, one of the key themes running through the rationale for recent action on the UK sovereign rating is the expected negative implications for the UK economic outlook. This, in turn, if they prove correct, could have an impact on the ratings of banks which focus the bulk of their business in the UK.

We have outlined below the latest position from each of the major rating agencies in relation to UK banks' ratings.

Fitch

In an article on the wider implications for credit from Brexit, the agency included the following section on banks:

"Banks Resilient to Moderately Weaker Operating Environment The impact of the "Leave" vote is broadly negative for the UK's banking sector. But there are no immediate rating implications for Fitch's bank IDRs because they are resilient to a moderate deterioration in the operating environment at their current rating level. The UK sovereign rating is currently not a constraining factor for any UK bank ratings. Future bank rating actions will depend on the evolution of macro factors, and the extent, duration and form of financial market volatility. The UK banks further strengthened liquidity ahead of the EU referendum and are therefore well placed to withstand market volatility that could limit their access to institutional funding. Central bank funding provides a further line of defence in case of more protracted market closure. Banks are likely to have taken steps to hedge any structural foreign exchange positions and to position trading books defensively. However, ratings could be downgraded should this not prove to be the case. Materially adverse developments following the referendum would affect UK bank ratings. The domestic focus of most UK banks means negative rating actions would most likely be triggered by a severe and structural deterioration of the UK operating environment. This could occur if unemployment rises significantly or house prices drop sharply, possibly exacerbated by net emigration or a steep interest rate rise, resulting in weaker asset quality. UK banks will face greater obstacles to generating good operating profitability after the "Leave" vote because loan growth is likely to remain subdued and interest rates could stay lower for longer. We expect increased foreign exchange (FX) and bond market volatility linked to news flow. But a sustainable increase in client trading volume and earnings is unlikely for banks with material markets businesses while clients face uncertainty. Long bouts of spikes in market volatility, reduced corporate issuance and lower M&A activity would also put pressure on profitability at global banking groups. We expect the impact to be limited to additional pressure on earnings, but lower revenue could result in banks reviewing business models that depend on generating a large part of earnings from UK capital markets. Any outcome that prevents banks located in the UK from undertaking business in EU countries would be moderately disruptive and costly to the large global banking groups, but we expect them to be able to operate through other EU legal entities." This would suggest that, in the near term, the agency does not expect to alter ratings as a result of the changes that have affected its view on the sovereign rating.

Moody's

As highlighted above, this agency has undertaken the least action on the sovereign rating so far. In terms of banks, there has been, at the time of writing, no official comment from the agency. However, there was a suggestion that it may follow up the change in the sovereign Outlook with similar action on bank Outlooks. At the present time these are mainly Stable, and in some cases Positive. However, the suggestions are that it would not move further than this…ie put in place Negative Watches… due to the uncertainty as to exit negotiations and the implications thereof at this stage.

Standard & Poor's

As we highlighted in our previous note on credit implications, the S&P process for rating financial entities all starts with the Banking Industry Country Risk Assessment (BICRA). This sets the "anchor" point for ratings, and is based on economic and industry factors. This "anchor" is then adjusted by the individual circumstances of the bank in question to formulate the final ratings for a financial institution. Last July, S&P made some slight positive adjustment to the UK BICRA, in light of a more favourable economic environment, but still kept the UK in Group 3…alongside Austria, Chile, Denmark, France, Korea, Netherlands and the US. Note that Groups run from 1 (lowest risk) to 10 (highest risk). This provides UK operating entities with an "anchor" rating point of bbb+.
In light of the reassessment of the sovereign rating as a result of Brexit, there is a risk that the agency could raise the economic and possibly the industry risk elements of the UK BICRA. If either of these risk elements is raised then the likelihood is that it would lower the anchor point for all UK operating financial institutions. In terms of timing, the agency typically releases BICRA rating updates each month, usually in the middle of the month. As such, we could potentially see a move on UK bank ratings in mid-July. We would hope that in the intervening time, the agency would make an adjustment to the Outlook / Watches of any banks that could be affected by such a change. This would be in keeping with the rating process flow we outlined in our previous note. However, at this juncture, there is little coming from the rating agency on which we can base our view. We will continue to have an active dialogue with the agency to gain a clearer understanding of their view and what implications it may have.

Summary

At the time of writing, none of the three major rating agencies has given a clear indication of any near-term action with regards to financial institution credit ratings. Of the three agencies, it would seem that S&P could be the most likely to make a further change in the near term, if they raise the risk profile of the UK in light of the Brexit vote. However, given the uncertainty surrounding the implications of Brexit it is by no means a certainty that they will act in the near term. We will keep clients updated via regular communications on any material updates. Further, our Passport system has live feeds to all three of the rating agencies, so any changes to ratings will be notified to you as they are processed. We would also stress that while there are negative implications for the UK, its economy and financial institutions as a result of Brexit, financial markets and the operators therein are materially stronger, in terms of capital and liquidity than they were ahead of the financial crisis. Mark Carney, Governor of the Bank of England stated on Friday, in the immediate aftermath of the vote that "…the capital requirements of our largest banks are now ten times higher than before the crisis. The Bank of England has stress tested them against scenarios more severe than the country currently faces. As a result of these actions, UK banks have raised over £130bn of capital, and now have more than £600bn of high quality liquid assets."

AUDIT COMMITTEE WORK PROGRAMME 2016/2017

20 June 2016

- Revenue Outturn 2015/16
- Capital Programme and Resources 2015/19

11 July 2016

- Internal Audit Annual Report and Opinion 2015/16
- Corporate Risk Monitoring Report April 2016
- Internal Audit Plan 2015/16 – End of Year Progress Report
- Annual Treasury Report

5 September 2016
(To commence at 5.00 pm – Training prior to considering the Finaal Accounts and Statement of Accounts

- Final Accounts and Statement of Accounts for year ended 31 March 2016:
- Monitoring Officer Report 2015/2016 – E Duncan
- Annual Governance Statement
- Audit Committee Effectiveness Review

17 October 2016 – remove from calendar?

28 November 2016

- Annual Audit Letter for year ended 31 March 2016
- Mid Year Treasury Report
- Audit and Fraud half year progress report
- Risk register update
- Business Continuity Annual update

13 February 2017

- Treasury Management Strategy 2017/2018
- Strategic Internal Audit Plan
- Annual certification of Claims and Returns
- External Audit Plan