

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



Audit Committee

Agenda

**Monday, 13th February, 2017
at 5.00 pm**

in the

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



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King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX
Telephone: 01553 616200
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3 February 2017

Dear Member

Audit Committee

You are invited to attend a meeting of the above-mentioned Panel which will be held on **Monday, 13th February, 2017 at 5.00 pm** in the **Committee Suite, King's Court, Chapel Street, King's Lynn** to discuss the business shown below.

Yours sincerely

Chief Executive

AGENDA

1. Apologies

2. Minutes (Pages 6 - 33)

To approve the minutes from the Audit Committee held on 28 November 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).

8. Treasury Management Training

9. Treasury Management Strategy 2017/2017 (Pages 34 - 67)

10. External Audit Plan (Pages 68 - 87)

11. Certification of Annual Claims and Returns Annual Report 2015/2016 (Pages 88 - 95)

12. Strategic Internal Audit Plan (Pages 96 - 108)

13. Review of Anti Fraud and Anti-Corruption Strategy, Whistleblowing Policy and Fraud Response Plan (Pages 109 - 154)

14. 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 paragraphs 1, 2 and 3 of Part1 of Schedule12A to the Act.]

15. Exempt Report: Risk Base Verification Policy Update (Pages 155 - 163)

RETURN TO OPEN SESSION

16. Committee Work Programme 2017/2018 (Pages 164 - 165)

17. Date of Next Meeting

To note that the date of the next meeting of the Audit Committee will take place on Tuesday 30 May 2017, at 5.00 pm in the Committee Suite, King's Court, Chapel Street, King's Lynn.

To:

Audit Committee: Mrs J Collingham, J Collop, M Hopkins (Vice-Chairman), P Kunes, C Manning, G Middleton, D Pope (Chairman), T Smith and Councillor Tim Tilbrook

Portfolio Holders:

Councillor B Long, Leader

Councillor A Lawrence, Portfolio Holder – Housing and Community

Councillor N Daubney, Portfolio Holder – Systems and Economic Development

Management Team Representatives:

L Gore, Assistant Director

R Harding, Chief Executive

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

Items 8 & 9: T Cowper, Group Accountant

Items 10 & 11: L Gore, Assistant Director

Items 12 & 13: K Littlewood, Audit Manager

Item 14: J Stanton, Revenue and Benefits Manager

Executive Directors

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK**AUDIT COMMITTEE**

**Minutes from the Meeting of the Audit Committee held on
Monday, 28th November, 2016 at 5.00 pm in the Committee Suite,
King's Court, Chapel Street, King's Lynn**

PRESENT: D Pope (Chairman)
Councillors Mrs J Collingham, Mrs S Fraser (sub), P Gidney, M Hopkins,
C Manning and T Smith

Officers:

Lorraine Gore - Assistant Director
Toby Cowper - Group Accountant
Vanessa Dunmall - Performance and Efficiency Manager

By Invitation:

Sappho Powell - Ernst & Young

A55

APOLOGIES

Apologies for absence received from Councillors J Collop, T Tilbrook, B Long and N Daubney.

A56

MINUTES

The Minutes of the Audit and Risk Committee held on 17 October 2016 were agreed as a correct record and signed by the Chairman.

A57

DECLARATIONS OF INTEREST

Councillor Smith declared an interest in A66 - Audit and Fraud Half Year Progress Report and left the meeting during consideration of the item.

A58

URGENT BUSINESS UNDER STANDING ORDER 7

The Chairman reminded the Committee that a late report – Review of Financial Regulations had been sent out and would be considered later in the meeting.

A59

MEMBERS PRESENT PURSUANT TO STANDING ORDER 34

There were no Members present under Standing Order 34.

A60

CHAIRMAN'S CORRESPONDENCE (IF ANY)

There was none.

A61 **MATTERS REFERRED TO THE COMMITTEE FROM OTHER COUNCIL BODIES AND RESPONSES MADE TO PREVIOUS COMMITTEE RECOMMENDATIONS/REQUESTS**

A62 **TRAINING/BRIEFING ON THE ANNUAL GOVERNANCE STATEMENT**

The Committee received a presentation from the Performance and Efficiency Manager on the Annual Governance Statement (a copy of the presentation is attached to the minutes).

In response to a question, the Performance and Efficiency Manager explained that she had not received any feedback from the public on the Annual Governance Statement.

The Panel agreed that they would like to see a draft of the Annual Governance Statement before the final version was produced.

The Chairman, Councillor Pope thanked the Performance and Efficiency Manager for the presentation.

A63 **UPDATE ON THE ANNUAL GOVERNANCE STATEMENT**

The Committee was reminded that at its meeting in September 2016, the Audit Committee approved the Council's Annual Governance Statement covering and reflecting back on the 2015/16 year. At that meeting, it was suggested that the Committee might want to receive an update halfway through the year on the progress being made with the Action Plan for the 2016/17 year. The report provided that update.

The Committee noted the progress with the Action Plan, which consisted of 11 actions. One entry had been completed, the remaining 10 were on track to be completed by the target date of March 2017.

The Assistant Director/Performance Efficiency Manager responded to questions relating to:

- Item 7 - whether the West Norfolk Strategy Group would continue to operate when the County Council discontinued the Second Homes payments to the Borough Council.
- Item 3 - whether the cash receipting system had gone live yet? *It was subsequently confirmed that the new release V10 went live on 18th November. Implementation went smoothly and there was no additional downtime than the 1 day scheduled in.*

- Item 2 - a number of ICT Servers are due to be taken out of circulation. *It was subsequently confirmed that the reason for decommissioning these servers is that the operating systems (Windows 2003 Server) are outdated and not compliant with Public Services Network Guidelines. These are live machines with business applications running on them that are accessed by Council staff.*

The steps taken for each server prior to decommissioning and removal are:

- *Check business application software currently residing on server (e.g. HR system) and compatibility with later operating systems.*
- *Install and configure new server with test version of software and latest operating system.*
- *Once testing has successfully completed backup original server and migrate all live data to new.*
- *Close down / decommission old server and take out of circulation.*
- *Dispose of Servers as per asset disposal guidelines.*

RESOLVED: That the Committee noted the progress made and endorsed the approach being taken to achieve the actions on the Council's 2016/17 AGS Action Plan.

A64

ANNUAL AUDIT LETTER FOR YEAR ENDED 31 MARCH 2016

Sappho Powell, Ernst and Young presented the Annual Audit Letter for the year ended 31 March 2016.

It was explained that the purpose of the Annual Audit Letter was to communicate the key issues arising from the External Auditor's work to the Members and external stakeholders, including members of the public.

It was further explained that matters reported in the Annual Audit Letter were those Ernst and Young considered most significant for the Borough Council of King's Lynn and West Norfolk.

It was explained that there were no matters to report.

The Auditor responded to questions relating to:

- Property Plant and Equipment and why this was a significant risk.
- Audit Fees – it was explained that the work was completed last week and the certificate would be claimed. It was anticipated that the Council would receive a rebate. There had been a

reduction in the number of errors and work that Ernst & Young had to do.

The Committee considered that the letter was clear and well displayed. The Committee asked for staff to be complimented on their work which had resulted in a reduction in the number of errors and the positive letter from the Auditors.

RESOLVED: That, the Annual Audit Letter for the year ended 31 March 2016 be noted.

A65

MID YEAR TREASURY REPORT

The Committee was reminded that the Council had formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011) and remained fully compliant with its requirements.

One of the primary requirements of the Code was:

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 had been prepared in compliance with CIPFA's Code of Practice, and covered the following:

- A review of the Treasury Management Strategy;
- The Council's capital expenditure (prudential indicators);
- An economic update for the first six months of 2016/2017 – Appendix 5;

It was agreed that the Committee still wished to receive Appendix 5.

The Group Accountant/Assistant Director responded to questions relating to:

- Borrowing – it was explained that during the period where the Council did not collect Council Tax (February and March) there was less cashflow, therefore the Council would take out short term borrowing to cover that period.
- Could the Council Tax payments be spread out over 12 months rather than 10. It was explained that there was an option for Council Tax to be paid over 12 months but over a 10 month period this enabled all of the Council Tax to be collected 2 months before the year end. It was further explained that when collecting Council Tax the Borough Council was holding balances for Norfolk County Council and the Police Authority, therefore the Council's day to day balances were much higher.

- It was explained that the Council was currently preparing a Capital and Investment Strategy, which would be presented to Cabinet in January 2017. The Internal Property Strategy was also being updated.
- Could the mechanism of reporting balances be regularised. It was explained that it was prescribed that Council's statements were prepared in that way and was standard practice across all local authorities.
- Page 44 – there was no end date for the NWES investment.
- Page 44 – there was no end date for Gaywood Community Centre.

RESOLVED: That, the Committee reviewed the report and the treasury activity.

A66

AUDIT AND FRAUD HALF YEAR PROGRESS REPORT

Councillor T Smith left the meeting during consideration of the item.

The Chairman introduced Kathy Woodward who would be replacing the Audit Manager when she retired in March 2017.

The Committee received a report which showed the Internal Audit activity against the Strategic Audit Plan 2016/17 and fraud work for April to October 2016.

The following audits had been carried out:

- ICT Disaster Recovery
- Housing Benefits
- Business Continuity
- Creditors and Payments
- Asset Register and Inventories
- Council Tax and Business rates
- Food Hygiene, Health and Safety and Public Hygiene
- Careline
- Communications – Social Media
- Safeguarding Children
- General Ledger
- Planning Enforcement
- Attendance Management
- Recruitment follow-up
- Performance and Appraisal follow-up
- Data Protection, Freedom of Information and Environmental Information regulations follow-up
- Civics follow-up

The Committee noted the work on-going and other work carried out by Internal Audit.

The Committee made the following comments:

- Reference was made to the £114,671.30 fraud/error/additional revenue which had been identified.
- Attendance Management – high levels of TOIL being accrued by staff and not reduced. It was explained that this was something that Management Team were looking into.
- Up-coming Audits – what were the key headlines that would be looked at.

RESOLVED: That the Committee notes the work completed and was satisfied with the progress against the agreed plan.

A67

RISK REGISTER UPDATE

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

The Terms of Reference for the Audit Committee included responsibility for monitoring the management of risk by Management Team. To this end, the Committee received reports on a half yearly basis on the position of the Corporate Risk Register, with the last one being presented in April 2016.

This report presented the changes to the Risk Register since the last monitoring report in April 2016 and gave details of the risks falling into the 'Very High' category and the associated work to mitigate the effects.

The Committee made the following comments:

- 2.4 – 5-year land supply. The Committee expressed concern in relation to this issue and the wider implications if there was a change in demand and the Plan could not be delivered, specific reference was made to the site at West Winch. Discussion took place regarding which Panel/Committee would be best place to consider this.
- 1.16 - Business Rates. The Committee requested that a report be prepared for the next meeting on the impact of business rates, including the number of and value of appeals and how business rates worked as the Committee wished to understand the potential effect on Council finances.
- 1.17 - Channel Shift. It was explained that the savings were partly dependant on One-Vu integration with the back office systems. Focus had been on getting the front face available but to make sure that the savings were achieved, integration with back office systems needed to be developed.

RESOLVED: (1) That, the Panel noted the contents of the risk register and confirmed agreement with Management Team's assessment of the risks to the Corporate Objectives.

(2) That a report be presented to the next meeting of the Committee on Business Rates.

A68

REVIEW OF FINANCIAL REGULATIONS

The Audit Manager explained that Section 3 of the Accounts and Audit Regulations 2015 stated that 'A relevant authority must ensure that it has a sound system of internal control which ensures that the financial and operational management of the authority is effective'.

Financial Regulations were intended to ensure the Council meets its statutory obligations regarding financial management, especially in respect of the financial aspects of corporate governance. It was essential that the regulations properly reflect the structure of the Council in terms of roles and responsibilities and they provide proper direction for Members and Officers in the conduct of the Council's business.

The Financial Regulations were last reviewed in 2011/12 and were overdue for review. In that time there had been a number of changes in the structure of the Council and new issues had arisen that needed to be included in the regulations.

The main changes to the regulations were:

- 8 – Employment Status Indicator (ESI)
- 9 – Construction Industry Scheme (CIS)
- Appendix 2 – Inventory Procedures
- Appendix 3 – ESI Procedures
- Appendix 4 – Cash Limit Rules

Other sections had been expanded to reflect increasing or changes in use:

- 2 – Reference to External Audit had been included to reflect the new appointment arrangements;
- 14 – Use of Credit Cards. Use of corporate credit cards was increasing, especially in relation to internet orders.
- 15 – Grants To and From external organisations. This section did not previously refer to 'Grants From'. This was an increasing source of funds for the Council and needs to be properly regulated.
- 18 – Travelling and Subsistence. This included the use of Expenses on Demand and the new procedures for submitted VAT receipts that had recently been approved by Management Team.

- 19 – Insurance. It had become increasingly important to ensure that any changes that might affect the level of insurance cover be identified and communicated to the Insurance Officer. This also applied to changes in service provision.

The scope of the Financial Regulations had been extended to include the Council's wholly owned companies, where the regulations were adopted by the Company Board.

No sections had been removed although the section on Treasury Management had been largely replaced by a reference to the Treasury Management Strategy to avoid the necessity for more frequent updates of Financial Regulations.

In response to a question it was explained that the Council had approximately 12 credit cards but different officer's had different limits on the cards.

RESOLVED: That, the Committee recommends to Cabinet the adoption of the revised Financial Regulations.

A69 **COMMITTEE WORK PROGRAMME 2016/2017**

The Committee noted the Work Programme for 2016/2017.

It was agreed that Training on Treasury Management Strategy would replace the scheduled Training on How an Audit is undertaken at the next meeting scheduled for 13 February 2017.

A70 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee will take place on Monday, 13 February 2017 at 5.00 pm in the Committee Suite, King's Court, Chapel Street, King's Lynn.

The meeting closed at 6.35 pm



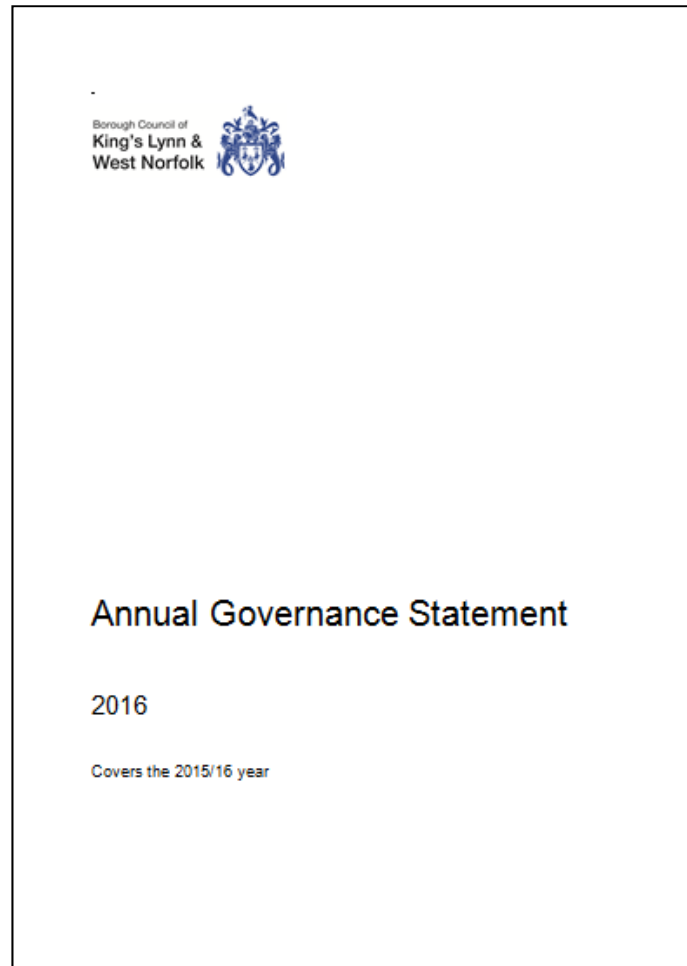
Annual Governance Statement

Vanessa Dunmall
Performance & Efficiency Manager

November 2016



The Annual Governance Statement (AGS)



- The Annual Governance Statement is a formal document, produced annually.
- The Audit Committee are the designated body for agreeing that it reflects our current position.
- It has to accompany the Statement of Accounts.
- It is signed by the Leader and Chief Executive
- Signatories must be satisfied that it's supported by reliable evidence



Why are we having this briefing?

- The Audit Committee is the body who approves the Annual Governance Statement.
- Timing – the AGS will be coming to the Committee in July 2017 for approval.
- These slides have been produced to assist the Committee in understanding what the Annual Governance Statement is and its relevance.
- Key question:
 - Does the Committee wish to have input ahead of the approval stage?
 - If so, how?



Overview of session

- What is Governance?
- What is the Annual Governance Statement?
- Why / Who / How / When
- Role of the Audit Committee
- Relevance to all elected members



Firstly - what is Governance?

“The direction and control of an organisation for the benefit of it’s stakeholders.”

Chartered Institute of Internal Auditors



Governance

Governance is not just 'paperwork' or 'decision making'.
It is how people make sure things are properly conducted.

For example:

- Stoplights
- Painted lines
- Speed bumps
- Radar guns

are examples of traffic governance!



Governance in Local Authorities



- CIPFA / SOLACE issued a framework in 2012: 'Delivering Good Governance in Local Government'
- Gives an overall definition of governance in Local Authorities
(see next slide)



Definition of Governance

- *[It's] “about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.*
- *It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.”*

CIPFA / SOLACE (2012)



Governance

- Governance is not a committee.
- It's not full Council.
- Carrying out governance takes multiple kinds and types of means: Vision, Standards, Training, Role descriptions, Processes, Procedures, Guidelines and lots more.

Governance is designed by finding and matching up the right blend of these mechanisms

And it covers everyone who works for the Council



Local Code of Corporate Governance

- We have a local 'Code of Corporate Governance' in place
- It is published on our website

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Borough Council of
King's Lynn & West Norfolk

Search west-norfolk.gov.uk



Home > Council and democracy > Budgets and spending > **Corporate governance**

Corporate governance

How we make sure our business is conducted properly

Code of Corporate Governance

We are responsible for ensuring that our business is conducted properly and to the required standards, and that public money is safeguarded and properly accounted for. To make sure this happens, we have a local Code of Corporate Governance. This document is available to download at the bottom of the page.

Related pages

- [Audit](#)
- [Corporate business plan](#)



Annual Governance Statement (AGS) – what is it and why do we have one

- The AGS is a formal statement that publicly reports on the extent to which the Council complies with its Code of Corporate Governance

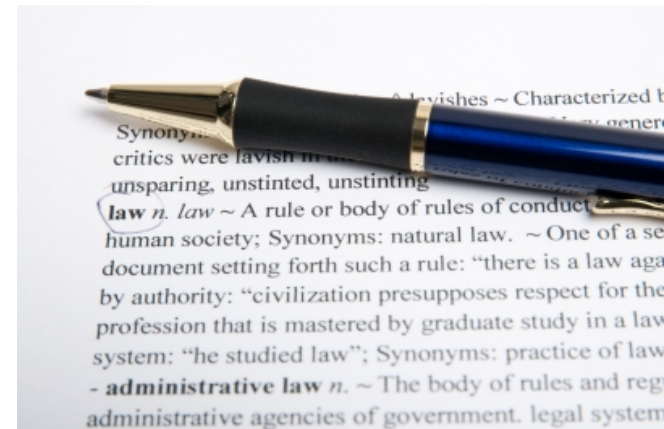


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- We are obliged to produce one each year
 - Accounts and Audit Regulations 2015, regulation 6(1)



The Annual Governance Statement (AGS)

- Looks back over the previous financial year
- Includes a self-assessment of the effectiveness of the governance arrangements, across all areas of activity
- Contains an account of the actions being taken or required to address any areas of concern
- Follows a template laid down by CIPFA / SOLACE framework
- Must accompany and be published with the Statement of Accounts each year



AGS – How is it produced?

- The Action Plan from the previous year is reviewed and progress chased – see next item on today's agenda
- Current practices are assessed
- Changes made to arrangements are identified
- Self assessment is carried out against the Code of Corporate Governance
- Input is obtained from all Executive Directors and Service Managers, particularly from the Monitoring Officer, Audit Manager and S151 Officer



AGS – How is it produced?

- Things used to help in the self-assessment include
 - Reports to Policy Review and Development Panels
 - Reports to Cabinet and Council
 - Corporate Business Plan Monitoring report
 - Audit reports (Internal & External)
 - New policies / procedures agreed
 - Members' Bulletin
 - Management Team updates
 - All sources of evidence listed on the appendix to the AGS and more ...



AGS – When is it produced?

- Monitoring work – throughout the year
- Action Plan – reviewed and monitored halfway through the year
- Main assessment – around year end Feb to May
- Reviews – during June
- Will come to Audit Committee for approval in July, alongside the Statement of Accounts



AGS – Who reviews it

- Internal Audit (Audit Manager)
- External Audit (Ernst & Young)
- Audit Committee
- Cabinet and Council

- The public! Published on the Council's website



AGS – Role of the Audit Committee

When reviewing the AGS, things the Committee may wish to consider are:

- Does the AGS cover all areas of our operations?
- Is it meaningful? Is it easy to read? Is it underpinned by robust evidence?
- Does it accurately reflect our set up (our control structure)? Does it give a sense of our set up's risks, vulnerabilities and resilience to challenges?
- Has compliance with the Code of Corporate Governance been assessed and have any departures from it been disclosed and explained?



AGS – Relevance to all elected members

If governance is the sum of the checks and balances that ensure the organisation delivers against its priorities...

...then the AGS is the one overarching document which reports to members whether key systems across the authority are operating soundly and that there are no fundamental weaknesses.



Recap / Questions

- These slides have been put together to help the Audit Committee to understand the purpose and background of the Annual Governance Statement.
- Based on this:
 - Does the Committee wish to have any further information on the AGS?
 - Does the Committee wish to have any input in 2017 ahead of the approval stage? If so, what elements would the Committee like to be involved with?



Thank you for listening



Open	Would any decisions proposed :			
Any especially affected Wards	(a) Be entirely within Audit Committee's powers to decide NO			
None	(b) Need to be recommendations to Council/Cabinet Yes			
	(c) Be partly for recommendations to Council NO and partly within Cabinets powers –			
Lead Member: Brian Long, E-mail:		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: Lorraine Gore, Management Team		
Financial Implications Yes	Policy/Personnel Implications NO	Statutory Implications (incl S.17) YES	Equal Opportunities Implications NO	Risk Management Implications NO

Date of meeting: 13 February 2017

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2017/2018

Summary

The Council is required to receive and approve a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy which covers –

- Capital plans, including prudential indicators
- A Minimum Revenue Provision (MRP) Policy
- The Treasury Management Strategy
- An Investment Strategy

This report covers the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance Accountants (CIPFA) Prudential Code, the Department of Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

This report looks at the period 2017/2021 which fits with the Council's Financial Plan and capital programme. The report is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Capita Asset Services, Treasury Solutions.

Recommendations

Cabinet is asked to recommend to Council:

- 1 The Treasury Management Strategy Statement 2017/2018, including treasury indicators for 2017/2021.**
- 2 The Investment Strategy 2017/2018.**
- 3 The Minimum Revenue Provision Policy 2017/2018.**
- 4 Adopt the revised Treasury Management Practices (TMPs).**

Reason for the Decision

The Council must produce a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2017/2018 by 31 March 2017.

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 expenditure. Part of the treasury management operations ensure the cash flow is adequately planned, with surplus monies being invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, 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 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 by CIPFA (Chartered Institute of Public Finance and Accountancy) 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 Reporting Requirements

2.1 CIPFA's Code of Practice on Treasury Management (revised November 2009) was adopted by this Council in March 2010.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices (TMPs) which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of:
 - a. An annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead.
 - b. A Mid-year Treasury Management Review Report - This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.
 - c. An Annual Treasury Report - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 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. For this Council the delegated officer is the Assistant Director (Section 151 officer)
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

2.2 Training

The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in Treasury Management. This especially applies to members responsible for scrutiny. Training was provided for members on the 26 January 2016 and further training has been arranged for 13 February 2017.

2.3 Treasury Management Consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains within the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

3.1 The Capital Budget Plan 2017/2018 – 2020/2021

The Council's capital expenditure plans are one of the key drivers of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.

Capital expenditure and funding position summary

(To be approved at Full Council 23 February 2017).

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
	£'000	£'000	£'000	£'000	£'000
Capital Programme: S106 and Other Major Projects and Operational schemes	5,230	6,667	3,784	3,241	2,437
Joint Venture – NORA Housing	3,220	4,988	1,607	0	0
Major Housing Development	9,406	14,950	18,601	15,102	2,277
Enterprise Zone	522	3,896	5,765	1,100	0
Total Expenditure	18,379	30,501	29,758	19,443	4,714
Net Cumulative Borrowing/(Receipt) Position (Temporary Internal/External Borrowing)	13,486	27,634	17,117	(3,839)	(6,900)

3.2 Capital Financing Requirement (The Council's underlying need to borrow)

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The Council is asked to approve the CFR projections below:

	2016/2017 Estimate £000s	2017/2018 Estimate £000s	2018/2019 Estimate £000s	2019/2020 Estimate £000s	2020/2021 Estimate £000s
Carried forwards CFR	17,987	30,856	44,300	33,117	11,488
Borrowing Required	13,486	14,148	(10,516)	(20,956)	(3,061)
Net Financing Need Total	31,473	45,004	33,784	12,161	8,427
Less MRP and other financing movements*	(617)	(704)	(667)	(673)	(669)
Movement in CFR	12,869	13,444	(11,183)	(21,629)	(3,730)
Closing CFR	30,856	44,300	33,117	11,488	7,758

*Includes finance lease annual principal payments and the repayment of borrowing.

3.3 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of its underlying need to borrow (the CFR) each year through a revenue charge (MRP).

Department for Communities and Local Government (CLG) Regulations have been issued which require the full Council to approve **an MRP Policy Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the continued use of the Asset Life Method as set out below.

Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3) which provides for a reduction in the borrowing need over approximately the asset's life.

4 Treasury Management Strategy

The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.1 Current Treasury Position – December 2016

Before looking at future borrowing and investment strategies it is worth noting the Council's current treasury portfolio:

		Principal	Average
		£'000	Rate
			%
Fixed Rate Funding	PWLB	600	2.92
	Market Loans	12,500	3.41
Total Debt		13,100	3.39
Total Investments (detailed later in the report)		27,860	0.82

4.2 Estimated Portfolio Position

The Council's treasury portfolio position at 31 March 2017, with forward projections is estimated below. The table shows the estimated external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2016/2017 Estimate £000s	2017/2018 Estimate £000s	2018/2019 Estimate £000s	2019/2020 Estimate £000s	2020/2021 Estimate £000s
External Debt at 1 April	17,387	30,873	45,021	34,505	13,549
Expected change in Debt	13,486	14,148	(10,516)	(20,956)	(3,061)
Debt at 31 March	30,873	45,021	34,505	13,549	10,488
The Capital Financing Requirement	30,856	44,300	33,117	11,488	7,758
Under / (over) borrowing	(17)	(721)	(1,388)	(2,061)	(2,730)
Total Investments at 31 March *	(29,000)	(29,000)	(29,000)	(29,000)	(29,000)
Net debt (Actual Debt 31 st March Minus Investments)	1,873	16,021	5,505	(15,451)	(18,512)

Total debt, net of any investments, should not, except in the short term, exceed the total of the CFR in the preceding year.

* Total investments have been held at the estimated core investment balance for the 31 March 2017

This estimate takes into account current commitments, existing plans, and the proposals in the Capital budget report but does not take into account proposed projects still to be approved by Council.

4.3 Prospects for Interest Rates

The Council has appointed Capita Asset Services, Treasury Solutions, as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2&3 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following graph gives the Capita Asset Services, Treasury Solutions view:

Bank Rate Forecast

Year	Now
2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

5.1 Borrowing Strategy 2016/2021

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

The Council will only borrow if it is financially advantageous to do so.

The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years
- Temporary borrowing from the money markets or other local authorities
- PWLB (Public Works Loan Board) variable rate loans for up to 10 years
- Short dated borrowing from non PWLB below sources

- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available).
- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may wish to make use of this new source of borrowing as and when appropriate, depending on duration and interest rate.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

5.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

The Council is asked to approve the following Operational Limit:

Operational boundary	2016/2017 Estimate £000's	2017/2018 Estimate £000's	2018/2019 Estimate £000's	2019/2020 Estimate £000's	2020/2021 Estimate £000's
Debt	35,000	50,000	40,000	17,000	13,000

The Authorised Limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The Council is asked to approve the following Authorised Limit:

Authorised limit	2016/2017 Estimate £000's	2017/2018 Estimate £000's	2018/2019 Estimate £000's	2019/2020 Estimate £000's	2020/2021 Estimate £000's
Debt	37,000	52,000	42,000	19,000	15,000

From 2017/2018, the limits (Operational and Authorised) increase due to the borrowing required for the major housing development as approved Full Council on the 25th February 2016.

The above limits do not include provision for Phase 3 of the NORA joint Venture or other projects that are being developed. These will be subject to separate reports to Cabinet.

5.3 Treasury Management Limits on Borrowing Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2017/2018	2018/2019	2019/2020	2020/2021
Interest rate Exposures				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%	40%

Maturity Structure of fixed interest rate borrowing 2017/2018			
	Current Position £M	Lower limit for portfolio	Upper limit for portfolio
Under 12 months	0	0%	100%
12 months to 2 years	3.1	0%	100%
2 years to 5 years	0	0%	100%
5 years to 10 years	0	0%	100%
10 years and above	10*	0%	100%

**The term of these loans was originally for a seventy year period, 2007 - 2077 (with a lenders option at ten years)*

The lower and upper limits for this indicator have been set at 0% – 100% to maximise the flexibility of borrowing options over different periods. Any new borrowing undertaken will take into account the existing debt portfolio and look to minimise refinancing risk by borrowing for different periods.

5.4 Policy on Borrowing in Advance of Need

The Council will not borrow more, than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

5.5 Debt Rescheduling

The Assistant Director (Section 151 Officer) will monitor the situation and take advantage of market conditions if advantageous to do so.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

6.1 Annual Investment Strategy

The Council's investment policy has regard to the CLG's (Communities and Local Government) Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be

- 1. Security**
- 2. Liquidity**
- 3. Return on Assets**

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in appendix 4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

Alternative options for investment will be considered where opportunities become available as an alternative to traditional investments. These will be assessed in conjunction with Capita Asset Services, Treasury solutions, our Treasury Management Advisors. Further reports will be brought to Cabinet if these types of investment are to be used.

6.3 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services, Treasury Solutions. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS (credit default swaps) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

Yellow	5 years
Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

Counterparties	Colour (and long term rating where applicable)	Money per institution Limit	Time Limit
Banks /Building Societies	yellow	£2m	5yrs
Banks / Building Societies	purple	£4m	2 yrs
Banks / Building Societies	orange	£4m	1 yr
Banks – UK part nationalised	blue	£4m	1yr
Banks / Building Societies	red	£4m	6 mths
Banks / Building Societies	green	£4m	100 days
Banks / Building Societies	No colour	Not to be used	
The Council's transactional bank for cashflow purposes (Barclays Bank)	No colour	<£250,000	1 day
DMADF (Debt Management Account Deposit Facility)	AAA	unlimited	6 months
Local authorities	yellow	unlimited	unlimited
Money market funds	AAA yellow	£4m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£3m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£3m	liquid

The Capita Asset Services, Treasury solutions creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Viability ratings of A-, and a Support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services, Treasury solutions creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

6.4 **Diversification Policy:**

This Borough Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

Greater amounts of investments will be held with the higher credit rated counterparties where possible. Based on an estimated investment portfolio of £29m in 2017/2018

Maximum investment per institution £4M

- Group limits where a number of institutions are under one ownership – Investments for the whole group will not exceed the credit rating limit in the table above.

6.5 **Country limits**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.

This list will be added to or deducted from by officers should ratings change in accordance with this policy.

- 6.6 **Investment returns expectations.** Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not rise above 0.75% by quarter 1 2020. Investment returns expectations forecasts for financial year ends (March) are:
- 2017/2018 0.25%
 - 2018/2019 0.25%
 - 2019/2020 0.50%
 - 2020/2021 0.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

- 6.7 **Investment term limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days				
	2017/2018	2018/2019	2019/2020	2020/2021
Principal sums invested > 364 days	£4m	£4m	£4m	£4m
With Local Authorities	£10m	£10m	£10m	£10m

Capita Asset Services, Treasury Solutions, the Council’s treasury advisors, recommend that due to current market conditions, all investments should generally be made for periods less than 364 days, **unless they are placed with other Local Authorities.** The Council will continue to monitor creditworthiness on a daily basis.

If an investment became available with an institution with good credit quality and recommended duration was more than 364 days, Capita Asset Services, Treasury Solutions would be consulted before the investment was placed. With rates not predicted to increase dramatically over the next two years, the total amount which could be invested over 364 days would be £4m (approx. 14% of the portfolio).

For its cash flow generated balances, the Council will seek to utilise its business reserve/instant access accounts, 15, 30 and 95 day notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

6.8 Investments held as at 31 December 2016 are as follows:

Institution	Long Term Rating	Expires:	Principal £000's	Rate of interest %
Bury St Eds DC	AAA	23 April 2018	3,000	1.00
Santander	A	95 day notice	3,000	1.15
Qatar National Bank	AA-	1 June 2017	3,000	1.05
Fife Council	AAA	13 November 2017	3,000	0.95
Cheshire West & Chester Council	AAA	19 January 2018	2,000	0.99
King and Shaxson – RBS*	BBB+	22 May 2017	2,500	1.33
Norfolk & Waveney Enterprise Services	AAA	30 November 2018	2,750	1.80
Banque National Paris	AAA		3,000	0.25
Legal and General (Northern Trust)	AAA		3,000	0.25
HSBC	AAA		2,000	0.25
Prime Rate	AAA		600	0.25
Gaywood Community Center			10	1.00
Total Investments			27,860	0.82

*Bank has been downgraded from A- to BBB+ since investment was taken out.

6.9 Liquidity and Yield

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £200,000
- Liquid short term deposits held and available within a week's notice.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

7.1 **Changes to the Treasury Management Practises (TMPs)**

Good practise requires TMPs to be reviewed on an annual basis and any changes made to be reported to members. The TMPS will be reviewed after April 2017.

The TMPs can be found at the link: [Click here](#)

7.2 TMPs are reviewed as risks and market conditions change. In particular credit risk is monitored using our Treasury advisors on a daily basis.

8 **Financial Implications**

The financial implications of the borrowing and investment strategy and MRP are reflected in the financing adjustment figure included in the Financial Plan 2016/2021 approved at Cabinet on 31 January 2017.

9 **Risk Management Implications**

There are elements of risk in dealing with the treasury management function although the production and monitoring of such controls as Prudential Indicators and Treasury Management Strategies 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. The action and controls outlined in the report will provide for sound financial and performance management procedures.

10 **Policy Implications**

There are no other changes in the Treasury Management policy at present, other than those outlined in this report.

11 **Statutory Considerations**

The Council must set Prudential Indicators and adopt a Treasury Management Strategy and Annual investment Strategy before 31 March 2017.

12 **Access to information**

Monthly Monitoring reports 2016/2021
Treasury Management Strategy and Annual investment Strategy 2016
The Financial Plan 2016/2021 – A Financial Plan
Capital Programme 2016/2021
Council Website – Treasury Management Practices

Appendices

1. Other Prudential Indicators
2. Interest rate forecasts - update for new forecast
3. Economic background – update for new forecast
4. Treasury Management practice - Specified and non specified investments and limits
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

APPENDIX 1: Other Prudential Indicator

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to 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.

%	2016/2017 Estimate	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate
General Fund	3.3	4.1	3.9	3.9	3.9

The estimates of financing costs include current commitments and the proposals in this budget report.

Estimates of the incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the capital programme 2016 – 2020 reported to Cabinet on the 31 January 2017 in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

	2016/2017 Estimate	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate
Council tax band D	£2.68	£4.34	£(2.63)	£(6.03)	£(0.67)

APPENDIX 2: Interest Rate Forecasts 2017-2020

Capita Asset Services Interest Rate View													
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

APPENDIX 3 Economic Background

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015. In

addition, the GfK consumer confidence index has recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the

pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment has been growing steadily during 2016, despite initial expectations that the referendum would cause a fall in employment. However, the latest employment data in November, (for October), showed a distinct slowdown in the rate of employment growth and an increase in the rate of growth of the unemployment claimant count. **House prices** have been rising during 2016 at a modest pace but the pace of increase has been slowing since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, the first estimate for quarter 3 at 2.9% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** have risen sharply in the week since his election. Time will tell if this is a temporary over reaction, or a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing **the Fed. Rate**. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further. If the Trump package of policies is fully implemented, there is likely to be a significant increase in inflationary pressures which could, in turn, mean that the pace of further Fed. Rate increases will be quicker and stronger than had been previously expected.

In the first week since the US election, there has been a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which is likely to be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to

unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this has also become a confidence vote on Prime Minister Renzi who originally said he would resign if there is a ‘no’ vote, but has since back tracked on that in the light of adverse poll predictions. A rejection of these proposals would stop progress to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth and a very high debt to GDP ratio of 135%. They are also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is unclear what the political, and other, repercussions could be if there is a ‘No’ vote.
- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the

EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that \$340bn of emerging market corporate debt will fall due for repayment in the remaining two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

APPENDIX 4 - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management Specified and Non-Specified Investments and Limits

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of 50% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	* Minimum credit criteria / colour band	** Max % of total investments per institution	Max. maturity period
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	50%	1 year
UK Government Treasury blls	UK sovereign rating	50%	1 year
Bonds issued by multilateral development banks	UK sovereign rating	50%	6 months
Money market funds	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	100%	Liquid

Local authorities	N/A	100%	Unlimited
Term deposits with banks and building societies	Blue Orange Red Green No Colour		Up to 2 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour		Up to 2 year Up to 1 year Up to 6 Months Up to 3 months Not for use
Enhanced cash funds	AAA	50%	1 year
Corporate bond funds	AAA	50%	1 year
Gilt funds	UK sovereign rating	50%	1 year
Treasury Bills	UK sovereign rating	50%	1 year
Local Authority Mortgage Scheme. Under LAMS the Council is required to place funds with the lender for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories.			

Non Specified Investments (can be longer than 1 year)	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – UK government (with maturities in excess of 1 year)	Credit rating in TMP's	In-house	100%	5 yrs
Term deposits – other LA's (with maturities in excess of 1 year)	Credit rating in TMP's	In-house	100%	5 yrs
Term deposits – banks and building societies (with maturities in excess of 1 year)	Credit rating in TMP's	In-house	As set out in TMP 1	5yrs
Term deposits with unrated counterparties : any maturity	Credit rating in TMP's	In-house	As set out in TMP 1	5yrs
Certificates of deposits issued by banks and building societies with maturities in excess of 1 year	Credit rating in TMP's	In house on a 'buy and hold basis' and Fund managers	As set out in TMP 1	2 yrs

UK Government Gilts with maturities in excess of 1 year	AAA	In house on a 'buy and hold basis' and Fund Managers	As set out in TMP 1	Overall duration of 3 years
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	50% of the total fund	Overall duration of 3 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	50% of the total fund	Overall duration of 3 years
Sovereign bond issues (i.e. other than the UK govt) with maturities in excess of 1 year	AAA	In house on a 'buy and hold basis' and Fund Managers	50% of the total fund	Overall duration of 3 years
Corporate Bonds : <i>the use of these investments would constitute capital expenditure</i>		In house on a 'buy and hold basis' and Fund Managers	50% of the total fund	Overall duration of 3 years
Floating Rate Notes : <i>the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank</i>		Fund managers	50% of the total fund	Overall duration of 3 years
Property Fund: <i>the use of these investments would constitute capital expenditure</i>		In house and Fund Managers	50% of the total fund	Overall duration of 10 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX 5 - Approved countries for investments as at 1st Feb 2017

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- UK

AA-

- Belgium

APPENDIX 6 Treasury management scheme of delegation

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX 7 The treasury management role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Borough Council of King's Lynn and West Norfolk

Year ending 31 March 2017

Audit Plan

13 January 2017

Ernst & Young LLP



Audit Committee
Borough Council of King's Lynn and West Norfolk
King's Court
Chapel Street
King's Lynn
Norfolk
PE36 1EX

13 January 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 13 February 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson

Executive Director
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Borough Council of King's Lynn and West Norfolk (the Council) give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

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

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

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

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

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

Changes in our audit scope

Appendix C provides an overview of the nature of our planned involvement in the work to be performed by the component auditor of Alive Management Limited.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in July 2017.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Non-Current Assets	
<p>Property, Plant and Equipment (PPE) and Investment Properties represent the largest asset values on the Council's balance sheet. These assets are initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis. This is carried out by an internal valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>Due to the nature, size and complexity of PPE and investment property accounting we consider this a significant risk.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reliance on management's experts and review of the instructions given to that valuer; ▶ Consideration of the accounting treatments and basis of valuation as required by the Code; ▶ Test of detail if required; and ▶ Test of the journals and derivation of accounting Entries.
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>One area which may be susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies; ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias; ▶ Develop a testing strategy to test material revenue and expenditure streams; ▶ Review and test revenue cut-off at the period end date; and ▶ We will test the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias; and ▶ Evaluating the business rationale for significant unusual transactions.

Other financial statement risks

Pensions Liability – IAS19

The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement. The Pension liability is the largest value liability on the balance sheet. Due to the nature, volume and size of the transactions we consider this to be a risk.

Our approach will focus on:

- ▶ The actuarial expertise used by the Council; and
- ▶ The reasonableness of the estimations and judgements used.

Non-Domestic Rates Provision

Councils need to provide for Business Rate appeals and will need to consider the following when estimating the provision under IAS 37.

The council has developed an appropriate estimation methodology in previous years but this methodology needs to be reassessed to ensure that the assumptions made remain appropriate to prepare a reliable estimate for the 2016/17 financial statements.

Our approach will focus on detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice; and

- ▶ Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.

Group Consolidation

The Council prepares group accounts to consolidate Alive Management Limited, which provides operational day to day management services for four sports facilities and a theatre.

The Council needs to ensure that the consolidation of the subsidiary is undertaken in line with the relevant accounting standards and in line with the code of practice.

Our approach will focus on:

- ▶ Providing group audit instructions to the component auditor specifying which specific balances we wish them to provide assurance over;
- ▶ Reviewing the outcomes of the component auditor's work; and
- ▶ Ensuring that appropriate consolidation procedures are applied when consolidating relevant entities into the BCKLWN group accounts.

Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement

Amendments have been made to the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code)* this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the '*Telling the Story*' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Our Approach will focus on:

- ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code;
- ▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

For 2016/17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following VFM risks which we view as relevant to our value for money conclusion.

Value for money risks

Our audit approach

Sustainable resource deployment: achievement of savings required over the medium term

In the Council’s medium term financial strategy (MTFS), approved in February 2016 and the Budget report for December 2016, the Council identified a cumulative budget gap of £3.8 million over the next three years. The MTFS is based on a number of assumptions, including an estimate of the future levels of Government funding. Any reduction in Government funding in future years, together with an increased use of reserves represents a risk to achievement of the Council’s future budgets.

Our approach will focus on:

- ▶ The Council’s historic financial performance, including its ability to deliver challenging savings targets;
- ▶ The Council’s current financial standing;
- ▶ The Council’s processes for setting its budget, and the nature of the budget assumptions;
- ▶ The competency of the Council’s finance team; and
- ▶ The political stability of the Council.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.
- #### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

To the fullest extent permissible by auditing standards, we intend to consider internal audit's work in documenting your financial systems and controls. This will enable us to more efficiently update our understanding of your systems and carry out the walkthrough of those systems as required under auditing standards. Our intention is to carry out a fully substantive audit in 2016/17 rather than rely on the operation of controls as we believe this to be a more efficient approach.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

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

Area	Specialists
Pensions	Actuary/EY Pensions team
Property, Plant and Equipment and Investment Property	Management's Internal specialist
NORA Property Valuation	Management's External specialist
Financial Instruments	Management's External specialist

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

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

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £1.732 million based on 2% of gross expenditure on the provision of services. Materiality of the Group is set on the same basis at £1.748 million. We will communicate uncorrected audit misstatements greater than £0.08 million to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 How materiality is applied to the component entities

We determine component materiality as a percentage of Group materiality based on risk and relative size to the Group. The component reporting limit for adjustments of £0.08 million is the same as that noted above.

4.6 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Borough Council of King's Lynn and West Norfolk is £51,291.

4.7 Your audit team

The engagement team is led by Mark Hodgson, who has significant experience on Local Government Audits. Sappho Powell, your Audit Manager will be on maternity leave during 2017, so Mark will be supported by Dan Cooke. Dan will be responsible for the day-to-day direction of audit work and is the key point of contact for the group accountant.

4.8 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	December to January		
Risk assessment and setting of scopes	January	13 February 2017	Audit Plan
Review of routine processes and controls	February		
Year-end audit	June		
Completion of audit	July	31 July 2017	<ul style="list-style-type: none"> ▶ Report to those charged with governance via the Audit Results Report ▶ Audit report (including our opinion on the financial statements; and overall value for money conclusion. ▶ Audit completion certificate ▶ Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October	November	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 ‘Communication of audit matters with those charged with governance’, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, the audit engagement Executive Director and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £'s	Scale fee 2016/17 £'s	Outturn fee 2015/16 £'s	Explanation
Opinion Audit and VFM Conclusion	54,291	51,291	54,289	Note 1
Total Audit Fee – Code work	54,291	51,291	54,289	
Certification of claims and returns ¹	23,460	23,460	19,602	

All fees exclude VAT.

Note 1 – The Council produces consolidated financial statements which in prior years have incurred a scale fee variation to reflect the additional work required for the consolidation including instructing and relying upon the component auditor and in reviewing the disclosures required to meet the group consolidation requirements of the Code of Practice and International Accounting Standards. The planned fee includes a scale fee variation of £3,000 as we estimate the amount of work required to be within the range of £1,500 and £3,000.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Officers provide appropriate responses to queries, draft audit reports and other information we request within agreed timescales;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the [Audit Committee]. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balances on initial audits [delete if not an initial audit] 	▶ Audit Results Report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Audit Results Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Audit Results Report
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Audit Results Report
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Audit Results Report
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	▶ Audit Results Report

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement director’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work ▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Certification Report

Appendix C Detailed scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

The preliminary audit scopes we have adopted to enable us to report on the group accounts are set out below. Our audit approach is risk-based, and therefore the data below on coverage of gross revenue expenditure and total assets is provided for your information only.

Group audit scope	Number of locations	% of GRE	% of Total Assets
Specific	1	2%	1%

- ▶ **Specific scope:** locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant locations. Our involvement can be summarised as follows:

- ▶ Obtain an understanding of the competence and capabilities of the component team;
- ▶ Review the component teams' documentation of identified significant risks of material misstatement of the group financial statements; and
- ▶ Send out group instructions specifying the specific balances we wish the component team to provide assurance over.

EY | Assurance | Tax | Transactions | Advisory

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Certification of claims and returns annual report 2015/16

Borough Council of King's Lynn and West Norfolk

20 January 2017

Ernst & Young LLP



Building a better
working world

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20 January 2017

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Dear Members

Certification of claims and returns annual report 2015/16 Borough Council of King's Lynn and West Norfolk

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Borough Council of King's Lynn and West Norfolk's 2015/16 claims.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015/16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions (DWP) and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2015/16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £40,213,082. We met the submission deadline. We issued a qualification letter to the DWP and it has been confirmed that there are no outstanding issues relating to the claim; details of the qualification matters are included in section 1.



Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2015/16 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the 13 February Audit Committee.

Yours faithfully

Mark Hodgson
Executive Director
Ernst & Young LLP
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Contents

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£40,213,082
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2015/16	£19,602
Fee – 2014/15	£31,280
Recommendations from 2014/15	Findings in 2015/16
None	N/A

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous year's claims. Extended testing was carried out in two areas where in the previous year errors had been identified. These areas were the calculation of claimant's income and the misclassification of overpayments between claimant error and local authority error.

We have reported the extrapolated value of these errors, underpayments, and other observations in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the errors or to claw back the benefit subsidy paid. These are the main issues we reported:

- Rent Allowances - Testing of the initial sample identified no errors in respect to income and disregard calculation errors but due to prior year qualification issues an additional random sample of 40 cases was tested early by the Authority. The Authority were unable to provide a report that split income assessed and passport cases and 20 passport cases were tested as part of the random sample of 40 cases from cell 94. Testing the additional sample identified 1 case where benefit has been overpaid by the Authority applying incorrect income figures.

The net impact of the extrapolated error was to increase the level of Local Authority and Administrative Delay error by £1,348. The regulations allow for a permitted local authority error rate being exceeded, and this increase has not resulted in the error rate being exceeded unlike in the previous year.

A DWP letter dated 23 November 2016, in response to our qualification letter, confirmed that there are no outstanding issues relating to the claim and the proper amount of subsidy payable is that noted above.

2. 2015/16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015/16, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2015/16	2015/16	2014/15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	£18,556	£19,602	£31,280

The indicative fee for 2015/16 is based on the actual fee for 2013/14 with a 25% reduction in scale fee.

For 2015/16 the level of error identified was lower than that identified in 2013/14. We are therefore proposing to reduce the fee by £1,046 to take account of the reduced amount of audit work that needed to be completed due to the reduction in errors found. The reduction in fee is subject to PSAA agreement.

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016/17 is £23,460. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015/16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014/15.

Details of individual indicative fees are available at the following web address:
<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Assistant Director (S151 Officer) before seeking any such variation.

PSAA is currently consulting on the 2017/18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018/19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

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POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	13 th February 2017		
TITLE:	Internal Audit Strategic Plan 2017-22		
TYPE OF REPORT:	Scrutiny		
PORTFOLIO(S):	Cllr Daubney, Performance		
REPORT AUTHOR:	Kate Littlewood, Audit Manager		
OPEN		WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

PURPOSE OF REPORT/SUMMARY:
To provide Committee Members with the opportunity to review the proposed Strategic Internal Audit Plan for 2017-22.
KEY ISSUES:
<p>The Public Sector Internal Audit Standards (PSIAS) require that the Audit Manager must <i>'establish risk-based plans to determine the priorities for the internal audit activity, consistent with the organisation's goals'</i>.</p> <p>The Audit Manager has to provide an annual Internal Audit opinion on the system of internal control to support the Annual Governance Statement. The work performed in accordance with the plan enables the Audit Manager to form her opinion.</p> <p>In order to satisfy the requirements of the PSIAS and to provide the required audit opinion, the attached plan defines the work of the Internal Audit team for the year 2017/18 and indicates proposed work for the following four years.</p>
OPTIONS CONSIDERED:
There are no options
RECOMMENDATIONS:
The Committee is asked to acknowledge the Internal Audit resources and to consider and agree the work planned for 2017-22.
REASONS FOR RECOMMENDATIONS:
To enable the Internal Audit team to perform the audit work necessary to provide assurance on the systems of internal control and to enable the Audit Manager to provide an Annual Audit Opinion for the Annual Governance Statement in 2018.

REPORT DETAIL

1. Introduction

1.1 According to the Terms of Reference of the Audit and Risk Committee, one of the Core Functions is to review the Internal Audit's Strategic Audit Plan.

2. Proposal

2.1 The Strategic Internal Audit Plan 2017-22 is attached to this report and indicates the work proposed by the Audit Manager for Internal Audit function for the next five years. The plan is presented in two parts.

2.2 The first part is the Annual Plan (**Appendix 1**), which deals with 2017-18 only. Although the work can be adjusted if necessary to accommodate any major occurrences during the year, it is usual for the plan to be completed as shown.

2.3 The second part (**Appendix 2**) provides an indication of allocations for audits in 2018-19 to 2021-22 so that coverage of all areas of the Council can be seen. However the allocations for the later years are indicative only and may change as circumstances arise. It simply provides an indication of the work that is anticipated and demonstrates that all areas of the Council's business are considered

2.4 The overall strategy of the Internal Audit is reviewed on annual basis and is attached as **Appendix 3**.

2.5 The Strategic Audit Plan is intended to:

- Ensure all identified areas are audited over the life of the plan, taking in to account clients' audit requirements and the major risks facing the council.
- Ensure there are adequate resources to undertake the required audits.
- Provide a basis for monitoring actual performance of the Internal Audit function.

2.6 The audit work performed to fulfil the plan informs the Audit Manager's opinion that is required in the Annual Governance Statement.

2.7 The Public Sector Internal Audit Standards (PSIAS) require that the Audit Manager must '*establish risk-based plans to determine the priorities for the internal audit activity, consistent with the organisation's goals*'. In response to this requirement, an Assurance Framework has been developed.

2.8 The Assurance Framework provides a structured analysis of the Council based on five high level domains that support the Council's business and one domain covering the operational aspects:

- Governance and Reputation
- People
- Financial
- Infrastructure
- Information
- Operational and Service Delivery

Within these domains, audit areas have been identified and risk assessed based on the following factors:

- Materiality (Value and Volume);
- Significance/ Profile;
- Complexity of the system;
- Change;
- Regulatory/ Contractual matters;
- External Monitoring;
- Prior Audit results;
- Susceptibility to fraud and corruption;
- Staff turnover.

2.9 Other sources of assurance are considered within the External Monitoring section and where they are deemed to be satisfactory by the Audit Manager, the score is adjusted accordingly. Examples of this are the use of external specialists to review the Council's Health and Safety systems, and the work carried out to achieve Payment Card Industry (PCI) and Public Services Network (PSN) approval for the security of the ICT network systems. This reduces the need for internal audit to review the systems and duplicate work.

2.10 A risk rating of High, Medium or Low is allocated according to the result of the assessment. Based on the rating, a time scale between audits is applied. The audit plan is based on this risk assessment process covering all six domains to ensure all aspects of the Council are covered to some degree.

2.11 Both the current, and the future, Audit Managers and the Assistant Director (s151 Officer) are satisfied that the resources are sufficient, after the level of contingencies have been adjusted, and that the proposed plan will provide the level of assurance required.

3. Issues for the Panel to Consider

3.1 The Committee should consider if they are satisfied that the proposed audit areas represent a sufficient coverage of the services provided by the Council.

4. Corporate Priorities

4.1 The internal audit activity supports the achievement of the Corporate Business Plan by adding value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

5. Financial Implications

5.1 None.

6. Any other Implications/Risks

6.1 The plan enables the Audit Manager to manage the work of the Internal Audit team and to provide an annual opinion as required by the Annual Governance Statement. It also enables the Audit Committee to monitor the work of the team and to receive assurance on the state of the internal control system of the Council.

7. Equal Opportunity Considerations

7.1 None.

8. Consultation

8.1 Executive Directors have been consulted on services within their respective directorships and the whole plan presented to Management Team for final comments.

9. Conclusion

9.1 The Strategic Internal Audit plan provides the basis for the Internal Audit team to carry out the work necessary to provide assurance on the systems of internal control and to enable the Audit Manager to provide an Annual Audit Opinion for the Annual Governance Statement in 2018.

10. Background Papers

10.1 Public Sector Internal Audit Standards (PSIAS)

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

10.2 The Assurance Framework and the Risk Assessment template are available on InSite within the reports section of Internal Audit.

Audit Title	Risk Rating	Last Audit	Last Audit results	2017/18
2016/17 brought forward				45
Subtotal brought forward from 2016/17				45
Governance and Reputation				
Partnership working	Medium	2014/15	Substantial	10
Subtotal Governance and Reputation				10
People				
Gifts and hospitality (staff and Members)	Medium	2014/15	Substantial	15
Subtotal People				15
Financial				
Accounts receivable (CORE)	High	2015/16	Full	20
General Ledger/ Budgetary control (CORE)	High	2015/16	Full	20
Council tax and Business Rates (CORE)	High	2015/16	Substantial	20
Benefits (CORE)	High	2015/16	Substantial	20
External funding/ grants received	Medium			15
Procurement [Incl corporate credit cards]	Medium	2012/13	Substantial	15
Cost Efficiency Savings	High			20
Subtotal Financial				130
Infrastructure				
Industrial estates and commercial property	Medium	2014/15	Substantial	15
Subtotal Infrastructure				15
Information				
Information management and security	Medium			15
Subtotal Information				15
Operational and Service Delivery				
Alive Leisure/ Management	High			20
Cemeteries and Crematorium	Medium	2013/14	Substantial	15
Housing strategy	Medium	2013/14	Full	15
Major Projects	High			15
Planning Control	Medium			15
Flood and water management	Medium	2012/13	Limited	15
Subtotal Operational and Service Delivery				95
Total Risk Based Audits				325
External Audits and Other Work				
Water Management Alliance				5
Audit Committee				20
Review of Statement of Accounts				5
Review of Annual Governance Statement				3
Check of calculations for COL and PRP				5
Follow ups				10
Contingency				80
Subtotal External and Other Work				128
Grand Total				453

Strategic Internal Audit Plan 2018/22

APPENDIX 2

Audit Title	Risk Rating	Last Audit	2018/19	2019/20	2020/21	2021/22
Governance and Reputation						
Policies	Medium	2015/16		15		
Risk management	Medium		15			
Democratic Services	Medium	2014/15			15	
Performance management and reporting	Low	2012/13				
Health & safety including Crisys & home working	Low	2013/14				
Legal services and compliance	Medium	2011/12	15			
Partnership working	Medium	2014/15				
Business Continuity	Medium	2016/17				15
Child Protection	Medium		15			
Subtotal Governance and Reputation			30	15	15	15
People						
Recruitment	Medium	2015/16			15	
Training (incl CPD requirements)	Low	2011/12				
Performance and appraisal	Medium	2015/16		15		
Conduct and discipline	Low	None				
Attendance management [Including flexitime, sick leave and Special leave]	Medium	2016/17				15
Prevention of fraud and corruption	Medium			15		
Leavers	Medium		15			
Gifts and hospitality (staff and Members)	Medium	2014/15				
Staff car leasing	Low	2012/13				
Subtotal People			15	30	15	15
Financial						
Accounts receivable (CORE)	High	2015/16		20		20
Creditors (CORE)	High	2015/16	20		20	
Treasury management (CORE)	High	2015/16	20		20	

Strategic Internal Audit Plan 2018/22

APPENDIX 2

Audit Title	Risk Rating	Last Audit	2018/19	2019/20	2020/21	2021/22
General Ledger incl Budgetary control (CORE)	High	2015/16		20		20
Council tax and Business Rates (CORE)	High	2015/16		20		20
Benefits (CORE)	High	2015/16		20		20
Asset Register and Inventories (CORE)	High	2015/16	20		20	
Payroll, expenses and allowances [Staff and Members] (CORE)	High	2015/16	20		20	
External funding/ grants received	Medium					
Procurement [Including use of corporate credit cards]	Medium	2012/13				
Contracts [Letting, management, and use of Framework Contracts]	Medium	2016/17				15
Grants / funding to third parties	Medium		15			
Taxation / VAT	Medium	2015/16	External tax specialists used.			
Insurance	Medium	2016/17				15
Capital programme	Medium	2016/17			15	
S106 funds / CIL / Habitat Levy	High	2015/16	15			
Subtotal Financial			110	80	95	110
Infrastructure						
<u>Buildings and land</u>						
Council Offices and sites, including Tourist Information Centre	Medium	2014/15		15		
Industrial estates and commercial property	Medium	2014/15				
Amenity property and land	Medium	2016/17				15
<u>Other Infrastructure</u>						
ICT network security, including mobile working	Medium	2013/14	PCI/PCN compliance audit.			
ICT disaster recovery	Medium	2016/17			15	
ICT change management	Medium	2016/17				15
Internal Communications [Including Intranet and Ciphernet]	Low	2011/12				
Vehicle fleet	Medium		15			
Subtotal Infrastructure			15	15	15	30
Information						

Strategic Internal Audit Plan 2018/22

APPENDIX 2

Audit Title	Risk Rating	Last Audit	2018/19	2019/20	2020/21	2021/22
Information legislation [DPA, FOI & EIR]	Medium	2015/16			15	
Information management and security	Medium					
Document management [Electronic and physical, retention and destruction]	Medium	2012/13		15		
Data quality and interpretation [incl spreadsheets and databases]	Medium		15			
External Communications [Incl Internet and social networking]	Medium	2015/16				15
Transparency Agenda	Low	2015/16				
Subtotal Information			15	15	15	15
Operational and Service Delivery						
Alive Leisure/ Management - oversight and accountability	High		20	20	20	20
Allotments	Medium	2016/17				15
Building Control	Medium		Audited by Eastern Internal Audit Services.			
Care and Repair	High	2016/17				20
Careline Community Services	Medium	2015/16	15			
CCTV	Medium	2015/16			15	
Cemeteries and Crematorium	Medium	2013/14				
Civics	Low	2015/16				
Civil enforcement and car parking	High	2015/16			20	
Community safety and neighbourhood nuisance	Medium			15		
Electoral services	Medium	2010/11	15			
Emergency planning and management	Medium	2011/12				15
Environmental quality	Medium	2011/12	15			
Food safety, health & safety and licensing	Medium	2016/17				15
Graphics and Print room	Low	2012/13				
Housing standards	Medium	2016/17				15
Housing strategy	Medium	2013/14				
Housing options and allocations	Medium	2015/16		15		

Strategic Internal Audit Plan 2018/22

APPENDIX 2

Audit Title	Risk Rating	Last Audit	2018/19	2019/20	2020/21	2021/22
Local Land and Property Gazetteer	Low	2011/12				
Major Projects	High		15	15	15	15
Planning Control	Medium					
Planning enforcement	Medium	2016/17			15	
Planning Support	Medium	2014/15		15		
Refuse collection and recycling incl Recycling Credits funding	High	2016/17	20		20	
Regeneration and economic development	Medium	2012/13	15			
Resort Services	Low	2014/15				
Street cleansing	Medium	2014/15		15		
Tourism and tourist information	Low	2011/12				
Town Centre and Market management	Low	None				
Flood and water management	Medium	2012/13				
Subtotal Operational and Service Delivery			115	95	105	115
			300	235	260	300
External Audits and Other Work						
Water Management Alliance			5	5	5	5
Alive Leisure			15	15	15	15
Audit Committee			20	20	20	20
Review of Statement of Accounts			5	5	5	5
Review of Annual Governance Statement			3	3	3	3
Check of calculations for COL and PRP						
Follow ups			10	10	10	10
Contingency			100	100	100	100
Subtotal External Audits and Other Work						
Grand Total			458	393	418	458



Internal Audit Strategy 2017-18

Introduction

Regulation 5 of the Accounts and Audit Regulations 2015 states that local authorities '*...must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*'.

This strategy is a high level statement of how the Internal Audit service will deliver the required assurance on the Council's internal control systems.

The Council's Internal Auditors will conduct all audit work in accordance with the Public Sector Internal Audit Standards (PSIAS), which define internal audit as:

'Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.'

Internal Audit Objectives

Internal Audit's objectives are to:

- Provide an independent and objective internal audit service that helps the Council to meet its stated objectives
- Support the Assistant Director in the discharge of her duties as Section 151 Officer (the officer responsible for the proper administration of the financial affairs of the authority).
- support and assist in embedding corporate governance, effective internal controls and risk management throughout the Council
- help to identify areas for improvement and make recommendations to address these
- offer advice and assurance on achieving effective internal controls
- comply with the Public Sector Internal Audit Standards (PSIAS).

Under the PSIAS the Audit Manager must produce a risk-based audit plan which takes into account the requirement to express an annual internal audit opinion on the effectiveness of the internal controls.

To this end, an Assurance Framework has been developed to enable a structured analysis of the internal controls to take place and in turn the framework is supported by a risk analysis of each identified sphere of audit. The whole process enables a risk based plan to be produced.

Outcomes

The Internal Audit team will work with a risk based audit plan that is designed to provide the required assurance on the system of internal controls.

On completion of each audit a report, which will describe the scope of the work undertaken and the results of that work, will be provided to the relevant manager, Director, the Assistant Director (s151 Officer) and Portfolio Holder. Where necessary recommendations will be made and actions agreed with the manager to rectify any control weaknesses or improve service delivery. Any such recommendations will be followed up at an agreed interval, but usually six months after the report is finalised, to assess progress in implementation.

Progress against the plan will be reported to the Audit Committee at regular intervals. All reports will be made available in full to the members of the Committee via a secure area on InSite.

Managers will also be able to seek advice from the team on possible control issues if necessary.

At the end of the financial year, the Audit Manager produces an Annual Report which includes Annual Audit Opinion as described below.

Annual Audit Opinion

Internal Audit's role is to understand the key risks to the Council and to examine and evaluate the adequacy and effectiveness of its systems of risk management, governance and internal control. Each year the Audit Manager will provide her opinion on the effectiveness of the internal control environment to the Audit Committee. It will be influenced by the individual opinions provided for each piece of audit work undertaken and the progress made by managers in implementing previously agreed actions. The opinion will be supported by sufficient, reliable and relevant evidence

Resources

The internal audit service will be provided by an in-house team consisting of a part-time Audit Manager, one full time Auditor, one part time Auditor and a fulltime Investigation Officer/ Internal Auditor. The team will operate according to the Public Sector Internal Audit Standards.

As reported to the Audit Committee on 11th July 2016, the Audit Manager role will be reduced to part –time from 1st April 2017. In order to accommodate the subsequent reduction in time available for audit work, the frequency of audits over the 5-year plan has been revised as follows:

Low risk audits	If time permits in the audit year
Medium risk audits	Full systems audit one year in five
High risk audits	Full systems audit one year in three,
Core audits	Full systems audit one year in two

Core audits comprise:

- Accounts receivable
- Creditors
- Treasury management
- General ledger including budgetary control
- Council tax and business rates
- Benefits
- Asset register and inventories
- Payroll

The available resources are calculated as shown in the table below:

	Days
Total working days available	
Less:	
Annual Leave	
Bank Holidays (Including extended Christmas closure)	
Training (non-qualification)	
Section administration	
Management	
Total audit time available	
Core Systems	
Risk based and external audits	
Follow-ups, reviews and Audit Committee support	
Contingency	
Total allocated	

In addition to the in-house team the Council has access to IT auditors via the contract the Eastern Internal Audit Services has in place with TIAA Ltd for the provision of their internal audit services.

To maintain the skills and knowledge levels required, training assessments of the team will be carried out on an annual basis as part of the Council's appraisal process. The Audit Manager will be responsible for prioritising the identified needs and ensure that the most effective use is made of the available training resources.

Key Performance Indicators

PI Ref	Indicator	Target
AUD 1	Delivery of the Audit Plan	95%
AUD 2	Productive time	60%

Audit and Risk Committee

The Terms of Reference relating to the Audit Committee include a requirement to review and approve, but not direct the Internal Audit Strategy. It is intended that this Strategy will be reviewed on an annual basis and the results presented to the Committee for approval along with the Audit Strategic Plan.

The next date for review will be – March 2018.

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	13 th February 2017		
TITLE:	Review of Anti-Fraud and Anti-Corruption Strategy, Whistleblowing Policy and Fraud Response Plan		
TYPE OF REPORT:	Scrutiny		
PORTFOLIO(S):	Cllr Daubney, Performance		
REPORT AUTHOR:	Kate Littlewood, Audit Manager		
OPEN		WILL BE SUBJECT TO A FUTURE CABINET REPORT:	Yes

REPORT SUMMARY/COVER PAGE

PURPOSE OF REPORT/SUMMARY:
The 'Anti-Fraud and Anti-Corruption Strategy', 'Whistleblowing Policy' and 'Fraud Response Plan' were last reviewed in 2014/15 and are therefore due for the 3-year review. The documents have been reviewed and the results, with tracked changes, are presented to the Committee to consider and comment on before they are presented to Cabinet and Council for approval.
KEY ISSUES:
The changes mainly relate to : <ul style="list-style-type: none"> • The changes in benefit fraud investigation responsibilities since BEU transferred to the DWP. • Deletion of the Deputy Chief Executive role and transfer of responsibilities to Assistant Director (s151 Officer) • Change in title from Executive Director, Central Services to 'Central and Community Services'. • Change in title from 'Audit and Risk Committee' to 'Audit Committee' • Minor corrections to grammar and spelling
OPTIONS CONSIDERED:
1. Adopt the revised anti-fraud suite of documents to ensure the Council has relevant and up-to-date procedures and policies.
2. Remain with the existing anti-fraud suite of documents, which are no longer fully relevant or fit for purpose.
RECOMMENDATIONS:
To consider the changes made to the anti-fraud suite of documents and recommend approval of the revised documents to Cabinet.
REASONS FOR RECOMMENDATIONS:
To bring the documents up-to-date with the Council's current requirements and ensure they are fit for purpose.

REPORT DETAIL

1. Introduction

1.1 The Council needs to remain vigilant in order to safeguard its resources and to protect its reputation. As a Council, we therefore need to raise awareness, deter and identify fraud. At the same time, it is essential to provide the means by which employees, Members and anyone representing the Council, can raise legitimate concerns when they feel something has been done that is either illegal or improper.

1.2 The Council has always endeavoured to promote a culture of honesty, integrity and openness. This is reflected in its policies and strategies to deter and prevent fraud and corruption. A comprehensive review was completed in 2014 to provide consistent, up-to-date and fit for purpose documents. Another extensive review was not considered to be required again at the moment.

2. Proposal

2.1 The revised documents are attached, with tracked changes to highlight the changes made. Since 2014 several changes have taken place, which need to be reflected in the anti-fraud suite of documents as outlined below.

2.2 The work of the Benefits Enquiry Unit (BEU) on fraud relating to Benefits has transferred to the Single Fraud Investigation Service within the Department for Work and Pensions (DWP). Capacity for investigating fraud relating to Council Tax and Business Rates, as well as dealing with the National Fraud Initiative work, has been retained within the Council in the form of a Fraud Investigations Officer/ Internal Auditor role. Reference to the investigation of Benefit fraud has been removed from the documents.

2.3 The Deputy Chief Executive has left the Council and his responsibilities in relation to anti-fraud and whistleblowing have been transferred to the Assistant Director (s151 Officer).

2.4 There has been a change in title for the Executive Director, Central Services to Executive Director, Central and Community Services.

2.5 There has been a change in the title of the Audit Committee from Audit and Risk Committee.

3. Issues for the Panel to Consider

3.1 The Committee needs to consider if the changes made to the documents adequately reflect the current requirements of the Council.

4. Corporate Priorities

4.1 Sound anti-fraud policies and strategies indirectly support the achievement of the Council's objectives by safeguarding the Council's assets and resources that are required to carry out the necessary work.

5. Financial Implications

5.1 There are no direct financial implications, but indirectly, if the anti-fraud documents are not effective, there could be repercussions as frauds may not be effectively prevented or detected.

6. Any other Implications/Risks

6.1 A failure to respond appropriately could lead to a claim against the Council in an Employment Tribunal for unfair dismissal. This could expose the Council to additional cost, as well as the risk that any fraudster could continue to be employed by the Council as a result of a flawed investigation. There is also a risk that such a failure would result in adverse publicity for the Council.

7. Equal Opportunity Considerations

7.1 None.

8. Consultation

8.1 Fraud Investigations Officer/ Internal Auditor and the Legal Services Manager.

9. Conclusion

9.1 The Council needs to have effective policies, procedures and a strategy for ensuring the safeguarding of assets and resources. The changes, if approved, will ensure the Council has effective measures to support its culture of honesty, integrity and openness.

10. Background Papers

10.1 None.



ANTI-FRAUD AND ANTI-CORRUPTION STRATEGY

The Council places great emphasis on ensuring all our business is undertaken in a clear and transparent way, and will not tolerate any behaviour which undermines ~~the~~ good governance

The Council abides by the Seven Principles of Public Life as laid down by the Committee on Standards in Public Life, namely:

1. Selflessness
2. Integrity
3. Objectivity
4. Accountability
5. Openness
6. Honesty
7. Leadership

Both Members and employees are expected to conduct themselves in ways which are beyond reproach, above suspicion and fully accountable.

All ~~al~~legations of fraud will be assessed and investigated as appropriate, and if proven, the strongest possible sanctions will be sought. This may include disciplinary action, prosecution, civil proceedings, or a combination of all.

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1. Introduction

This document sets out the Council's strategy in relation to fraud and corruption relating to the Council's business. It has the full support of the Council's Elected Members and the Corporate Management Team.

Suspected fraud relating to ~~Housing Benefit and~~ Council Tax Support, and Council Tax and Business Rates exemptions and discounts are covered by the 'Benefits and Revenues Fraud Policy'. Where such fraud is suspected, information should be passed to the Fraud Investigations Officer Unit within the Audit and Fraud Team either by completing the Fraud Referral form on the website <http://www.west-norfolk.gov.uk/default.aspx?page=21676> or by using the fraud hotline 0800 281 879. All referrals received will be assessed and investigated as appropriate.

Suspected fraud relating to Housing Benefit should be reported to the Department of Work and Pensions (DWP) on 0800 854 440 or by completing the DWP referral form on the website as given above.

However the overall stance remains the same:

The Council is committed to the elimination of fraud, corruption and theft, and to the promotion of high standards of conduct.

To deliver the Council's Corporate Strategy we need to maximise the financial and other resources available to us. In order to do this we must reduce fraud and misappropriation to an absolute minimum. The Council recognises its responsibility to protect public funds and we will therefore endeavour to implement secure systems and high standards of conduct.

We will take the strongest possible action against those who seek to defraud the Council. This includes Members, Officers, contractors, partners and any other external bodies who work on behalf of the Council.

2. What is Fraud?

'The intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of asset or otherwise for gain.' (CIPFA)

The Fraud Act 2006 created a general offence of fraud and introduced three possible ways of committing it:

1. **Fraud by false representation.**

A person is in breach of this section if this is done dishonestly and there is intent, by making the representation, to make a gain for themselves or another, or to cause or expose the risk of loss to another. For example, claiming expenses that have not been incurred in accordance with the Council's policies.

2. **Failing to disclose information.**

A person is in breach of this section if they dishonestly fail to disclose information which they are under a duty to disclose and intends to make a gain personally or for someone else or to cause or expose the risk of loss to another. For example, failing to disclose a personal interest when awarding contracts.

3. **Abuse of position.**

A person is in breach of this section if they occupy a position in which they are expected to safeguard, or not act against, the financial interests of another person, and dishonestly abuses that position with the intention of making a gain for themselves or another, or to cause or expose the risk of loss to another. For example, allowing family or friends to use Council assets free of charge.

In each case the deception does not have to be successful. It is sufficient that the person knowingly and dishonestly attempted the deception.

A person found guilty of fraud may be liable to imprisonment of up to 10 years or a fine up to £5,000, or both.

3. What is Corruption?

'Corruption is the offering, giving, soliciting or acceptance of an inducement or reward that may influence the actions taken by the Council, its Members or employees.' (CIPFA)

The Bribery Act 2010 introduced four offences:

1. **The offence of bribing another person.**

This can occur where a person offers, promises or gives a financial or other advantage to another individual to perform improperly a relevant function or activity, or to reward a person for the improper performance of such a function or activity. It is not an issue whether the person given the bribe is the same person who will perform the function or activity concerned.

2. **The offence of being bribed.**

This is where a person receives or accepts a financial or other advantage to perform a function or activity improperly. It does not matter whether the recipient of the bribe receives it directly or through a third party, or whether it is for the recipient's ultimate benefit or not.

3. **Bribery of a foreign public official.**

This is where a person directly or through a third party offers, promises or gives any financial or other advantage to a foreign public official in an attempt to influence them as a public servant and to obtain or retain business, or any other related advantage in the conduct of business.

4. **A corporate offence of failure to prevent bribery.** A commercial organisation could be guilty of bribery where a person associated with the organisation, such as an employee, agent or even sub-contractor, bribes another person intending to obtain or retain business for the organisation or to obtain or retain an advantage in the conduct of business for the organisation.

A person found guilty under 1-3 may be liable to imprisonment of up to 10 years or unlimited fines, or both.

4. What is Theft?

A person is guilty of theft under the Theft Act 1968 if:

1. They dishonestly appropriate property belonging to another with the intent of permanently depriving the other of it. This applies to theft of personal property on Council premises as well as theft of Council assets.
or
2. They dishonestly retain a wrongful credit. For example they do not report and repay an overpayment of salary or expenses.

For the purpose of this document, the use of the word 'fraud' will be deemed to include 'corruption', 'bribery' and 'theft'.

5. The Council's Approach

The corporate framework (**Appendix 1**), which underpins the operation of the Council, has a number of facets that exist to protect the Council against fraud and corruption. The Anti-Fraud and Anti-Corruption Strategy underpins this framework.

This strategy defines the approach to managing the risk of fraud across the organisation and ensures best practice is embedded across all services, projects and partnerships. The Council will fulfil its responsibility to reduce fraud and protect its resources by focussing on the following areas:

1. Anti-fraud culture
2. Deterrence
3. Prevention
4. Detection
5. Investigation
6. Sanction
7. Redress

Each of these themes will be discussed below to demonstrate how they contribute to the strategy and how they work in practice.

6. Anti-fraud Culture

The Council must have a strong and recognised anti-fraud culture, where the leadership, both elected and employed, uphold the highest standards of conduct. Both Members and employees are expected to conduct themselves in ways which are beyond reproach, above suspicion and fully accountable. As such Members are bound by the Members' Code of Conduct and employees are directed by the '[Official Officer Code of Conduct](#)' contained in the Employee Handbook. In addition to this there is a special onus upon the Corporate Management Team and Cabinet to lead by example.

Roles and responsibilities in respect of fraud prevention and detection are shown in **Appendix 2**.

This Strategy will be available to all Members, employees, contractors and partners and will be supported by other relevant policies and guidance such as the Disciplinary Procedure and the Whistleblowing Policy.

7. Deterrence

The Council will seek the most appropriate sanction and redress against all those who commit fraud against the Council. Where appropriate we will publicise details of criminal convictions and provide statistical information in relation to disciplinary action to deter others who may consider committing such offences themselves.

All managers have a responsibility for ensuring that control measures are in place to minimise the risk of fraud and ensure all staff are aware of these procedures. Where effective controls are in place there is less opportunity to commit fraud, which in turn **may** **act**s as a deterrent.

8. Prevention

There are a number of key processes that can assist in the prevention of fraud, including:

1. Internal Control Systems
2. Employee recruitment and conduct
3. Joint working to prevent and combat fraud
4. The work of the Audit ~~and Risk~~ Committee

8.1 Internal Control Systems

Internal controls are in place to prevent fraud. It is the responsibility of all managers to establish and maintain systems of internal control and to assure themselves that those controls are properly applied as intended. This includes responsibility for the prevention and detection of fraud.

The Council implements strong systems of verification of all claims for all types of financial assistance. All data available will be used to corroborate information given by applicants for the purpose of prevention and detection of fraud. Grants and assistance given to external organisations will be monitored to ensure applications are genuine.

The Council also expects partners and contractors to have adequate controls and Whistleblowing procedures in place to minimise fraud and this will be written in to all contract terms and agreements.

The Audit and Fraud Team will ensure that an adequate and effective internal audit is undertaken of the Council's systems and processes, and will investigate allegations of fraud and corruption. Any system weaknesses that are identified as part of these investigations will be reported to the relevant manager and action plan agreed to remedy the issue. The Audit ~~and Risk~~ Committee will receive regular reports from the Audit Manager on the results of internal audits and any investigations, including follow-up on the implementation of agreed actions.

8.2 Employment recruitment and conduct

Recruitment procedures require that all applicants will provide evidence of any qualifications claimed and all references will be taken up. The right to work in this country will also need to be demonstrated where necessary.

All employees must abide by the Council's rules as contained in relevant policies and procedures. This expectation forms part of the employee's contract of employment. Employees are also expected to follow any additional Codes of Conduct of a professional body to which they are registered.

8.3 Joint working to prevent and detect fraud

The Council participates in data-matching exercise such as the National Fraud Initiative (NFI) and makes full use of its statutory powers to obtain information using bodies such as the National Anti-Fraud Network (NAFN) to identify possible instances of fraud.

8.4 Audit ~~and Risk~~ Committee

The Terms of Reference for the Audit ~~and Risk~~ Committee require it to '*consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements*'. As such the Committee receives regular reports from the Audit Manager ~~and the Investigations Manager~~ on work carried out, and considers the adequacy of the Council's policies relating to the prevention and detection ~~and of~~ fraud and corruption.

9. Detection

Whilst it is possible to reduce the potential for fraud within the Council, it is important to acknowledge that it is not possible to eradicate it. Therefore it is essential ~~thate~~ Members and employees are aware of what to do should they detect or genuinely suspect a fraud has or is taking place. **The Fraud Response Plan provides guidance on what to do and who to report the matter to.**

Alternatively the **Whistleblowing Policy** enables employees to report cases of fraud and receive protection afforded by the Public Interest Disclosure Act 1998.

10. Investigation

All ~~allegations~~ of fraud will be assessed by the Audit Manager ~~and Investigations Manager together~~ with the relevant Executive Director, ~~Chief Financial Officer as Assistant Director (s151 Officer)~~ and Executive Director, Central ~~and Community~~ Services. The appropriate course of action will be agreed and if necessary an investigations team will be created depending on the circumstances in which the fraud has taken place. This may include staff from technical areas to provide specific insight into any relevant issues.

Allegations of fraud against Members which results in a complaint of misconduct under the Members' Code of Conduct will be dealt with in accordance with the Standards Committee's Local Assessment arrangements, established under the Standards Committee (England) Regulations 2008.

11. Sanction

The strongest available sanctions will be pursued against all who commit fraud against the Council. This may include disciplinary action, prosecution, civil proceedings or a combination

of all. The decision to recommend any or all of these sanctions will be made on a case by case basis, having regard to the nature and extent of the fraud and evidence available.

At the conclusion of the investigation a report will be written, concluding on whether there is a case to answer. The final decision on the course of action to be taken will be made by the Executive Director concerned. Any decision to refer the matter to the police will be taken jointly by the ~~Chief Financial Officer~~ asas Assistant Director (s151 Officer), Executive Director Central and Community Services and the relevant Executive Director of the service affected.

12. Redress

In cases of proven fraud, the Council will seek to recover any monies and will use all means available to recover these amounts. This can include freezing assets, Compensation Orders, Confiscation Orders, Civil Litigation and general debt recovery according to the circumstances of the fraud.

Where a criminal conviction has been secured, the Council will seek a Compensation Order through the Courts and also consider using the Proceeds of Crime Act 2002 to recover losses.

13. Strategy Review

This strategy will be formally reviewed every 3 years to ensure it remains relevant and fit-for-purpose. However if there are any relevant changes in legislation or circumstances in between formal reviews, the strategy will be amended as necessary to reflect these. Where these changes are administrative in nature, and do not substantially change the nature of the strategy, the ~~Chief Financial Officer~~ asas Assistant Director (s151 Officer) will approve them and inform the Audit ~~and Risk~~ Committee. Substantial changes which change the nature of the strategy will be reported to Cabinet.

Next formal review date – ~~February 2017~~ XXXXXX.

APPENDIX 1 – THE CORPORATE FRAMEWORK

- The Constitution (including Financial Regulations, Contract Standing Orders and the Scheme of Delegation)
- An established Audit ~~and Risk~~ Committee
- An established Standards Committee and an adopted Code of Conduct for Members.
- Members formally signing a declaration accepting the terms of the Code of Conduct
- Employee rules of conduct contained within the relevant policies and procedures, including '~~Official~~Officer Code of Conduct' in the Employee Handbook.
- Employees' Conditions of Service
- An Officer appointed under Section 151 of the Local Government Act 1972, with statutory responsibility for the oversight of all financial affairs
- An Officer, appointed as Monitoring Officer under Section 5 of the Local Government and Housing Act 1989, with statutory responsibility for monitoring the legality of the Council's affairs
- Register of Interests, and Gifts and Hospitality procedures for Members and employees
- Effective employee vetting procedures (recruitment and Disclosure and Barring Service (DBS) checks where appropriate)
- A Corporate Induction programme for all employees which includes expected standards of probity
- Effective disciplinary procedures
- An Internal Audit function with responsibility for assessing and testing the Council's control environment, including a Fraud Investigations Officer
- A Whistle-blowing policy
- An Anti-Fraud and Anti-Corruption Strategy
- A Fraud Response Plan
- A Complaints Procedure available to the public
- Public inspection of accounts and questions to the External Auditor
- An External Audit function
- ~~A dedicated Investigations Service~~
- Participation in national anti-fraud initiatives
- The promotion of awareness of anti-fraud measures, reinforced by publicity
- Proactive ICT security measures.

APPENDIX 2 – ROLES AND RESPONSIBILITIES

The table below lists specific roles and responsibilities in respect of the prevention and detection of fraud.

However it must be emphasised that all Members and employees have a role to play in preventing and detecting fraud. The Fraud Response Plan provides guidance on what to do if evidence of a fraud is found or if a fraud is suspected.

Role	Responsibility
All Councillors	<ul style="list-style-type: none"> • Uphold the highest standards of conduct and conduct themselves in ways that are beyond reproach. • Demonstrate a commitment to this Strategy and ensure it has the appropriate profile within the Council. • Facilitate an Anti-Fraud and Anti-Corruption culture.
All Employees	<ul style="list-style-type: none"> • Uphold the highest standards of conduct and conduct themselves in ways that are beyond reproach. • Understand and comply with the Council's Anti-Fraud and Anti-Corruption Strategy. • Understand their responsibility to report suspected fraud or corruption and how to do it. • Understand the need to declare any interests that may conflict with their work for the Council.
Cabinet	<ul style="list-style-type: none"> • To approve the Anti-Fraud and Anti-Corruption Strategy • Ensure the Strategy is effectively implemented across the Council.
Audit and Risk Committee	<ul style="list-style-type: none"> • To monitor and review the effectiveness of the Council's risk management arrangements, internal controls and related counter fraud arrangements.
Chief Executive	<ul style="list-style-type: none"> • Ensure that there is strong political and executive support for work to counter fraud and corruption. • Ensure consistency across Directorates in the implementation of this Strategy.
Deputy Chief Executive	<ul style="list-style-type: none"> • Executive Director with specific responsibility for the investigation and detection of fraud. • To ensure the Anti-Fraud and Anti-Corruption Strategy is reviewed and maintained at appropriate intervals.
Monitoring Officer	<ul style="list-style-type: none"> • To report on matters she believes are, or are likely to be, illegal or amount to maladministration. • To be responsible for matters relating to the conduct of Councillors and employees. • To be responsible for the operation of the Council's Constitution.
Assistant Director (Section 151 Officer) (currently the Chief Financial Officer)	<ul style="list-style-type: none"> • Executive Director with specific responsibility for the investigation and detection of fraud. • To ensure the Anti-Fraud and Anti-Corruption Strategy is reviewed and maintained at appropriate intervals. • Ensure that those working to counter fraud and corruption are undertaking the work in accordance with a clear ethical framework and standards of personal conduct. • Ensure that those working to counter fraud and corruption are professionally trained and accredited for their role and attend regular refresher courses to ensure they are up to date with new developments and legislation. • Ensure that there is a level of financial investment in counter

APPENDIX 2 – ROLES AND RESPONSIBILITIES

	<p>fraud and corruption work that is proportionate to the risk identified.</p> <ul style="list-style-type: none"> • Ensure that reports on investigations include a section on identified internal control weaknesses that enabled the fraud to take place and action to be taken to correct the weakness where appropriate.
Executive Director, Central <u>and</u> <u>Community</u> Services	<ul style="list-style-type: none"> • Ensure there are effective recruitment procedures in place, implemented by appropriately trained officers. • Ensure employment policies support the Anti-Fraud and Anti-Corruption Strategy. • Ensure effective and appropriate sanctions are applied in all relevant cases.
Executive Directors	<ul style="list-style-type: none"> • Ensure the risks of fraud and corruption are identified and procedures implemented to reduce the risk to an acceptable level. • Ensure the Anti-Fraud and Anti-Corruption Strategy is implemented within their Directorate. • Ensure the risk of fraud and corruption is considered in all new processes and appropriate procedures implemented. • Determine the appropriateness of gifts and hospitality offered to employees within their Directorate.
Managers	<ul style="list-style-type: none"> • Ensure all their employees are aware of their responsibilities under the Anti-Fraud and Anti-Corruption Strategy. • Ensure all their employees are aware of all relevant policies and procedures relating to official conduct of Council business. • Ensure all their employees are aware of, and understand, the Whistleblowing Policy and arrangements, and the process for reporting fraud. • Ensure accurate and timely reporting of gifts and hospitality.
Audit and Fraud Team	<ul style="list-style-type: none"> • Support Executive Directors and Managers in identifying and mitigating risks for fraud and corruption. • Undertake a planned programme of internal audits to examine the system of internal controls and agree actions to correct any identified weaknesses. • Undertake data matching exercises with national bodies and investigate results for potential frauds. • Provide specialist skills in investigating allegations of fraud, especially where it may result in a prosecution.
Democratic Services Manager	<ul style="list-style-type: none"> • Ensure Members are aware of their obligations in respect of the Anti-Fraud and Anti-Corruption Strategy. • Ensure members are aware of, and abide by, their obligations in relation to probity. • Maintain a Register of Interests and a Register of Gifts and Hospitality for Members and employees.

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



WHISTLEBLOWING POLICY

Date of Adoption: 6th May 2014XXXX
Next review: February 2014XXXXX

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1. Introduction

- 1.1 Employees and Members are often the first to realise that there may be something seriously wrong within the Council. However, they may not express concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances, it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.
- 1.2 The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment, we encourage employees (including contractors), ~~and~~ Members ~~and others~~ with serious concerns about any aspect of the Council's work to come forward and voice those concerns. This policy document also makes it clear that employees can do so without fear of reprisals.
- 1.3 This Whistleblowing Policy has been produced in accordance with the provisions of the Public Interest Disclosure Act 1998.
- 1.4 This policy supports the Council's Anti-Fraud and Anti-Corruption Strategy. It is intended to encourage and enable employees and Members to raise serious concerns within the Council, irrespective of seniority, rank or status, rather than overlooking a problem or reporting the matter externally. Similarly, anyone else who has a genuine concern about the conduct of an employee is encouraged to report their concerns. It is recognised that certain cases will have to proceed on a confidential basis.
- 1.5 This policy does not replace the Corporate Complaints Procedure, the Harassment Policy or the Disciplinary Procedure, nor is it concerned with complaints about the conduct of Councillors. Complaints about the conduct of Councillors will normally be dealt with using the Guidance "How to make a complaint about a Member of the Borough Council of King's Lynn & West Norfolk or members of Town and Parish Councils in the Borough" procedure as published on the Council's website.

2. Aims and Scope of this Policy

- 2.1 There are existing procedures in place to enable employees to make complaints about service quality or lodge a grievance relating to their own employment. This Whistleblowing Policy is intended to cover concerns that fall outside the scope of those procedures, including concerns by Council Members ~~and the public~~.
- 2.2 That concern may be about something that:
- Is unlawful;
 - Is contrary to the Council's Standing Orders or policies;
 - Falls below established standards or practice; or
 - Amounts to improper conduct.

For example (this list is not exhaustive):

- Malpractice or ill treatment of a client/customer;

- A criminal offence has been committed, is being committed or is likely to be committed;
- Suspected fraud;
- Disregard for legislation, particularly in relation to health and safety at work;
- Breach of Financial Regulations, Contract Standing Orders, ICT Security Policy;
- Showing undue favour over a contractual matter or to a job applicant;
- Falsification or manipulation of financial records;
- A breach of any code of conduct or protocol;
- Information on any of the above has been, is being, or is likely to be concealed.
- Falsifying of job application details.

2.3 The overriding concern should be that it would be in the public interest for the malpractice to be corrected and, if appropriate, sanctions applied.

2.4 The earlier concerns are raised, the easier it is to take action. Anyone with a concern about an employee's conduct but is unsure whether a particular practice is unacceptable to the Council is encouraged to ask either the Chief Executive, the ~~Deputy Chief Executive~~ Assistant Director (s151 Officer), the relevant Executive Director, ~~the Chief Financial Officer~~, the Personnel Services Manager, the Monitoring Officer or the Audit Manager in case their concerns are unfounded or fall within another Council policy or strategy.

3. **Safeguards**

Harassment or Victimisation

3.1 The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice. The Council will not tolerate harassment or victimisation (including informal pressures) and will take action to protect employees when they raise a concern in good faith. The Council will treat any claims of harassment or victimisation seriously and will investigate the complaint in accordance with the Council's Policy Statement on Harassment at Work, which could lead to disciplinary proceedings.

3.2 This does not mean that if, where an employee is already the subject of disciplinary or redundancy procedures, those procedures will be halted as a result of their ~~whistle-blow~~ whistleblowing.

Confidentiality

3.3 The Council will do its best to protect a ~~whistle-blow~~ whistleblower's identity when they raise a concern and do not want their name to be disclosed. It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by an employee may be required as part of the evidence.

Anonymous Allegations

- 3.4 This policy encourages ~~whistle-blow~~whistleblowers to put their name to their allegation whenever possible. Concerns expressed anonymously are much less powerful, but they will be considered at the discretion of the Council.
- 3.5 In exercising the discretion, the factors to be taken into account would include the:
- Seriousness of the issues raised;
 - Credibility of the concern; and
 - Likelihood of being able to independently confirm the allegation.

Untrue Allegations

- 3.6 If an employee or Member makes an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against them. If, however, an allegation is found to be malicious, frivolous or vexatious, or gives personal gain to the whistleblower as a result of the allegation, disciplinary action may be taken against them (if such an allegation is made by a Member, the Standards Committee may investigate the matter).

4. Reporting Suspicions

- 4.1 Anyone wishing to raise a concern that falls within the scope of other Council procedures will not be dealt with in this procedure, but will be advised on the appropriate procedure to use. Employees will still receive protection as detailed in this policy.
- 4.2 If an employee/member has a concern they should not:
- Do nothing;
 - Be afraid to raise the concerns – they will not suffer any recriminations from the Council as a result of raising a legitimate concern;
 - Directly approach or accuse individuals they have concerns about;
 - Try to investigate the matter themselves. There are special rules surrounding the gathering of evidence for use in criminal cases. Any attempt to gather evidence by anyone not familiar with these rules could destroy the case;
 - Convey their concerns to anyone not in the list below (there is a duty to maintain the confidentiality of the matter under investigation). However an employee may invite a trade union representative or work colleague to raise the matter on their behalf. Members may wish to consult with their party Leader before raising the matter.
 - Raise vexatious concerns or concerns they know to be untrue – they could be disciplined if they do;
- 4.3 If fraud or corruption is suspected, then the matter should be reported without delay. Employees should report to their Executive Director . If it is thought that the Executive Director may be involved, or that there may be a conflict of interest, the matter should be reported directly to or to one of the following:
- Chief Executive;

- ~~Chief Financial Officer~~Assistant Director (S151 Officer);
- Executive Director, Central ~~and Community~~ Services;
- Audit Manager ~~or Investigations Manager in the Audit and Fraud Team~~

4.4 Any Councillors, contractors or other person should inform either the Chief Executive or the ~~Chief Financial Officer~~Assistant Director (S151 Officer) of their concerns.

4.5 If possible, concerns should be raised in writing, to ensure those conducting investigations properly understand and investigate the allegations. Written allegations should include the background, history and nature of the concern (including names and relevant dates and locations, where applicable) and the reason why the author is particularly concerned about the situation.

4.6 If it is not possible to put a concern in writing, the concern can be raised either by telephone or by meeting the appropriate officer as set out in Section 4.3 above. The earlier a concern is raised, the easier it is to take action.

4.7 Although whistleblowers are not expected to prove the truth of an allegation, they will need to demonstrate to the person contacted that there are sufficient grounds for the concern.

4.8 If in doubt, Public Concern at Work (www.pcaw.co.uk) will give confidential free and totally independent advice on how to proceed (contact whistle@pcaw.org or telephone 020 7404 6609).

4.9 Concerns can also be raised anonymously (by letter or telephone), although these are normally given less weight than those concerns raised more formally.

4.10 Alternatively, whistleblowers can contact the Council's External Auditor (Ernst & Young) on 01223 394400 who is likely to liaise with any of the above.

4.11 ~~Suspected fFrauds~~ relating to ~~Housing Benefit and~~ Council Tax Support, Council Tax and Business Rates exemptions and discounts should be referred ~~to the Investigations Unit within the Audit and Fraud Team~~ either by completing the Fraud Referral Form on the website: <http://www.west-norfolk.gov.uk/default.aspx?page=21676> or by using the fraud hotline 0800 281 ~~879-89~~.

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5. **How the Council will respond**

5.1 The action taken by the Council will depend on the nature of the concern and may be:

- Resolved by agreed action without the need for investigation;
- Investigated internally;
- Referred to the police or another investigating agency;
- Referred to the external auditor.

5.2 As soon as a fraud or act of corruption is reported, the Executive Director receiving the concern will:

- Obtain a written record of the concerns from the person making the allegations. This should include:

- Background details and nature of the suspicions (including relevant names, dates and locations);
 - Details of the job and areas of responsibility of the individuals implicated;
 - Why the person raising the matter is concerned;
 - Action taken to date, if any;
 - A description of the systems, controls and procedures that should be operating within the area where the fraud is alleged to be taking place.
- Take care, at this stage, to ensure that the suspect(s) are not alerted to the potential investigation and the confidentiality of informants is not compromised;
 - Seek guidance from the ~~Assistant Director (s151 Officer) Chief Financial Officer~~, Executive Director Central and Community Services and the Audit Manager as appropriate before taking any action, including interviewing, or observing suspects in connection with the suspected act(s). This is to ensure that evidence is collected in a way that complies with relevant legislation and does not compromise the investigation and/or subsequent disciplinary procedures/prosecutions.

5.3 The case will be discussed by the ~~Chief Financial Officer~~ Assistant Director (s151 Officer), Executive Director, Central and Community Services, and Audit Manager plus either the Personnel Services Manager (regarding allegations concerning employees) or Monitoring Officer (regarding allegations concerning Councillors) and the relevant Executive Director (i.e. the Executive Director responsible for the work area in which the suspect works) to decide what action needs to be taken to investigate the allegation. The discussion will need to consider whether there needs to be an initial covert investigation. In order to initiate disciplinary/criminal proceedings against suspected financial misconduct, it is essential that evidence is secured in a legally admissible form, without alerting suspects at the outset of the investigation.

There are two main reasons for this:

- Evidence may be hidden or removed;
- To avoid wrongly damaging the reputation of anyone suspected but subsequently found innocent of wrongful conduct.

5.4 Following this discussion and if it is decided that further information is required, the relevant Executive Director should appoint one or more Investigating Officers. The role of the Investigating Officer(s) is to:

- Identify the issues;
- Establish the facts (e.g. Who, Why, Where, What, When and How?);
- Decide whether there is a case to answer.

5.5 If an investigation is required, the relevant Executive Director will advise the Chief Executive. The Executive Director will also write to the whistleblower:

- Acknowledging that an investigation will be carried out, giving details as to who the investigating officer(s) will be;
- Give an estimate of how long it will take to provide a final response;

- Telling them whether any initial enquiries have been made;
- Advising them that the investigation will be carried out in the strictest confidence.
- If there is to be no investigation, give the reasons as to why not

6. **How the matter can be taken further**

6.1 This policy is intended to provide an avenue to raise concerns **within** the Council. The Council hopes that any ~~whistle-blow~~whistleblower will be satisfied. If they are not, and feel that it is right to take the matter outside the Council, the following are possible contact points:

- The Leader of the Borough Council or the ~~whistle-blow~~whistleblower's Ward Councillor (if the ~~whistle-blow~~whistleblower lives in the Borough Council's area);
- The External Auditor;
- Relevant professional bodies or regulatory organisations;
- A Solicitor;
- The police;
- Public Concern at Work.

If a Member or employee does take this matter outside the Council, they need to ensure that they do not disclose confidential information or that disclosure would be privileged. The Member or employee should check with the contact point about that.

7. **The Monitoring Officer**

7.1 The Monitoring Officer has overall responsibility for the maintenance and operation of this policy and will liaise as necessary with the Chief Executive; the Deputy Chief Executive; the Executive Director, Central **and Community Services**; the ~~Chief Financial Officer~~Assistant Director (s151 Officer), the Personnel Services Manager or the Audit Manager, as necessary.

8. **The Law**

8.1 This policy has been written to take account of the Public Interest Disclosure Act 1998, which protects workers making disclosures about certain matters of concern, where those disclosures are made in accordance with the Act's provisions.

8.2 The Act is incorporated into the Employments Rights Act 1996, which already protects employees who take action over, or raise concerns about health and safety at work. Financial issues are covered by Section 151 Local Government Act 1972, Section 114 of the Local Government Finance Act 1988, The Local Government and Housing Act 1989, and Accounts and Audit Regulations 2003 (as amended).

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



FRAUD RESPONSE PLAN

What to do if you know, or suspect, a fraud has taken place, or is taking place, and who to report it to.

Date of Adoption: ~~6th May 2014~~XXXXXX
Next review: ~~February 2017~~XXXXX

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1. **Introduction**

- 1.1 The Council is committed to protecting the public funds it has been entrusted with. Minimising the losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purpose for which they are intended, namely the provision of high quality services to the citizens of the Borough. The Council has a range of policies and procedures that facilitate this process and form equally important parts of the Council's overall strategy. These include the Anti-Fraud and Anti-Corruption Strategy and the Whistleblowing Policy.
- 1.2 This document is intended to provide a framework for the reporting of and response to suspected cases of theft, fraud and corruption.
- 1.3 Investigation of suspected fraud, theft or corruption will be conducted in accordance with the Police and Criminal Evidence Act (PACE) 1984, the Criminal Procedure and Investigations Act (CPIA) 1996, the Human Rights Act 1998, the Regulation of Investigatory Powers Act (RIPA) 2000 and any other relevant legislation, including any Act or guidance which updates or supersedes any of these Acts.
- 1.4 **Appendix A** to this document provides an outline checklist that should be used to record significant events and information. As the case progresses, different officers will normally complete the document.

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2. **Scope of this Response Plan**

- 2.1 The scope of this response plan is not limited to fraud and corruption but is applicable to any suspected act of financial or other impropriety. This includes any act that puts the Council's resources at risk.
- 2.2 The exception to this ~~is~~ are the arrangements concerning suspected frauds relating to Housing Benefit and Council Tax Support Fraud, and Business Rates which ~~are~~ is dealt with in accordance with the Council's website guide for reporting Benefit such fraud ~~and in the Benefits and Revenues Fraud Policy. The Council's in-house Investigations Unit within the Audit and Fraud Team investigates these frauds.~~
- 2.3 Definitions of what types of action is covered by this Response Plan can be found in the Anti-Fraud and Anti-Corruption Strategy in Sections 2- 4
- 2.4 Anyone raising a concern (whether an employee, Councillor or member of the public) will be referred to as a whistleblower for the purposes of this Response Plan. Anyone raising a concern (whether an employee, Councillor or member of the public) will be referred to as a whistleblower in this Response Plan.

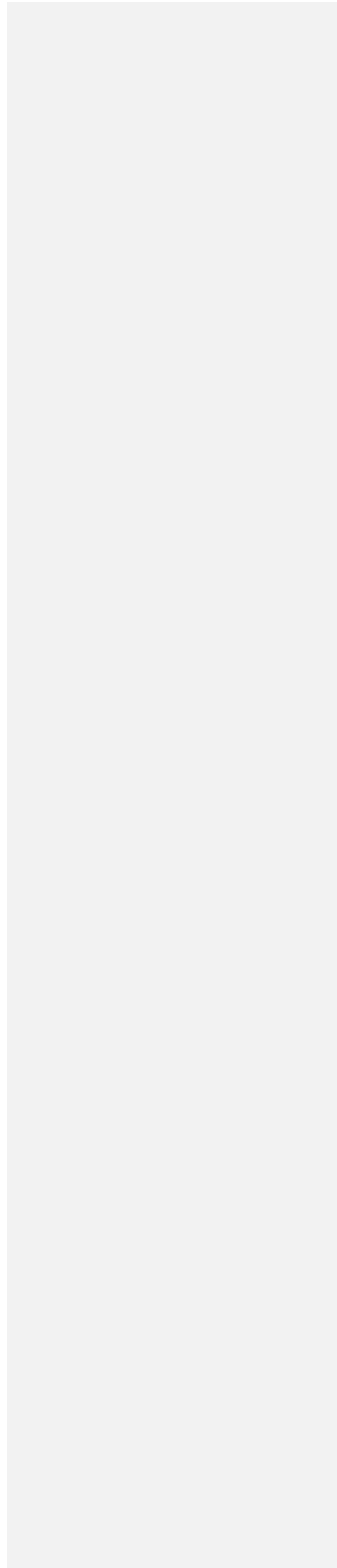
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3. **Reporting Suspicions**

3.1 If you have concerns you should not:

- Do nothing;
- Be afraid to raise your concerns – you will not suffer any recriminations from the Council as a result of raising a legitimate concern;
- ~~Do not~~;
- Directly approach or accuse individuals you have concerns about;
- Try to investigate the matter yourself. There are special rules surrounding the gathering of evidence for use in criminal cases. Any attempt to gather evidence by anyone not familiar with these rules could destroy the case;
- Convey your concerns to anyone not in the list in Section 3.2 below (you have a duty to maintain the confidentiality of the matter under investigation). However an employee may invite a trade union representative or work colleague to raise a matter on their behalf. Members may wish to consult with their party Leader before raising the matter.
- Raise vexatious concerns or concerns you know to be untrue – you could be disciplined if you do

3.2 If fraud or corruption is suspected, then the matter should be reported without delay. Employees should report to their Executive Director at the outset and retain all evidence. If it is thought that the Executive Director may be involved, or that there may be a conflict of interest, the matter should be reported directly to one of the following:

- Chief Executive;
- ~~Assistant Director (s151 Officer) Chief Financial Officer;~~
- Executive Director, Central ~~and Community~~ Services;
- Audit Manager ~~or Investigations Manager in the Audit and Fraud Team~~

3.3 Any Councillors, contractors or other person should inform either the Chief Executive or the ~~Assistant Director (s151 Officer) Chief Financial Officer~~ of their concerns.

3.4 If possible, concerns should be raised in writing, to ensure those conducting investigations properly understand and investigate the allegations. Written allegations should include the background, history and nature of the concern (including names and relevant dates and locations, where applicable) and the reason why the author is particularly concerned about the situation.

3.5 If it is not possible to put a concern in writing, the concern can be raised either by telephone or by meeting the appropriate officer as set out in Section 3.2 above. The earlier a concern is raised, the easier it is to take action.

3.6 Although whistleblowers are not expected to prove the truth of an allegation, they will need to demonstrate to the person contacted that there are sufficient grounds for the concern.

3.7 If in doubt, Public Concern at Work (www.pcaw.co.uk) will give confidential free and totally independent advice on how to proceed (contact whistle@pcaw.org or telephone 020 7404 6609).

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- 3.8 Concerns can also be raised anonymously (by letter or telephone), although these are normally given less weight than those concerns raised more formally.
- 3.9 Alternatively, whistleblowers can contact the Council's External Auditor (Ernst & Young) on 01223 394400 who is likely to liaise with any of the above.
- 3.10 ~~Suspected f~~Fraud relating to ~~Housing Benefit and~~Council Tax Support, Council Tax and Business Rates exemptions and discounts should be referred ~~to the Investigations Unit within the Audit and Fraud Team~~ either by completing the Fraud Referral Form on the website:
<http://www.west-norfolk.gov.uk/default.aspx?page=21676>
 or by using the fraud hotline 0800 281-879.

4. The Initial Response

- 4.1 The action taken by the Council will depend on the nature of the concern and may be:
- Resolved by agreed action without the need for investigation;
 - Investigated internally;
 - Referred to the police or another investigating agency;
 - Referred to the external auditor.
- 4.2 As soon as a fraud or act of corruption is reported, the Executive Director receiving the concern will:
- Obtain a written record of the concerns from the person making the allegations. This should include:
 - Background details and nature of the suspicions (including relevant names, dates and locations);
 - Details of the job and areas of responsibility of the individuals implicated;
 - Why the person raising the matter is concerned;
 - Action taken to date, if any;
 - A description of the systems, controls and procedures that should be operating within the area where the fraud is alleged to be taking place.
 - Take care, at this stage, to ensure that the suspect(s) are not alerted to the potential investigation and the confidentiality of informants is not compromised;
 - Seek guidance from the ~~Assistant Director (s151 Officer)~~Chief Financial Officer, Executive Director Central ~~and Community~~ Services and the Audit Manager before taking any action including interviewing, or observing suspects in connection with the suspected act(s). This is to ensure that evidence is collected in a way that complies with relevant legislation and does not compromise the investigation and/or subsequent disciplinary procedures/prosecutions.

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- 4.3 The case will be discussed by the ~~–Assistant Director (s151 Officer)Chief Financial Officer~~, Executive Director, Central and Community Services and the Audit Manager, plus either the Personnel Services Manager (regarding allegations concerning employees) or the Monitoring Officer (regarding allegations concerning Councillors) and the relevant Executive Director (i.e. the Executive Director responsible for the work area in which the suspect works) to decide what action needs to be taken to investigate the allegation. The discussion will need to consider whether there needs to be an initial covert investigation. In order to initiate disciplinary/criminal proceedings against suspected financial misconduct, it is essential that evidence is secured in a legally admissible form, without alerting suspects at the outset of the investigation.

There are two main reasons for this:

- Evidence may be hidden or removed;
 - To avoid wrongly damaging the reputation of anyone suspected but subsequently found innocent of wrongful conduct.
- 4.4 Following this discussion and if it is decided that further information is required, the relevant Executive Director should appoint one or more Investigating Officers. The role of the Investigating Officer(s) is to:
- Identify the issues;
 - Establish the facts (e.g. Who, Why, Where, What, When and How?);
 - Decide whether there is a case to answer.
- 4.5 If an investigation is required, the relevant Executive Director will advise the Chief Executive. The Executive Director will also write to the whistleblower:
- Acknowledging that an investigation will be carried out, giving details as to who the investigating officer(s) will be;
 - Give an estimate of how long it will take to provide a final response;
 - Telling them whether any initial enquiries have been made;
 - Advising them that the investigation will be carried out in the strictest confidence.

If there is to be no investigation, give the reasons as to why not.

5. The Investigating Officer's Investigation

- 5.1 The Investigating Officer's investigation should be broadly structured as follows:
- Identify issues and appropriate interviewees;
 - Invite the whistleblower to a formal interview (ensuring that this is done in writing and advising them that they have the right to be accompanied) (NB The Council requires that any employee invited to be interviewed by an Investigating Officer must attend – a failure to do so may be considered a disciplinary offence);
 - Hold the interviews;
 - Obtain witness statements;
 - Validate/ analyse the evidence (either directly or indirectly);

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- Review the evidence – has enough evidence been obtained to enable a recommendation as to whether there is a case to answer to be made?
 - is there a need to interview anyone else?
 - Draft a report and recommend either that there is or there is not sufficient evidence to support the allegation, but not recommend any particular course of action that should be taken by the relevant Executive Director;
 - Issue their report, together with the supporting evidence, to the commissioning Executive Director.
- 5.2 The amount of contact between the Investigating Officers and the whistleblower will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information will be sought from the whistleblower. If required, initial meetings can be arranged to be held in a “neutral” location, to help preserve the anonymity of the whistleblower.
- 5.3 Whenever a meeting is arranged with an employee, the employee has the right, if they so wish, to be accompanied by a colleague or trade union official. Alternatively, some other person of their choice may accompany the employee, provided the presence of this person will not prejudice any hearing. If the employee is under the age of 18 years, then a parent or guardian would be encouraged to attend.
- 5.4 The Council will take steps to minimise any difficulties that a whistleblower may experience as a result of raising a concern. For instance, if they are required to give evidence in criminal or disciplinary proceedings, the Council will advise them about the procedure.
- 5.5 Investigating Officers should ensure that any evidence collected is stored securely at all times and is not tampered with; that no marks are made on original documents and a record is kept of anyone handling evidence. The Data Protection Act should be complied with at all times. If appropriate and practicable, any IT equipment that may hold evidence should be secured and the contents reviewed (including any networked data areas) by or with the assistance of the ICT Section.
- 5.6 Staff responsible for interviewing suspect(s) should be trained in the requirements of the Police and Criminal Evidence Act 1984. Failure to comply with PACE requirements in interviews will mean that nothing said by the suspect will be admissible in a court of law should it be necessary for the case to be subsequently referred to the courts.
- 5.7 Staff responsible for commissioning and carrying out surveillance of suspects must do so in accordance with the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA) and the Council’s Procedures for Covert Surveillance (Employee Handbook Appendix R). Failure to comply with RIPA will make all surveillance evidence inadmissible in court and may leave the Council liable to court action for a breach of the Act. The Council’s Monitoring Officer can provide advice on the requirements of RIPA.

6. Decision as to any Further Action

- 6.1 Upon receiving the Investigating Officer's report, the Executive Director must decide what action, if any, needs to be taken.
- 6.2 This will depend on whether there is, within the Investigating Officer's report, sufficient evidence to investigate the matter further and/ or whether the allegations can form the basis of a disciplinary hearing.
- 6.3 The Executive Director should:
- Remind themselves of the issues raised;
 - Decide, issue by issue, whether there is a case to answer.
- 6.4 The decision should be based upon the balance of probabilities, rather than the requirement to be "beyond reasonable doubt". As this is the civil law test, not a criminal law test – there must be a reasonable belief that there is a case to answer and the decision must be based on a reasonable investigation. The Executive Director may obtain guidance from the Monitoring Officer, the Personnel Services Manager, the Investigating Officer(s) or any other officer they feel is appropriate to help them make their decision.
- 6.5 The decision could be that:
- On the basis of the evidence, there is sufficient evidence to take disciplinary action;
 - There is sufficient information to demonstrate that the original concerns are supported by the evidence but that further investigation is required before a firm conclusion can be made or disciplinary action can be taken;
 - There is insufficient evidence to support the original concern and that no further action will be taken.
- 6.6 Any disciplinary action arising from a fraud investigation will be conducted in accordance with the Council's Disciplinary Procedure.

7. Prevention of Further Losses

- 7.1 When a suspected fraud is reported, the Audit Manager will liaise with the relevant Executive Director or Service Manager and the Personnel Services Manager to determine the most appropriate course of action to prevent any further losses to the Council occurring.
- 7.2 This may require the suspension of the suspected individual(s) concerned. The normal circumstances for suspension would be:
- The allegations include grounds that could lead to dismissal (i.e. where gross misconduct is suspected);
 - There are grounds for doubt as to the suitability of an employee to remain at work during the investigation;
 - It is necessary to remove the employee from the premises where his/her presence may inhibit proper investigation;
 - There are pending criminal investigations or proceedings.

- 7.3 All suspensions will be carried out in line with the Council's Disciplinary and Dismissal Procedure. Suspension does not constitute disciplinary action.
- 7.4 Any Identity Cards and keys to Council property should be obtained from the person being suspended, along with other Council owned items (such as laptops and mobile phones), and returned to the appropriate officer or kept securely pending investigation (at this stage it would be acceptable for the drivers of leased cars to keep these in their possession, although Council van drivers should be required to hand back the ignition keys, as these can be used by other employees).
- 7.5 ICT and the appropriate Systems Administrators should be contacted to disable access to all relevant IT systems to ensure that computer data cannot be altered.

8. Recovery of Losses

- 8.1 Managers should seek to recover any losses incurred through acts of financial impropriety from the offenders concerned. Management should consult the Legal Services Manager, the Personnel Services Manager and the ~~Chief Financial Officer~~Assistant Director (s151 Officer) and Executive Director, Central and Community Services to establish the options available to recover losses (e.g. either through the courts, deducted from any outstanding pay (but only with the employee's consent) or by means of insurance).
- 8.2 Where substantial potential losses have been identified at the outset of an investigation, management should seek legal advice immediately from the Monitoring Officer regarding the possibility of freezing the suspect's assets through the courts, pending the conclusion of the investigation.

9. Police or other Investigating Body Referral Procedures

- 9.1 If the allegation involves alleged financial irregularity, corruption or fraud, the Executive Director, Central and Community Services and ~~Chief Financial Officer~~Assistant Director (s151 Officer) must be informed immediately by the relevant Executive Director. These three officers will then agree an appropriate course of action in accordance with these procedures.
- 9.2 Any decision to refer a matter to the Police or other investigating agency (e.g. Department of Work & Pensions Fraud unit, Trading Standards, Office of Fair Trading) will only be taken by the Assistant Director (s151 Officer)~~Chief Financial Officer~~, Executive Director, Central and Community Services and relevant Executive Director.
- 9.3 In such cases the relevant Executive Director will make the necessary contact with the police and/or the Audit Manager will make the necessary contact with any other agreed Investigating Agency. Referral to the police/other agreed Investigating Agency will not preclude action under the Council's disciplinary procedures, nor will it preclude the possibility of a civil action in the courts. A range of sanctions is available to the Council. These include disciplinary action, civil proceedings and, criminal proceedings, ~~official cautions and administrative penalties (mostly as regards Benefit Fraud)~~.

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- 9.4 The Audit Manager will handle all agreed Investigating Agency requests for additional evidence, statements or any other form of assistance.
- 9.5 The Council will consider using the services of an Investigating Agency in cases where their additional powers are required to secure evidence or recover funds or where the matter is too serious to be pursued in-house.
- 9.6 In considering a case for Investigating Agency referral or for when considering either a criminal or civil prosecution, two “tests” will be applied – the evidential test and the public interest test. Only when **both** of these tests are satisfied will a case normally be considered as suitable for prosecution by the Council (although this will not preclude the Investigating Agency from pursuing any action of its own).

Evidential Test

Is there enough evidence to provide a realistic prospect of conviction, bearing in mind that a Court will require that the case can be proven “beyond all reasonable doubt”?

In order to ensure that a realistic prospect of conviction exists, Investigating Officers will at all times conduct their investigations in accordance with relevant legislation and in line with published codes of practice and guidance with respect to the gathering of evidence, interviewing and the rules of disclosure. This includes adherence to the requirements for the Regulation of Investigatory Powers Act 2000 (RIPA) and the Police and Criminal Evidence Act 1984 (PACE).

Public Interest Test

The Council will consider whether it is in the public interest to prosecute, having considered the following factors:

- A conviction is likely to result in a sentence;
- The defendant was in a position of authority or trust;
- The evidence shows that the defendant was a ringleader or an organiser of the offence;
- There is evidence that the offence was premeditated;
- There is evidence that the offence was carried out by a group of individuals;
- The defendant’s previous convictions or cautions are relevant to the present offence, if known;
- There are grounds for believing that the offence is likely to be continued or repeated, for example, by a history of recurring conduct; or the offence, although not serious in itself, is widespread in the service where it was committed;
- Aggravating and mitigating factors will be taken into consideration when deciding on the appropriate sanction.

- 9.7 In all cases of fraud, financial misconduct, serious and intentional breach of Financial Regulations or Contract Standing orders or any other kind of corrupt act where there is an investigation by the police or other external agency, the Assistant Director (s151 Officer)~~Chief Financial Officer~~, Executive Director,

Central and Community Services and relevant Executive Director will agree an appropriate course of action in accordance with the Council's disciplinary procedures.

10. Post Investigation

- 10.1 The relevant Executive Director, in consultation with the Executive Director, Central and Community Services or Personnel Services Manager, should agree a method for communicating the outcome of an investigation, and potentially any disciplinary proceedings, to other members of a team involved in any investigation under this policy. Any such feedback will respect confidentiality and data protection issues and will be designed to ensure that other employees are aware of improvements to systems or procedures or are provided with update/refresher training as required to ensure that lessons learnt from the investigation are put into practice. Any public announcement needs to be made by the Communications team.
- 10.2 To prevent further losses and where it will not prejudice any subsequent investigation, management should liaise with Internal Audit to rectify any identified system or control weaknesses that have enabled the financial impropriety to be undertaken.
- 10.3 The relevant Executive Director will report the outcome of any investigation to the Council's Leader and the relevant Portfolio Holder(s).
- 10.4 The Audit Manager will report the outcome of any investigation to the Audit and Risk Committee, which will monitor the implementation of any recommendations arising from the investigation

11. Publicity and Dealing with the Media in Connection with Suspected or Proven Fraud

- 11.1 Any public statements regarding pending, current or completed investigations or allegations of financial impropriety should only be made through the Communications Manager, and will be authorised by the Assistant Director (s151 Officer) Deputy Chief Executive or Executive Director Central and Community Services prior to release. Employees, Members and third parties of the Council should not make any public statement regarding suspected financial impropriety, in order to avoid making libellous statements, or statements that may prejudice ongoing investigations or any subsequent disciplinary/legal action. Public or press requests for information should also be referred to the Communications Manager.
- 11.2 The Communications Manager should optimise the publicity opportunities available to make employees and the public aware of the Council's commitment to taking action on acts of financial impropriety. As such any action taken relating to acts of financial impropriety should, wherever possible, be reported in the press, as a deterrent to other potential offenders.

11.3 Following any investigation, the outcome will be reported back to the Whistleblower by the relevant Executive Director.

12. Roles and Responsibilities (who does what)

In All Cases:

~~**Assistant Director (s151 Officer) Chief Financial Officer:**~~ has overall responsibility for the Council's response to fraud and, in conjunction with the Executive Director, Central and Community Services, to oversee the action taken to investigate allegations.

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Executive Directors: have responsibility for:

- Establishing and maintaining adequate system controls within their directorates, including responsibility for the prevention and detection of fraud and ensuring staff awareness;
- Appointing Investigating Officers where appropriate;
- Informing any agreed external Investigating Agency (e.g. the Police), the Leader and the relevant Portfolio Holder(s).

Managers and supervisors: have responsibility for the prevention and detection of fraud and corruption within their work area and for swiftly reporting allegations brought to them.

Audit Manager: has overall responsibility for fraud investigations and advising on action to be taken. Where appropriate, she will inform the Audit & Risk Committee of any relevant matter.

Monitoring Officer: has responsibility for advising on any legal matter and, where appropriate, informing the Standards Committee of any relevant matter. She has overall responsibility for the Anti-Fraud and Corruption Strategy and associated policy etc.

Communications Manager: ~~At the request of the **Assistant Director (s151 Officer) Deputy Chief Executive/Executive Director Central Services;**~~ responsible for all public statements or announcements regarding any investigation and dealing with any requests from outside the Council for information regarding any such investigations.

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Investigating Officers (often, but not necessarily, a member of the Internal Audit team, in conjunction with the service manager): have responsibility for investigating matters of suspected fraud or corruption and reporting their findings to the Executive Director commissioning the investigation.

Cases Involving Employees:

Employees: are required to act in accordance with the 'Official Officer Code of Conduct' contained in the Employee Handbook to report all actual or suspected cases of financial impropriety, fraud or corruption.

Personnel Services Manager: has responsibility for the operation of the Council's Whistleblowing Policy as it affects employees. Will provide timely advice and guidance on relevant Council policies and procedures during the course of any investigation and any subsequent disciplinary action.

Cases Involving Elected Members:

Council Members: are required to act in accordance with the Members Code of Conduct and should report any suspected, or detected, acts of financial impropriety immediately to the Chief Executive or the Assistant Director (s151 Officer)~~Deputy Chief Executive~~.

Democratic Services Manager: has responsibility for the operation of the Council's Whistleblowing Policy as it affects Council Members.

Cases Involving External Contractors/Third Parties

External Contractors/Third Parties: should report any suspected, or detected, acts of financial impropriety to the Chief Executive or the Assistant Director (s151 Officer)~~Deputy Chief Executive~~.

Appendix A

Whistleblowing Checklist

NB This checklist is not definitive, as each case is different. However, it should be used as a guide and completed as fully as possible. If there is anything relevant identified or done, the "Additional information" section at the foot of the relevant page(s) should be completed. This checklist should be kept at the front of the primary file produced for the case and should be kept up to date. If anything requires clarification, you should consult the Audit Manager in the first instance. If additional information needs to be included, please attach to this checklist.

Suspicion(s) Reported (See Section 3 above)

Received by:

Date received:

Name of whistleblower (if provided):

Whistleblower is: Employee/ Councillor/ Contractor/ member of the public
(Delete those not required)

Concern/ allegation raised by whistleblower or a representative (including names of anyone suspected, why the whistleblower is concerned, details of expected systems/ system checks (e.g. approval signatures) if known:

Nature of allegation:

Fraud/ theft/ corruption/ not clear

Means by which notification received:

Written/ Telephone/ Face to face/
Other (give details):

Request to maintain the whistleblower's name confidential?

Yes/ No

Details of any pre-reporting investigation (if any) to support the concerns:

Name(s) of employee(s) suspected:

Name of relevant Executive Director:

Name of relevant Service Manager:

Additional information:

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Initial Response (See Section 4 above)

Date of discussion with whistleblower and/ or representative:

Whistleblower accompanied? Yes/ No By:

Additional information obtained:

Audit Manager informed Date:

Meeting between Audit Manager, ~~Assistant Director (s151 Officer) Chief Financial Officer~~ and Personnel Services Manager:

____ Date:

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Covert investigation required? Yes/ No

Open investigation required? Yes/ No

There will/ will not be a full investigation Yes/ No

Likelihood that ICT equipment will need to be seized/ hard disk catalogued/ network area catalogued to provide evidence? Yes/ No

Likelihood that suspension may be required? (BUT consult with the Personnel Services Manager before making a decision)(NB See next page – this decision needs to be taken in accordance with the Council’s Dismissal and Disciplinary Procedure) Yes/ No

If significant losses have been identified as likely, is it appropriate to freeze the suspect’s assets through the courts, pending the outcome of the investigation (BUT consult with the Monitoring Officer before making a decision)? Yes/ No

Other Information:

Appointment of Investigating Officer(s) (See Section 4 above)

Date decision to investigate taken (if different to date of the meeting between AM/ ~~CFO~~Ass't Dir/ Exec Director):

Date on which the Terms of Reference of the investigation were produced:

Name(s) of Investigating Officer(s):

Outline Terms of Reference:

Initial letter to whistleblower (See Section 4.5 above): Date

Drafted by:

Suspect to be suspended on full pay (if not already suspended)? Yes/ No
(NB Decision needs to be made in accordance with the Council's Disciplinary and Dismissal Procedures)

Estimated length of investigation as advised to whistleblower: days/
weeks

If no investigation is to be undertaken, reasons for this as notified to the whistleblower:

Additional Information:

The Investigating Officer's Investigation (See Section 5 above)

Date started

Details of initial interviewee(s) (including those with the whistleblower/ suspect):

Name of interviewee	Date/ time of interview	Location of interview
---------------------	-------------------------	-----------------------

Witness statement produced (NB each page must be signed by both the interviewee and the lead Investigating Officer)?

Yes/ No

ICT equipment seized?

Yes/ No

ICT Network area examined

Yes/ No

Desk/ filing cabinet/ other storage examined/ emptied?

Yes/ No

Other Council assets seized?

Yes/ No

Covert surveillance required?

Yes/ No

If yes, RIPA forms completed?

Yes/ No

RIPA forms authorised?

Yes/ No

NB If, during the course of the investigation, it appears that the police or another external investigatory body needs to be informed/ consulted, the Investigating Officer should refer to the section "Police or other Investigating Body Referral" above.

Report issued to relevant Executive Director:

Date

Recommendation: Evidence to support the allegation/ Insufficient evidence to support the allegation/ further investigation required

Decision as to any further action being taken (See Section 6 above)

NB Any decision should be based upon the 'balance of probabilities', not 'beyond reasonable doubt'.

Upon receiving the Investigating Officer's report, the Executive Director must decide what action, if any, needs to be taken.

On the basis of the report is there sufficient information to make a decision?
Yes/ No

Does the report:

- Adequately cover the issues raised?
- Issue by issue, say whether there is a case to answer?

What information, if any, seems to be missing, such that, if known, a decision as to whether disciplinary action is appropriate can be made?

Guidance sought (e.g. from ~~Assistant Director (s151 Officer)~~~~Deputy Chief Executive~~, Personnel Services Manager, Monitoring Officer, etc.):
Yes/ No

If so, source of guidance:

Date guidance obtained?

Decision regarding future action regarding the accusations:

(NB The decision could be that:

- On the basis of the evidence, there is sufficient evidence to take disciplinary action;
- There is sufficient information to demonstrate that the original concerns are supported by the evidence but that further investigation is required before a firm conclusion can be made or disciplinary action can be taken;
- There is insufficient evidence to support the original concern and that no further action will be taken.)

Date Personnel Services Manager informed of the decision:

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Date ~~Assistant Director (s151 Officer)~~~~Deputy Chief Executive~~/ Audit Manager informed of the decision:

Date suspect informed of the decision:

Suspect to be suspended on full pay (if not already suspended)? Yes/ No
(NB Decision needs to be made in accordance with the Council's Disciplinary and Dismissal Procedures)

If further information is required either to make the decision or to provide additional information to support disciplinary action, give brief details below:

Date of disciplinary hearing:

Location of disciplinary hearing:

Outcome of disciplinary hearing: (e.g. Gross Misconduct, Misconduct etc.)

Additional Information:

Recovery of Losses

Is it considered possible that the losses can be recovered:

- | | |
|--|---------|
| • Directly from the suspect? | Yes/ No |
| • Through the Courts? | Yes/ No |
| • From the Council's insurers? | Yes/ No |
| • From some other source? (Give details below) | Yes/ No |

If so, how will the losses be recovered?

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Police or other Investigating Body Referral

NB Any decision to refer the matter to the police or other external investigating agency will be made jointly by Executive Director, Central and Community Services, the Assistant Director (s151 Officer) ~~Deputy Chief Executive~~ and the appropriate Executive Director.

Referral agreed: Yes/ No Date

Agency Date informed Further action?

Police
DWP
Trading Standards
Norfolk County Council
Office of Fair Trading
Other (give details):

If appropriate, Police Crime Number: _____

Outcome of the external agency's investigation. (NB This could take some months, depending upon the agency and the nature of their investigation):

Other information:

Post Investigation

Informant advised of the outcome of the investigation Date:

Service area staff informed Date:

Leader informed Date:

Relevant Portfolio Holder informed Date:

| Audit & Risk Committee informed Date:

| System changes instituted to minimise the risk of re-occurrences:

Follow-up review required?

Publicity etc.: Any public notice of the fraud/ corruption, etc. Yes/ No
(NB Any media dealings are to be dealt with by the Communications Section)

Publications notified: Lynn News Yes/ No
Eastern Daily Press Yes/ No
Other (if so, which?) Yes/ No

| Professional body notified Yes/ No/ Not applicable

Other Information:

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AUDIT COMMITTEE WORK PROGRAMME 2017/2018

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
30 May 2017	Draft Annual Governance Statement		V Dunmall	To receive and note the draft Annual Governance Statement 2017.
30 May 2017	Corporate Risk Register Monitoring Report	Monitoring	V Dunmall	To note the report which presents the changes to the Risk Register since the last report.
30 May 2017	Internal Audit end of Year report		K Woodward	To note the report.
30 May 2017	Audit Manager's Annual Report	Annual	K Woodward	To receive the Audit Manager's Annual Report.
30 May 2017	Audit Committee Effectiveness Report	Cabinet	K Woodward	To review the work of the Audit Committee during 2016/2017 and consider if the Committee has effectively fulfilled its role.
19 June 2017				
31 July 2017	Annual Governance Statement		V Dunmall	To receive and note the Annual Governance Statement 2017.
31 July 2017	Statement of Accounts		L Gore	To approve the Statement of Accounts 2016/2017
31 July 2017	External ISA 260 Report		L Gore	To note the comments of the External Auditor.

31 July 2017	Monitoring Officer Report 2016/2017	Annual	E Duncan	To receive the Annual Monitoring Officer Report.
4 September 2017				
27 November 2017	Internal Audit Half Year Progress Report	Monitoring	K Woodward	To receive the half year progress report.
27 November 2017	Corporate Risk Register Monitoring Report	Monitoring	V Dunmall	To note the report which presents the changes to the Risk Register since the last report.
12 February 2018	Strategic Internal Audit Plan		K Woodward	To provide the Committee with the opportunity to review the proposed Strategic Audit Plan 2017 - 2022