

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



Audit and Risk Committee

Agenda

**Tuesday, 21st July, 2015
at 5.30 pm**

in the

**Committee Suite
King's Court
Chapel Street
King's Lynn**



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**AUDIT AND RISK
COMMITTEE AGENDA**

DATE: **AUDIT AND RISK COMMITTEE - TUESDAY, 21ST
JULY, 2015**

VENUE: **COMMITTEE SUITE, KING'S COURT, CHAPEL
STREET, KING'S LYNN**

TIME: **5.30 pm**

1. APOLOGIES

To receive any apologies for absence.

2. MINUTES

To approve the minutes from the Audit and Risk Committee held on 23 June 2015 (previously circulated).

3. DECLARATIONS OF INTEREST

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

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on 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 this Committee has previously made. (N.B. some of the relevant Council bodies may meet after dispatch of the agenda).

8. PRESENTATION ON THE ANNUAL GOVERNANCE STATEMENT

To receive a presentation on the Annual Governance Statement. All Members are invited to attend for this item.

9. BUSINESS CONTINUITY ANNUAL UPDATE (Pages 6 - 10)

The Committee will receive an annual update presentation and report.

10. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2014/2015 (Pages 11 - 21)

The Committee will receive the Internal Audit Annual Report and Opinion for 2014/2015.

11. REVIEW OF THE EFFECTIVENESS OF THE AUDIT AND RISK COMMITTEE (Pages 22 - 37)

The Committee will receive a draft Cabinet Report from the Audit Manager.

12. CABINET REPORT: ANNUAL TREASURY REPORT 2014/2015 (Pages 38 - 57)

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

13. CABINET REPORT: REVIEW AND UPDATE OF CONTRACT STANDING ORDERS (Pages 58 - 60)

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

14. COMMITTEE WORK PROGRAMME 2015/2016 (Pages 61 - 62)

To consider the Committee's Work Programme.

15. DATE OF NEXT MEETING

To note that the next meeting of the Audit and Risk Committee will take place on **Monday 7 September** at **5.30 pm** in the Committee Suite, King's Court, Chapel Street, King's Lynn

To: Members of the Audit and Risk Committee

Councillors B Aota, R Blunt, J Collop, I Devereux, I Gourlay, G Hipperson, P Hodson, H Humphrey, G Middleton, A Morrison, D Tyler and G Wareham

For Further information, please contact:

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POLICY REVIEW & DEVELOPMENT REPORT

Type of Report: Monitoring	Portfolio(s): Resources
Author Name: Dave Robson	Consultations: Management Team
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Email: dave.robson@west-norfolk.gov.uk	
OPEN	

PR&D Panel: **Audit & Risk Committee**
Date: **21st July 2015**
Subject: **Business Continuity – update**

Summary

The Council has a responsibility as a Category 1 responder under the Civil Contingencies Act 2004 to develop and maintain plans to ensure, as far as is reasonably practicable, key services can continue to be performed in the event of a disruption or emergency.

The report provides an update to the Audit & Risk Committee on the current position of the Council's Business Continuity arrangements, outlines progress made since the last update in July 2014 and outlines work that is to be undertaken over the coming months.

Recommendations

The Committee is asked to note progress made, endorse the approach being taken to the Council's Business Continuity arrangements and confirm that annual updates on the subject are required.

1.0 Background

1.1 The Civil Contingencies Act 2004 places a duty on Category 1 responders (as defined by the act and which includes all local authorities) to develop and maintain plans for the purpose of ensuring that, so far as is reasonably practicable, if an emergency occurs they are able to continue to perform their key services / critical activities. This means that, in the event of a disruption or emergency, the Council must have plans available to ensure that it can mobilise the functions it needs to:

- deal with any emergency
- ensure that the impact of the emergency on the Council's day-to-day activities is kept to a minimum, and
- ensure that, so far as possible, vital services for the community can be maintained at appropriate levels.

1.2 Business Continuity (BC) Management in the authority is based around a framework of documents as shown below.



1.3 The responsible officer for Business Continuity in this authority is the Executive Director – Environment and Planning. He is assisted by a small group of officers from across the authority – the Business Continuity Corporate Officer Group (BC COG). Implementing Business Continuity (BC) is the responsibility of the authority's Management Team. However, all members of staff have a responsibility to be aware of the plans that affect their service area and their role following invocation of any BC plan.

1.4 The Council currently has a policy position agreed in September 2013.

2.0 Progress since last report in July 2014

2.1 Activities undertaken by the BC COG since July 2014 are shown below:

- From November 2014 an online training package was produced and rolled out to embed business continuity to all staff members
- April 2015 a task and finish group was set up to review loss of power issues to King's Court
- April 2015 -The membership of the Critical Incident Team (CIT) was reviewed. Geoff Hall has taken on the lead following the retirement of David Thomason. Mathew Henry and Neil Gromett have been co-opted on to the CIT.
- May 2015 – A de-brief and review of the electrical supply interruption during May 2015 was held and will feed in to the ongoing work in this area.
- June 2015 – the Invocation Process and Incident Checklist document was reviewed
- June 2015 – High Level Business Impact Assessment – this was a review of all business activity to confirm those which are the most critical to the authority
- June 2015 – Out of hours Contact Card details revised and updated in view of new Leisure Trust / Local Authority Company arrangements
- June 2015 – Definitions and check on agreed Recovery Time Objectives – the downtime that is tolerable for each service
- June 2015 – Review of Critical Activities – a list of 11 activities which are considered critical to maintain in the event of an event or occurrence
- June 2015 – Review of Key threats – the threats considered most likely to affect the continuation of the Council's services and activities
- In addition, work has been underway during this period on the Council's ICT Disaster Recovery arrangements

3.0 Current position

3.1 Critical Activities are those services that protect life and safety, or are considered essential to support such activity and were considered critical to restore and deliver in the event of a disruption or emergency. Those currently agreed in the Council are:

- CIC – response to customer contacts
- Corporate Communications – including website
- CCTV responsive functions control room
- Emergency Planning – response to incidents
- Homelessness
- ICT – to support other teams
- Incident Management Team – Executive Directors and support

- Personnel – for staff contact details
- Electoral Services – if during a critical time
- Env Health – Food Safety / Health & Safety– if during an incident
- Env Health – Environmental Quality – if during an incident

3.2 A risk assessment has been undertaken to identify the potential threats to the Critical Activities. A 'Threat Card' is in place for each of the threats to guide the Incident Management Team in their consideration of response. The currently agreed threats to the Critical Activities are listed below and as noted above, the Threat Cards have been updated as necessary over the year under consideration:

- Loss of Staff – Threat card updated June 2015
- Loss of ICT – Threat card updated June 2015
- Loss of King's Court – Threat card updated June 2015
- Fuel Shortage – Threat card updated April 2014

3.3 The Council has a policy position agreed in September 2013 and has been recently reviewed for adoption.

4.0 Forward workplan

4.1 The BC COG have a work plan in place for the remainder of the financial year. Our planning and exercise programme is based upon the agreed threats. Work to be undertaken includes:

- Reviewing live incidents after the event and ensuring the lessons learnt are implemented in future planning
- Finalising the Business Continuity emergency web portal
- Planning for and running training exercise Metis 15
- Review and update the Business Continuity Management Policy and Strategy ready for adoption
- Updating the King's Court Threat Cards
- Reviewing Bronze Level Business Continuity plans in place
- Commissioning and testing an alternative ICT server site

5.0 Conclusion

5.1 The Council's BC arrangements are aligned with the BCM model outlined in British Standard BS25999 as recommended by the Cabinet Office. Business Continuity is not a static process; it is therefore important that, as the nature of the organisation changes, our BC arrangements reflect the changes. The BC COG ensure that the authority uses the Plan – Check – Do – Review methodology. This means that BC is ongoing.

5.2 Management Team have determined that the BC COG will continue in its current form, in order to continue to embed BC within the organisation.

6.0 Recommendation

- 6.1 Audit & Risk Committee are asked to note progress made, endorse the approach being taken to the Council's BC arrangements and confirm that annual updates are required.

AUDIT AND RISK COMMITTEE REPORT

TYPE OF REPORT: Audit	Portfolio: Leader
Author Name: Kate Littlewood	CONSULTATIONS: Assistant Director, Resources
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If not for publication, the paragraph of Schedule 12A of the 1972 Local Government Act considered to justify that is paragraph 3.	

Committee: Resources and Performance – Audit & Risk Committee
Date: 21st July 2015
Subject: Internal Audit Annual Report and Opinion 2014-15

Summary	This report provides Members with an overview of the work undertaken by the Internal Audit Section during the 2014-15 financial year against the Strategic Audit Plan, and provides an assurance opinion to support the Annual Governance Statement
Recommendation	To note the report.

1.0 INTRODUCTION AND BACKGROUND

- 1.1 Under the Accounts and Audit 2015, the Council '*must conduct a review of the effectiveness of the system of internal control*'. The work of Internal Audit forms part of the assurance provided to Councillors and Management Team.
- 1.2 Public Sector Internal Audit Standards (PSIAS), which are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, state that the Audit Manager '*must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*'. This report fulfils that requirement.
- 1.3 The Internal Audit Annual Report describes the work conducted by Internal Audit and states the Audit Manager's opinion on the system of internal control and the sources of assurance used to form this opinion.

- 1.4 To support the stated opinion, this report describes the work carried out by Internal Audit during 2014-15 and summarises the resulting findings. It also reflects on the performance against the strategic plan and the effectiveness of the internal audit team.

2.0 Audit Manager's Opinion

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

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

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

- 2.3 Bearing this in mind, in the Audit Manager's opinion, the Council's control arrangements were adequate and effective in 2014-15, with sound controls in all key areas.

3.0 Resources and Sources of Assurance

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

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

- 3.3 Until February 2014, the team included a specialist IT auditor. To replace this resource, the Audit Manager recorded an interest in using the IT audit services provided under the Norfolk Internal Audit Consortium (based at South Norfolk District Council) contract with TIAA Ltd. There is budget provision to enable the Audit Manager to call on this resource if required as part of the Strategic Audit plan.
- 3.4 The Internal Audit service is independent of any operational responsibilities and manages its own budget. During 2014-15 line management was through the Deputy Chief Executive, but direct access to the Chief Executive, Leader or Chair of the Audit and Risk Committee was available if required.
- 3.5 Internal Audit have Terms of Reference which were approved by the Audit and Risk Committee on 25th June 2013. These describe the scope and objectives of the service, confirm the independent status, authority and standards by which the team operate, and define the responsibilities. The audit style and content, reporting lines and resources are also included. The next review is due in 2016.
- 3.6 All work in 2014-15 has been performed according to the PSIAS. The standards, which are based on the mandatory elements of the CIIA's International Professional Practices Framework, are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 3.7 To ensure the internal audit function meets the PSIAS requirements, an independent external quality assessment is required every five years. Such a review was carried out in 2014 by the CIIA and the subsequent report was presented to the Audit and Risk Committee on 28th October 2014. In summary the report concluded that the Internal Audit team conformed to 50 of the 56 principles. Of the remaining six principles, two partially conformed and four did not conform. A copy of the recommendations within the report is attached at **Appendix 2** and action taken to improve compliance is included.
- 3.8 The Audit Manager and the Council's external auditors, Ernst and Young, continue to discuss their respective work plans to ensure they complement and support each other.

4.0 Basis of Assurance

- 4.1 Each year a Strategic Audit Plan is prepared by the Audit Manager, showing specific audits for the next financial year and proposals for the next two years. This is then presented to the Audit and Risk Committee to endorse. The plan for 2014-15 was agreed on 25th February 2014.
- 4.2 When setting the Strategic Audit Plan for the year, the Audit Manager has regard for:
- Discussions with the Executive Directors
 - Internal Audit's own risk assessment system

- Corporate Risk register
- Comments from the external auditors
- Date and result of the previous audit of an area
- Any other reviews relating to specific services.

4.3 At the end of each audit a formal report is issued, containing an action plan agreed with the relevant managers to address any control weaknesses identified during the audit. The audit reports were entered in to a restricted area of InSite for members of the Management Team and the Audit and Risk Committee to view.

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

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

4.5 The audit plan for 2014-15 was not fully completed by the end of March 2015. The Senior Auditor had left the Council in February 2015 and his replacement was unable to start until August 2015. This resulted in a significant reduction in resources for nearly half the year. In addition the new auditor has had to familiarise himself with the Council's systems and procedures which has inevitably meant that audits have taken longer to complete.

From November 2014 to February 2015, the Audit Manager was also absent, which again is a reduction in resources. This absence has also resulted in the late development of the 2015-16 audit plan, which was presented to the Audit and Risk Committee on 23rd June 2015. In the meantime work has continued on the outstanding audits from the 2014-15 plan.

On returning to work, the Audit Manager has reviewed the audit files completed during her absence and has assured herself that the work carried out is to the standard expected from the team.

4.6 Additional assurance has been obtained from external sources such as Bedford Borough Council (for payroll processing) and AmberOne Consultancy Services (for Health and Safety). Copies of the final reports are supplied to Internal Audit to inform the risk assessment relating to audit planning.

4.6 During the year 15 internal audit reports have been issued and assessed as shown in the table below:

Audit title	Overall Conclusion
Project to establish the Leisure Trust and Local Authority Company	Substantial assurance
Housing Benefits (2013-14)	Full assurance
King's Court Shared Accommodation	Substantial assurance
General Ledger and Budgetary Control	Substantial assurance
Environmental Quality – Flood and Water Management	Limited Assurance
NORA – Joint Venture	Substantial assurance
Cremator Refurbishment Project	Substantial assurance
Planning Support	Substantial assurance
Care and Repair	Limited Assurance
Property Services – Asbestos	Limited Assurance
Property Management – Building Maintenance	Substantial assurance
Policy and Partnerships	Substantial assurance
Democratic Services	Substantial assurance
Housing Benefits (2014-15)	Substantial assurance
Inventories and Asset Management	Substantial assurance

Each audit is followed up approximately six months after the report has been issued to establish if recommendations are being implemented in accordance with the agreed action plan. Follow-up reports for 2014-15 indicate a good level of implementation with no major concerns raised and I would like to thank all managers for being receptive to our comments and recommendations.

4.7 Progress against the strategic plan, including summaries of the reports issued and any amendments to the plan, were reported to the Audit and Risk Committee. The final report for 2014-15 was presented to the meeting on 23rd June 2015.

5.0 Anti-Fraud and Anti-Corruption Procedures

5.1 The Council's Anti-Fraud and Anti-Corruption Strategy, Whistleblowing Policy and Fraud Response Plan were reviewed and updated during the year, with the final versions being approved by Cabinet in May 2014.

5.2 One abuse of position investigation was undertaken during 2014/15, which resulted in a member of staff leaving the Council. Although there was little material loss to the Council (£1,879), the investigation identified some significant control weaknesses which have now been addressed. The case was originally brought to the attention of Internal Audit by a whistleblower.

5.3 Work with the National Fraud Initiative (NFI) has continued this year. The results arising from the latest exercise were released in January 2015 and are being investigated by various sections throughout the Council as appropriate. During 2014/15 the Committee received a 6-monthly report in May 2015 from the

Investigations Manager which included a section on other matches identified by the NFI. However Benefits investigations remained the most active in this area, with very little arising from the other matches.

- 5.4 The Investigations Unit concentrated on Housing Benefit and Council Tax Benefit fraud and this role, together with two members of staff, transferred to the Department of Work and Pensions (DWP) on 1st April 2015. A final report on the results for the 2014-15 year was presented to the Audit and Risk Committee on 23rd June 2015 to conclude the service. An Investigation Officer was retained when the work transferred to maintain some investigation skills within the Council.

6.0 Risk Management

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

7.0 Conclusion

- 7.1 The system of internal control is designed to manage risk to a reasonable level, and therefore cannot provide absolute assurance.
- 7.2 Notwithstanding the above, based on the audit work completed during 2014-15, it is the opinion of the Audit Manager that:
- Adequate assurance can be gained in respect of the overall systems of internal control operating within the council.
 - Risk management systems and corporate governance arrangements are satisfactory.

Training undertaken by Internal Audit 2014/15 included:

Procurement training – Specification & Selection and Contract Management
Introduction to accounts and VAT
Collection Fund theory
Corporation Tax training
ArcGIS Basics (Council's mapping software)
Payment Card Industry Data Security Standard (PCI-DSS)
Effective Minute taking
Applied LEAN training
Financial Management Risk and Financial Controls

In addition more corporate wide training was completed relating to:

- Political Awareness – Introduction to working with Councillors
- IT security
- Data Protection, Freedom of Information and Environmental Information Regulations
- Child Protection training
- Equalities – what employees need to know



Recommendations to achieve conformance to the Standards

Standard 2010 Planning	Response & action date	Action to date
<p>To comply with the PSIAS there should be a risk-based plan which must take into account the requirement to produce an assurance framework. The risk based plan must identify how it links to organisational objectives and priorities.</p> <p>Currently there are elements that partially meet the standard eg consideration given to the Corporate Risk Register (which the Audit Manager is responsible for) but there are a number of flaws :</p> <ul style="list-style-type: none"> • The internal audit's assessment of risk is done <u>after</u> the audit; • A standard set of risk criteria is used for every audit, regardless of the actual potential risks; • There was no documented linkage from the Audit Plan through to the Corporate Risks or Business Plan • Nine areas were identified to be fundamental and are carried out on an annual basis, and considered to "...present a significant risk...". Yet a number of the core areas are well established with robust controls in place eg payroll, sundry debtors, general ledger etc. It is probable that a number of these audits could be combined into one annual review to cover ' Finance & Accounting ' 	<p>A new method of assessing risk as part of the preparation of the Strategic Audit Plan will be established, based on the use of a risk assurance framework at a high level to produce a Council-wide assessment of risk.</p> <p>A more specific assessment at individual audit level will reflect the level of risk at the start of the audit and again after the follow-up to produce a direction of travel.</p> <p>Using the risk assurance framework, the strategic plan will be developed and where possible the planned audits will be linked to the Corporate Business Plan.</p> <p>The Core/ fundamental audits need to continue on an annual basis so that external audit can reduce the amount of testing they need to carry out. However the scope and extent of the audits will be re-considered after discussion with external auditors.</p> <p>April 2015</p>	<p>An Assurance Framework has been devised within Internal Audit and risk assessments are carried out for each service area of the Council, resulting in a grading of High, Medium or Low risk. The Strategic Audit Plan for 2015/16 has been prepared based on the results of the risk assessment.</p> <p>It was not possible to link the audit plan to a corporate business plan for 2015/16 as the latter had not been developed following the Election in May.</p> <p>However this will be used in future plans.</p>
Standard 2120 Risk Management	Response & action date	Action to date
<p>The PSIAS and this Standard requires internal audit evaluate the effectiveness and contribute to the improvement of risk management processes, a responsibility that is highlighted in the</p>	<p>The potential for re-assigning corporate risk management within a Council of this size is limited. There is no separate risk management function and historically responsibility has been allocated to Internal Audit as a</p>	<p>The role of co-ordinating the review and update of the Risk Register remains with the Audit Manager. Ultimate responsibility</p>



<p>Audit Charter.</p> <p>The Audit Manager is required to express a view upon risk management and the effectiveness of risk management, and it is recommended that within the Annual Report the Audit Manager should provide an annual opinion upon the maturity and application of risk management across the Council.</p> <p>The Audit Manager is also responsible for reviewing and updating the Council’s high level Risk Register, and securing the agreement of senior management and the Audit & Risk Committee to the amendments. This moves the Audit Manager into a position where she has responsibility for the content of the Risk Register and for providing assurance on her work. This role and responsibility should be reviewed.</p> <p>The maturity of risk management within the Council was not assessed but there was no standard Council wide risk management system for internal audit to use to develop the internal audit strategy and plan. In addition the indications from interviews undertaken were that risk management is a bit fragmented across the organisation.</p> <p>To fully comply with this standard internal audit should also be more proactive in promoting risk management across the Council so that internal audit can place greater reliance on management’s view of risk when developing the internal audit strategy. Risk assessment should be a foundation when planning audits.</p>	<p>result of this lack of options. It is also noted that a review of neighbouring Councils suggests that this is not an unusual arrangement.</p> <p>It is accepted that there are some conflict of interests on the part of the Audit Manager in co-ordinating the updates for the Corporate Risk register and at the same time expressing an opinion on the adequacy of the process. However there are other methods of assessing risk management within the Council in order to gain assurance. An assessment of risk management processes can be built into most audits. This enables the Audit Manager to build up a Council-wide picture of risk management at an operational level.</p> <p>In terms of developing risk management within the Council, it is anticipated that by incorporating risk assessment into each audit, the level of risk awareness will be raised generally throughout the Council.</p> <p>April 2015</p>	<p>for the contents of the register lies with the Senior Management Team.</p>
<p>Standard 2201 Planning Considerations</p>	<p>Response & action date</p>	<p>Action to date</p>
<p>The Standard requires that internal auditors in developing a plan for an engagement must consider objectives, scope, timing and resource allocation.</p> <p>Currently planning considers some of the requirements but there is a standard terms of reference to “fit all”. The file review showed that the objectives and scope did not meet the circumstances of the</p>	<p>The planning process for each audit will include an analysis of risk in the audit area. In turn this will define the scope and set the audit objectives. To assist in this process a template will be developed for use in all audits that will lead the Auditor through the process of defining the scope and identifying the objectives for the audit</p>	<p>The Terms of Reference template has been redesigned so that it can be written specifically for each audit, reflecting what elements of work lie within and outside of the</p>



<p>engagement, and in some instances were not relevant to the engagement eg the audit of Refuse & recycling – the scope coverage on the terms of reference was wide but the actual work was specific to an audit of the management of the contract. The terms of reference made no mention that this was the focus of the audit.</p>	<p>within that scope. Terms of Reference will then be specifically created for each audit. April 2015</p>	<p>scope and what the objectives of the audit are. The new templates will take effect from the start of the 2015/16 audit plan.</p>
<p>Standard 2210 Engagement Objectives</p>	<p>Response & action date</p>	<p>Action to date</p>
<p>This Standard requires that objectives must be established for each assignment. This happens by undertaking an assessment of the risks <i>relevant to the activity under review</i>, auditors are also to consider the probability of significant error, fraud, non-compliance and other exposures. Auditors must evaluate whether criteria needed to evaluate governance, risk management and controls.</p> <p>Objectives were established but the weakness of the process was that the objectives were not always developed from a structured analysis directly linked to the activity under review.</p>	<p>As above. The risk analysis will help to define the audit objectives and guide the work of the Auditor. A template document is being devised to enable the Auditor to work through from the initial risk analysis, through scoping and identifying the audit objectives and onto preparing the audit programme. April 2015</p>	<p>The process of establishing the objectives of the audit will entail an assessment of the risk relevant to the service being audited. To this end a Control Risk Analysis (CRA) template will used based on the PESTLE model. A template for recording the objectives of the audit has been developed and will be used from the start of the 2015/16 plan.</p>
<p>Standard 2220 Engagement Scope</p>	<p>Response and action date</p>	<p>Action to date</p>
<p>The Standard requires that scope must be sufficient to satisfy the objectives of the engagement, and include consideration of relevant systems, records, personnel and physical properties.</p> <p>The objectives and scope were combined into one paragraph which did not differentiate between the two, a standard terms of reference had a Section headed “Objectives and Scope”. Mostly the same objectives and scope being applicable to all audits. On file there was a separate document which included some elements of scope.</p>	<p>The scope of the audit will be defined by the results of the risk analysis and consideration of any other more cross-cutting corporate audits. For example an audit of Accounts Receivable will impact on the audit of any area that receives income. April 2015</p>	<p>The scope of the audit defines what aspects are included and what will not be covered by the audit. A template for recording the scope of the audit has been developed and will be used from the start of the 2015/16 plan</p>



Standard 2240 Engagement Work Programme	Response and action date	Action to date
<p>The Standard requires that the auditors must develop and document work programmes that achieve the engagements objectives. This will include procedures for identifying , analysing, evaluating and documenting information about the assignment. It must be approved prior to its implementation</p> <p>This document is developed from analysing and consolidating the results of preliminary work – the planning, the objectives and the scope. It is a road map for the fieldwork which properly developed and used will contribute to an efficient and effective audit</p>	<p>Once the scope and objectives of an audit have been defined, an audit plan will be created, stating how the audit will be conducted.</p> <p>April 2015</p>	<p>Once the scope and objectives have been defined, an audit programme can be prepared detailing what testing will be done and for what purpose. Again a template has been developed, which will be used for the start of the 2015/16 audit plan.</p>

DRAFT REPORT TO CABINET

Open		Would any decisions proposed :		
Any especially affected Wards	Mandatory/	Be entirely within Cabinet's powers to decide	YES	
		Need to be recommendations to Council	NO	
		Is it a Key Decision	NO	
Lead Member: Cllr Nick Daubney E-mail: cllr.Nick.Daubney@west-norfolk.gov.uk Cllr Harry Humphrey E-mail: cllr.Harry.Humphrey@West-Norfolk.gov.uk		Other Cabinet Members consulted:		
		Other Members consulted:		
Lead Officer: Kate Littlewood E-mail: kate.littlewood@west-norfolk.gov.uk Direct Dial: 01553 616252		Other Officers consulted: Assistant Director, Resources Democratic Services Manager Democratic Services Officer		
Financial Implications NO	Policy/Personnel Implications NO	Statutory Implications YES	Equal Impact Assessment NO	Risk Management Implications YES
If not for publication, the paragraph(s) of Schedule 12A of the 1972 Local Government Act considered to justify that is (are) paragraph(s)				

Date of meeting: 9th September 2015

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

<p>Summary This report provides Cabinet with the results of the 'Review of the Effectiveness of the Audit and Risk Committee' for 2014-15 and confirms that the Committee is fulfilling its stated purpose which is 'to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process'.</p> <p>Recommendation To note the contents of the report.</p> <p>Reason for Decision To ensure the Council continues to meet its obligations under the Accounts and Audit Regulations 2011.</p>
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1.0 BACKGROUND

1.1 The Audit and Risk Committee was set up in 2006, with Terms of Reference drawn up in line with guidance from the Chartered Institute of

Public Finance and Accountancy (CIPFA). These were reviewed during 2013-14 and approved by Council 26th September 2013.

- 1.2 Under the Accounts and Audit Regulations 2011, a council is required '*to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions*'.
- 1.3 Good corporate governance requires independent, effective assurance about the adequacy of financial and operational management and reporting. This assurance is best delivered by a committee that is independent from the executive and scrutiny functions. This is provided by the Audit and Risk Committee.
- 1.4 In order to ensure that this monitoring of governance is carried out effectively, a regular review of the role and activities of the Audit and Risk Committee is necessary.
- 1.5 The previous review indicated that the Committee was providing an effective service. However it was recommended that:
 - The Committee should evaluate if the Internal Audit function complied with the Public Sector Internal Audit Standards. A report was presented to the Committee on 28th October 2014, including an action plan to improve compliance.
 - A review of the Risk Management Strategy was required. The Audit Manager had intended to complete this at the end of 2014, but was absent from work at that time. The review will now be carried out in the next few months and an updated strategy will be presented to the Committee in October 2015.

2.0 REVIEW DETAILS

- 2.1 The review was completed by the Audit Manager using a checklist compiled by CIPFA. The completed checklist is attached as **Appendix 1** of this report. In addition information has been compiled on the reports considered by the Committee. The resulting draft report was then considered by the Chair and Vice Chair of the Audit and Risk Committee.
- 2.2 The responses in the checklist are ticked as:
 - 'Y' – Yes. The criteria have been met and no action is required.
 - 'P' – Partial. The criteria have only been met in part, some action may be required.
 - 'N' – No. The criteria have not been met and action may be required.

3.0 ITEMS CONSIDERED DURING 2014-15

- 3.1 Throughout 2014-15 the Audit and Risk Committee held 9 meetings and received a total of 22 reports on a number of issues, including:

Internal Audit

- Internal Audit Annual Report 2013-14.
- External Quality Assessment – Compliance with the Public Sector Internal Audit Standards
- Internal Audit Strategic Plan 2014-15, Progress Reports (2)

External Audit

- Statement of Accounts 2013-14 Report to those charged with Governance (ISA 260).
- Annual Audit Letter
- 2014-15 External Audit Plan
- Annual Certification of Claims and Returns 2013-14 report

Finance

- Revenue Outturn 2013-14.
- Capital Programme and Resources 2013-17
- Annual Treasury Report 2013-14.
- Mid-year review Treasury Report 2014-15.

Fraud

- Annual Report of the Investigations Unit
- Single Fraud Investigation Service update
- Anti-Fraud and Anti-Corruption Strategy, Whistleblowing Policy and Fraud Response Plan.
- Revenues and Benefits Fraud Policy – Introduction of the Civil Penalties for Council Tax.

Corporate Governance and Risk

- Corporate Risk Monitoring Report – 6-monthly report (2 reports).
- Annual Governance Statement 2013-14.
- Review of the Effectiveness of the Audit and Risk Committee.
- Business Continuity update.
- Monitoring Officer Annual Report

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

3.2 During 2014-15 a private briefing was also held for the Audit Manager to notify the Committee of the results of an investigation.

3.3 Training was provided to Committee members during the year on the Council's anti-fraud measures.

4.0 OUTCOMES

4.1 The outcome of this report will be to:

- Show evidence that the Audit and Risk Committee is effective in its role.
- Satisfy the requirement of an annual review of the effectiveness of the Audit and Risk Committee.

5.0 CONCLUSIONS

- 5.1 During 2014-15 the Audit and Risk Committee received and commented on all relevant reports and actively monitored risk and internal controls. As a result it is continuing to perform effectively and the Council is meeting its requirements under the Accounts and Audit Regulations 2011.

Policy Implications

There are no policy implications.

Financial Implications

There are no financial implications.

Personnel Implications

There are no personnel implications

Statutory Considerations

The Council can demonstrate that it is meeting the requirements under the Accounts and Audit Regulations 2011.

Equality Impact Assessment (EIA)

There are no equality implications.

Risk Management Implications

Having an effective Audit and Risk Committee is an important element in the Council's risk management framework.

Declarations of Interest / Dispensations Granted

None required.

Background Papers

None.

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

**APPENDIX 1
For the year 2014-15**

No	Issue	Y	P	N	Evidence/ Comment	Action Required
1. ESTABLISHMENT, OPERATION AND DUTIES						
Role and Remit						
1.1	Does the audit committee have written Terms of Reference?	Y			The Terms of Reference were reviewed and approved by Council on 26 th September 2013.	
1.2	Do the Terms of Reference cover the core functions of an audit committee as identified in the CIPFA guidance?	Y				
1.3	Are the Terms of Reference approved by the council and reviewed periodically?	Y			Reviewed every 3 years. The next review is due in May 2016.	
1.4	Can the audit committee access other committees and full council as necessary?	Y			All Members attend Full Council and can attend any other Panel or Committee meeting under Standing Order 34.	
1.5	Does the authority's Annual Governance Statement include a description of the audit committee's establishment and activities?	Y			Section 4 'Review of Effectiveness' includes a description of the Audit and Risk Committee's function.	
1.6	Does the audit committee periodically assess its own effectiveness?	Y			An annual review is carried out.	
Membership, Induction and Training						
1.9	Has the membership of the audit committee been formally agreed and a quorum set?	Y			Formally appointed by Council. Quorum set through Standing Orders.	
1.10	Is the chair independent of the executive function?	Y				
1.11	Has the audit committee chair previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	Y			The Chair during 2014-15 had experience through personal work life. He had been a previous member of the Audit and Risk Committee and attended all training offered to the Committee.	

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

**APPENDIX 1
For the year 2014-15**

No	Issue	Y	P	N	Evidence/ Comment	Action Required
1.12	Are new audit committee members provided with appropriate induction?	Y			Training is offered to all Members by Democratic Services. The training is carried out at the start of the meeting to maximise participation.	
1.13	Have all member's skills and experiences been assessed and training given for identified gaps?		P		An analysis of skills and experiences is not carried out. However, a training programme has been designed to cover all previously identified training needs and Members can request specific training if necessary.	No action required.
1.14	Has each member declared his or her business interests?	Y			Records of interests are kept by Democratic Services. A standing item of each agenda requires Members to declare any relevant interests.	
1.15	Are members sufficiently independent of other key committees of the council?		P		Independent of the Cabinet, but all members of the Audit and Risk Committee also sit as the Resources and Performance Panel.	A review of the Scrutiny functions is to take place during 2015-16.
Meetings						
1.16	Does the committee meet regularly?	Y			9 meetings held in 2014-15. The programme for 2015-16 includes 6 planned meetings, but this may increase if the Committee needs to consider urgent reports in the intervening time.	
1.17	Do the Terms of Reference set out the frequency of meetings?	Y			Minimum of 4 meetings a year, but this can be increased if necessary.	
1.18	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	Y			A calendar of meetings is published for each year and dates are co-ordinated with Cabinet and specific key events.	
1.19	Are members attending meetings on a regular basis and if not, is appropriate action taken?	Y			A record of attendance is kept by Democratic Services. Any persistent non-attendance is brought to the attention of the relevant party leader.	
1.20	Are members free and open without political influences being displayed?	Y				
1.21	Does the authority's s151 officer or deputy attend all meetings?	Y			In 2014-15, the Deputy Chief Executive, who was the deputy s151 officer, attended all meetings.	
1.22	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	Y			Relevant officers attend to present the reports and answer questions.	

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

**APPENDIX 1
For the year 2014-15**

No	Issue	Y	P	N	Evidence/ Comment	Action Required
1.23	Are decisions reached promptly?	Y			A decision is made at the end of each item on the agenda.	

2. INTERNAL CONTROL

2.1	Does the audit committee consider the findings of the annual review of effectiveness of the system of internal control (as required by the Accounts and Audit Regulations) including the review of the effectiveness of the system of internal audit?	Y			Audit Manager's Annual Report for 2013-14 was presented on 22 nd July 2014. An external assessment of the Internal Audit was carried out in 2014 and the results presented to the Committee on 28 th October 2014.	
2.2	Does the audit committee have responsibility for review and approval of the Annual Governance Statement and does it consider it separately from the accounts?	Y			Presented to a Special Meeting on 8 th September 2014 as a separate report from the Statement of Accounts 2013-14.	
2.3	Does the audit committee consider how meaningful the Annual Governance Statement is?	Y			The Committee received a training session on the relevance and content of the AGS in August 2013.	
2.4	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	Y			Various reports are presented to the Committee throughout the year relating to internal audit, external audit, finance, fraud, corporate governance and risk.	
2.5	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	Y			The Chair and Vice Chair attend joint sift meetings with their counterparts on the Regeneration, Environment and Community Panel to review the Cabinet Forward Decisions list.	
2.6	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?		P		The report setting the Strategic Internal Audit Plan each year contains reference to the consideration of risk management.	Future reports on the Strategic Audit Plan will contain more explanation of the role of risk management.
2.7	Does the audit committee review the authority's strategic risk register at least annually?	Y			Update reports are presented twice a year in April/May and October/November.	
2.8	Does the audit committee monitor how the authority assesses risk?	Y			Included in the 6-monthly reports and the review of the Risk Management Strategy every 3 years.	The Risk Management Strategy will be reviewed during 2015-16.

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

**APPENDIX 1
For the year 2014-15**

No	Issue	Y	P	N	Evidence/ Comment	Action Required
2.9	Do the audit committee's Terms of Reference include oversight of the risk management processes?	Y			Terms of Reference Sec 4.1(a) and (b) refers.	
2.10	Does the audit committee take a role in overseeing anti-fraud and whistleblowing arrangements?	Y			Terms of Reference Sec 4.1(a) refers.	

3. FINANCIAL REPORTING & REGULATORY MATTERS						
3.1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	Y			Terms of Reference Sec 3.1(a) and (c) refers. The timetable of meetings includes provision for Special Meetings in June and September each year to consider the Statement of Accounts.	
3.2	Does the audit committee consider specifically: <ul style="list-style-type: none"> ▪ The suitability of accounting policies and treatments ▪ Major judgements made ▪ Large write-offs ▪ Changes in accounting treatment ▪ The reasonableness of accounting estimates ▪ The narrative aspects of reporting? 	Y			The financial reports presented cover all the aspects stated.	
3.3	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	Y			Special Meeting in September each year.	
3.4	Does the audit committee review management's letter of representation?	Y			Management responses are included in the covering report to the external auditors report. The responses are also discussed at the meeting.	
3.5	Does the audit committee annually review the accounting policies of the authority?	Y			Included in the Statement of Accounts report.	
3.6	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	Y			The Chief Financial Officer attended the relevant meetings to present the report and answer questions relating to the preparation of accounts.	

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

**APPENDIX 1
For the year 2014-15**

No	Issue	Y	P	N	Evidence/ Comment	Action Required
3.7	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Y			'Members Bulletin' is circulated to all Members, which contains general updates and circulars when they occur. For issues specifically relevant to the Committee, a report is presented. In 2014-15, reports were presented on the transfer of benefit fraud investigation work to DWP.	

4. INTERNAL AUDIT						
No	Issue	Y	P	N	Evidence/ Comment	Action Required
4.1	Does the audit committee approve annually, and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	Y			The Internal Audit Strategic Plan is usually presented in February each year for approval. Details of how the plan is compiled are included in the covering report. Due to the Audit Manager's absence the plan for 2015-16 was presented in June 2015.	
4.2	Does internal audit have an appropriate reporting line to the audit committee?	Y			Direct access to the Chair is included in the revised Terms of Reference, along with the potential for Internal Audit to meet with the Committee, without Senior Management being present, if necessary.	
4.3	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Audit Manager?	Y			The Committee receives reports on progress against the Strategic Plan, and the Audit Manager presents the Annual Report in June/ July.	
4.4	Are follow-up audits by Internal Audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	Y			Included in the progress reports. Officers can be asked to attend the meetings to answer questions if progress is not satisfactory.	
4.5	Does the audit committee hold periodic private discussions with the Audit Manager?	Y			The facility is available within the Terms of Reference if required. During 2014-15 the Audit manager did hold a briefing session with the Committee concerning some investigation work.	
4.6	Is there appropriate co-operation between the internal and external auditors?	Y			Meetings are held to discuss the content of the respective audit plans.	
4.7	Does the audit committee review the adequacy of internal audit staffing and other resources?	Y			Included in the Strategic Audit Plan report and the quarterly progress reports.	

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

**APPENDIX 1
For the year 2014-15**

No	Issue	Y	P	N	Evidence/ Comment	Action Required
4.8	Has the audit committee evaluated whether its internal audit service complies with Public Sector Internal Audit Standards (PSIAS)?	Y			An external quality assessment was completed in 2014 by the Chartered Institute of Internal Auditors and the resulting report was presented to the Committee in October 2014.	
4.9	Are internal audit performance measures monitored by the audit committee?	Y			Performance Indicators are set as part of the Strategic Plan and monitored in the progress reports.	
4.10	Has the audit committee considered the information it wishes to receive from internal audit?	Y			No requests for specific reports or training were made in 2014-15, although further information was provided in response to requests from Members.	

5. EXTERNAL AUDIT

5.1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?	Y			Ernst Young attend meetings to present their reports and answer questions.	
5.2	Does the audit committee hold periodic private discussions with the external auditor?			N	The facility is available within the Terms of Reference if required.	No action required.
5.3	Does the audit committee review the external auditor's annual report to those charged with governance?	Y			Report is presented at the Special Meeting in September.	
5.4	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	Y			Recommendations are taken into account when preparing the Internal Audit Strategic Plan.	
5.5	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit inspection letter?	Y			Report to those charged with governance (ISA260) – September 2014 Annual Audit Letter – November 2014 Audit Plan 2014/15 – March 2015 Certification of Claims and Returns Annual Report 2013/14 – March 2015.	
5.6	Does the audit committee assess the performance of external audit?	Y			Considered as reports are presented.	

6. ADMINISTRATION

Agenda Administration

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

**APPENDIX 1
For the year 2014-15**

No	Issue	Y	P	N	Evidence/ Comment	Action Required
6.1	Does the audit committee have a delegated secretary from Committee/Member Services?	Y			Wendy Vincent, Democratic Services.	
6.2	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	Y			A timetable is set for the year detailing meeting dates and deadlines for reports to be submitted.	
6.3	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	Y			Included in the timetable for the year.	
6.4	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?			N	'Any Other Business' is not an agenda item. Only 'Urgent Business' is accepted under Standing Order 7.	
Papers						
6.5	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	Y			The timetable is designed to ensure the timing and frequency of routine reports is appropriate. Ad hoc reports are presented as they arise and also in line with Cabinet requirements if necessary.	
6.6	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?			N	The format is a corporate template.	No action required.
Actions Arising						
6.7	Are minutes prepared and circulated promptly to the appropriate people?	Y			Minutes are produced within a week of the meeting.	
6.8	Do action points indicate who is to perform what and by when?	Y			If action is required.	

ISSUES DISCUSSED AT MEETINGS OF AUDIT & RISK COMMITTEE 2014 - 2015

<u>Date of Meeting/Length of Meeting</u>	<u>Details</u>	<u>Outcome</u>
27.05.14		
ARC7: Q4 Progress Report	The Chief Financial Officer presented the report which showed the Internal Audit activity for the quarter January to March 2014 against the Strategic Audit Plan 2013/2014.	RESOLVED: The Committee discussed and commented on the report on the Internal Audit Work Plan for January to March 2014.
ARC8: Corporate Risk Monitoring Report (October 2013 to March 2014)	In presenting the report, the Chief Executive reminded Members that the Committee received reports on a half-yearly basis on the position of the Corporate Risk Register, with the last one being presented in October 2013.	RESOLVED: The Committee discussed and commented on the report.
ARC9: Annual Report of Investigations Unit	The Fraud Investigations Manager presented the report that provided Members with information regarding the work undertaken during the 2013/2014 financial year and looked forward into 2014/2015.	RESOLVED: The Committee discussed and commented on the report.
09.06.14		
ARC17: Cabinet Report: Revenue Outturn 2013/2014	<p>The Principal Accountant presented the report and explained that the report covered two areas, namely:</p> <ul style="list-style-type: none"> • Revenue Outturn and proposed transfers to reserves for 2013/2014. • Principle of the calculation for the provision of bad debts and appeals on the Business Rates Retention Scheme. 	<p>RESOLVED: That Cabinet be informed that the Audit and Risk Committee supports the recommendations as set out in the report to Cabinet set out below:</p> <p>It is recommended that Cabinet approves:</p> <ol style="list-style-type: none"> (1) The revenue outturn and proposed transfers to reserves for 2013/2014. (2) The principle of the calculation for the provision of bad debts and appeals on the Business Rates Retention Scheme.
ARC18: Cabinet Report: Capital Programme and Resources 2013/2017	The Chief Financial Officer presented the report that provided details of the outturn of the 2013/2014 Capital Programme and outlined amendments and rephrasing to the spending on schemes, revising the programme for 2014/2017. The Capital Programme outturn for 2013/2014 totalled £9,477,218 against an approved budget of £12,262,100. The Committee was advised that it had been necessary to rephrase a total of £2,801,830 of scheme costs to future years. Capital receipts generated in the year totalled £1,298,268 of which £1,293,890 were useable.	<p>RESOLVED: That Cabinet be informed that the Audit and Risk Committee supports the recommendations as set out in the report to Cabinet as follows:</p> <ol style="list-style-type: none"> (1) That Cabinet note the outturn of the Capital Programme for 2013/2014 of £9,477, 218. (2) That the financial arrangements for the 2013/2014 Capital Programme be approved. (3) That Cabinet approve the revised 2014/2017 Capital Programme as detailed in the report.

24.06.14		
ARC27: Cabinet Report: Revenues and Benefits Fraud Policy – Introduction of Civil Penalties for Council Tax	The Audit Manager introduced the report which outlined that the Investigations Unit undertook work to prevent and detect benefit, Council Tax Support, Council Tax and Business Rates fraud. The report provided information regarding the proposed use of Civil Penalties for Council Tax only and the proposed use of Prosecution and a sanction of a Simple Caution, for Council Tax and Business Rates.	RESOLVED: That Cabinet be informed that the Audit and Risk Committee supports the recommendations as set out in the report to Cabinet. 1) The proposal for the use of Civil Penalties for Council Tax only. 2) The proposal for use of Prosecution and a sanction of a Simple Caution, for Council Tax and Business Rates. 3) To note the inclusion of the investigation of Council Tax and Business Rates fraud.
ARC27: Cabinet Report: Annual Treasury Report 2013/2014	The Principal Accountant presented the report and which informed the Panel that the Council had formally adopted the Chartered Institute of Public Finance and Accountancy’s Code of Practice on Treasury Management (2009) and remained fully compliant with its requirements.	RESOLVED: That Cabinet be informed that the Audit and Risk Committee supports the recommendations as set out in the report to Cabinet: 1) Cabinet is asked to approve the actual 2013/2014 prudential and treasury indicators set out in the report, and to note the report. 2) Cabinet is asked to approve the amendment to the strategy for 2014/2015.
22.07.14		
ARC37: Business Continuity – Update	The District Emergency Planning Officer presented a report which provided an update to the Committee on the current position of the Council’s Business Continuity arrangement. The report outlined progress made since the last update in 2013 and outlined work that was to be undertaken over the coming months.	RESOLVED: The Committee noted the progress made, endorsed the approach being taken to the Council’s Business Continuity arrangements and confirmed that annual updates on the subject were required.
ARC38: Q1 Progress Report	The Audit Manager presented the report which showed the Internal Audit activity for the quarter April to June 2014 against the Strategic Audit Plan 2014/15.	RESOLVED: Members discussed and commented on the report on the Internal Audit Workplan for April to June 2014.
ARC39: Internal Audit Annual Report and Opinion 2013/14	The Audit Manager presented the report which provided Members with an overview of the work undertaken by the Internal Audit Section during the 2013/14 financial year against the Strategic Audit Plan, and provided an assurance opinion to support the Annual Governance Statement.	RESOLVED: The Committee discussed and commented on the report.

APPENDIX 2

<p>ARC40: Cabinet Report: Review of the Effectiveness of the Audit and Risk Committee</p>	<p>The Audit Manager presented the report which provided the results of the 'Review of the Effectiveness of the Audit and Risk Committee' for 2013/14 and confirmed that the Committee was fulfilling its stated purpose which was 'to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affected the Council's exposure to risk and weakened the control environment, and to oversee the financial reporting process.'</p>	<p>RESOLVED: That Cabinet be informed that the Audit and Risk Committee supports the recommendation as follows:</p> <p>To note the contents of the report.</p>
<p>08.09.14</p>		
<p>ARC 49: Cabinet Report: Statement of Accounts 2013/2014 Report to those charged with Governance (ISA UK&I) 260</p>	<p>The Principal Accountant presented a report which introduced the Statement of Accounts (SOA) 2013/2014. It was highlighted that the report also considered the report from the auditor for the accounts 2013/2014 – the International Auditing Standard (ISA 260).</p>	<p>RESOLVED: That Cabinet be informed that the Audit and Risk Committee supports the recommendation as follows:</p> <p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1) Approve the authority for any changes required to the Statement of Accounts is delegated to the Chief Financial Officer, in consultation with the Leader of the Council, to authorise amendments and if necessary present an updated Statement to Council. 2) Notes the comments of the Auditor in the ISA 260. <p>It is recommended that Council:</p> <ol style="list-style-type: none"> 1) Approve the Statement of Accounts for 2013/2014. 2) Notes the comments of the Auditor in the ISA 260.
<p>ARC 50: Cabinet Report: Annual Governance Statement 2013/2015</p>	<p>In presenting the report, the Deputy Chief Executive reminded the Committee that the preparation and publication of an Annual Governance Statement (AGS) was a public statement that described and evaluated the Council's overall governance arrangements during a particular financial year.</p> <p>The report sought Cabinet approval of the Council's Annual Governance Statement covering the 2013/14 year which was attached at Appendix A.</p>	<p>RESOLVED: That Cabinet be informed that the Audit and Risk Committee supports the recommendation to Cabinet as follows:</p> <p>It is recommended that the Annual Governance Statement for the 2013/2014 year as attached be approved for adoption and that the Leader of the Council and the Chief Executive sign accordingly.</p>

APPENDIX 2

<p>ARC 51: Monitoring Officer Annual Report 2013/2014</p>	<p>The Monitoring Officer presented the Annual Report for 2013/2014 and explained that the Annual Governance Statement also covered the areas within the Monitoring Officer's responsibility. Any necessary action points would be presented to the Audit and Risk Committee.</p> <p>The Committee was invited to ask questions.</p>	<p>RESOLVED: The Committee noted the report.</p>
<p>30.09.14 – PRIVATE BRIEFING</p>		
<p>28.10.14</p>		
<p>ARC60: Cabinet Report Mid Year Review Treasury Report 2014</p>	<p>In presenting the report, the Chief Financial Officer reminded the Committee 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.</p>	<p>RESOLVED: That Cabinet be informed that the Audit and Risk Committee supports the recommendation as follows:</p> <ol style="list-style-type: none"> 1) Cabinet is asked to note the report and the treasury activity. 2) As part of the budget process and setting of the Treasury Management Strategy for 2015/2016 it is suggested that Cabinet ask officers to bring forward schemes that could generate higher levels of return.
<p>ARC61: External Quality Assessments – Compliance with the Public Sector Internal Audit Standards</p>	<p>The Audit Manager presented the report and explained that Internal Audit were required to undergo an external assessment at least every five years to ensure the service was complying with the Public Sector Internal Audit Standards. The required assessment had been completed and the resulting report was attached.</p>	<p>RESOLVED: The Committee discussed and commented on the report, and confirmed the Audit Manager's responses to the recommendations made.</p>
<p>25.11.14</p>		
<p>ARC71: Corporate Risk Register Monitoring Report</p>	<p>The Deputy Chief Executive explained that the report presented the changes to the Risk Register since the last monitoring report in April 2014 and gave details of the risks falling into the 'Very High' category and the associated work to mitigate the effects.</p>	<p>RESOLVED: The Committee discussed and commented on the report.</p>
<p>ARC72: Annual Audit Letter</p>	<p>The Deputy Chief Executive presented the Annual Audit Letter and explained that its purpose was to communicate to Members of the Borough Council and external stakeholders, including members of the public, the key issues arising from the External Auditor's work, which should be brought to the attention of the Committee.</p>	<p>RESOLVED: The Committee discussed and commented on the Annual Audit Letter.</p>

24.03.15		
ARC 81: Certification of Claims and Returns Annual Report – 2013/2014	Mr R Murray, Ernst and Young presented the Certification of Claims and Returns Annual Report 2013/2014 which summarised the results of the External Auditor’s certification work and highlighted the significant issues.	RESOLVED: The Committee discussed and commented on the Annual Report.
ARC82: 2014/2015 Audit Plan	Mr Murray presented the 2014/2015 Audit Plan which set out how the External Auditor’s intended to carry out their responsibilities as Auditor. It was explained that the purpose of the report was to provide the Audit and Risk Committee with a basis to review the proposed audit approach and scope for the 2015 audit, in accordance with the requirements of the Audit Commission Act 1998, the code of Audit Practice, the Standing guidance, auditing standards and other professional requirements, but also to ensure that the audit was aligned with the Committee’s service expectations.	RESOLVED: The Committee discussed and approved the 2014/2015 Audit Plan and the External Audit fees.

REPORT TO CABINET

Open	Would any decisions proposed :			
Any especially affected Wards	(a) Be entirely within Cabinet's powers to decide YES			
None	(b) Need to be recommendations to Council NO			
	(c) Be partly for recommendations to Council NO and partly within Cabinets powers –			
Lead Member: Nick Daubney E-mail:		Other Cabinet Members consulted: None		
		Other Members consulted: None		
Lead Officer: Toby Cowper E-mail: toby.cowper@west-norfolk.gov.uk Direct Dial: 01553 616523		Other Officers consulted: Lorraine Gore, Management Team		
Financial Implications NO	Policy/Personnel Implications NO	Statutory Implications (incl S.17) YES	Equal Opportunities Implications NO	Risk Management Implications NO

Date of meeting: 28 July 2014

ANNUAL TREASURY REPORT 2014/2015

Summary

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

The primary requirements of the Code include:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- 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.

This Annual Treasury Report looks backwards at 2014/2015 and covers:

- the Council's overall borrowing need
- the Council's treasury position/performance;
- the strategy for 2014/2015;
- the economy in 2014/2015;
- borrowing rates in 2014/2015;
- the borrowing outturn for 2014/2015;
- compliance with treasury limits and Prudential Indicators;
- investment rates for 2014/2015;
- investment outturn for 2014/2015;
- debt rescheduling;

During the year the Council maintained a cautious approach to investment and management of debt. Investments returned a percentage of 0.93% exceeding the 7 day LIBID benchmark rate of 0.35%. Interest on debt averaged 3.38% in 2014/2015.

Recommendations

Cabinet is asked to approve the actual 2014/2015 prudential and treasury indicators in this report, and to note the report.

Reason for the Decision

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

1. Introduction and Background

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council's Code of Practice on Treasury Management requires that Council consider an Annual Treasury Report looking back at the previous year's performance.
- 1.2 This Annual Treasury Report covers:
 - a. the Council's overall borrowing need
 - b. the Council's treasury position/performance;
 - c. the strategy for 2014/2015;
 - d. the economy in 2014/2015;
 - e. borrowing rates in 2014/2015;
 - f. the borrowing outturn for 2014/2015;
 - g. compliance with treasury limits and Prudential Indicators;
 - h. investment rates 2014/2015;
 - i. investment outturn for 2014/2015;
 - j. debt rescheduling;

2. The Council's Overall Borrowing Need

- 2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2014/2015 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 2.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.
- 2.3 **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
- 2.4 The Council's 2014/2015 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2014/2015 on 4 March 2014.
- 2.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes leasing schemes on the balance sheet, which increase the Council's borrowing need.

CFR	31 March 2014 Actual £000's	31 March 2015 Actual £000's
Opening Balance	13,555	14,783
Add unfinanced capital expenditure	2,056	4,942
Less MRP	338	325
Less Unsupported Borrowing	475	753
Less finance lease repayments (where the Council is the lessor)	15	48
Closing CFR	14,783	18,599

- 2.6 **Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2014/2015 plus the expected changes to the CFR over 2014/15 and 2015/16. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2014/2015. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2014 Actual £million	31 March 2015 Actual £million
Borrowing	16.60	13.40
Investments	31.30	26.63
Net Position	(14.70)	(13.23)
Closing CFR	14.78	18.60

- 2.7 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2014/2015 the Council has maintained gross borrowing within its authorised limit.
- 2.8 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual

position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

- 2.9 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (Council Tax and Government Grant).

2014/2015	
Authorised limit	£30m
Maximum gross borrowing position	£17.5m
Operational boundary	£25m
Average gross borrowing position	£15.6m
Financing costs as a proportion of net revenue stream	2.82%

3. Treasury Position/Performance as at 31 March 2015

- 3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2014/2015 the Council's treasury position was as detailed in the table below:

	31st March 2014 Principal £ million	Rate/ Return %	31st March 2015 Principal £ million	Rate/ Return %
- PWLB	1.10	2.92	0.90	2.92
- Market	12.50	3.81	12.50	3.81
Sub Total	13.60		13.40	
- PWLB	0.00		0.00	
- Market	3.00	0.31	0.00	0.00
Sub Total	3.00		0.00	
Total Debt	16.60	2.82	13.40	3.38
*Investments:				
- In-House	31.30	0.79	26.63	0.93
Total Investments	31.30	0.79	26.63	0.93
Net Position	(14.70)		(13.23)	

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

	31 March 2014 Actual £million	31 March 2015 Actual £million
Under 12 months (cash flow)	3.00	0.00
12 months and within 24 months	0.00	0.00
24 months and within 5 years	2.50	3.40
5 years and within 10 years	1.10	0.00
10 years and above	10.00	10.00
Total:	16.60	13.40

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

	31 March 2014 Actual £million	31 March 2015 Actual £million
Longer than 1 year	5.00	6.00
Under 1 year	26.30	20.63
Total:	31.30	26.63

3.4 As part of the Council strategy in 2014/2015, the Council would avoid locking into longer term deals while investment rates were down at historically low levels **unless** exceptionally attractive rates were available which would make longer term deals worthwhile.

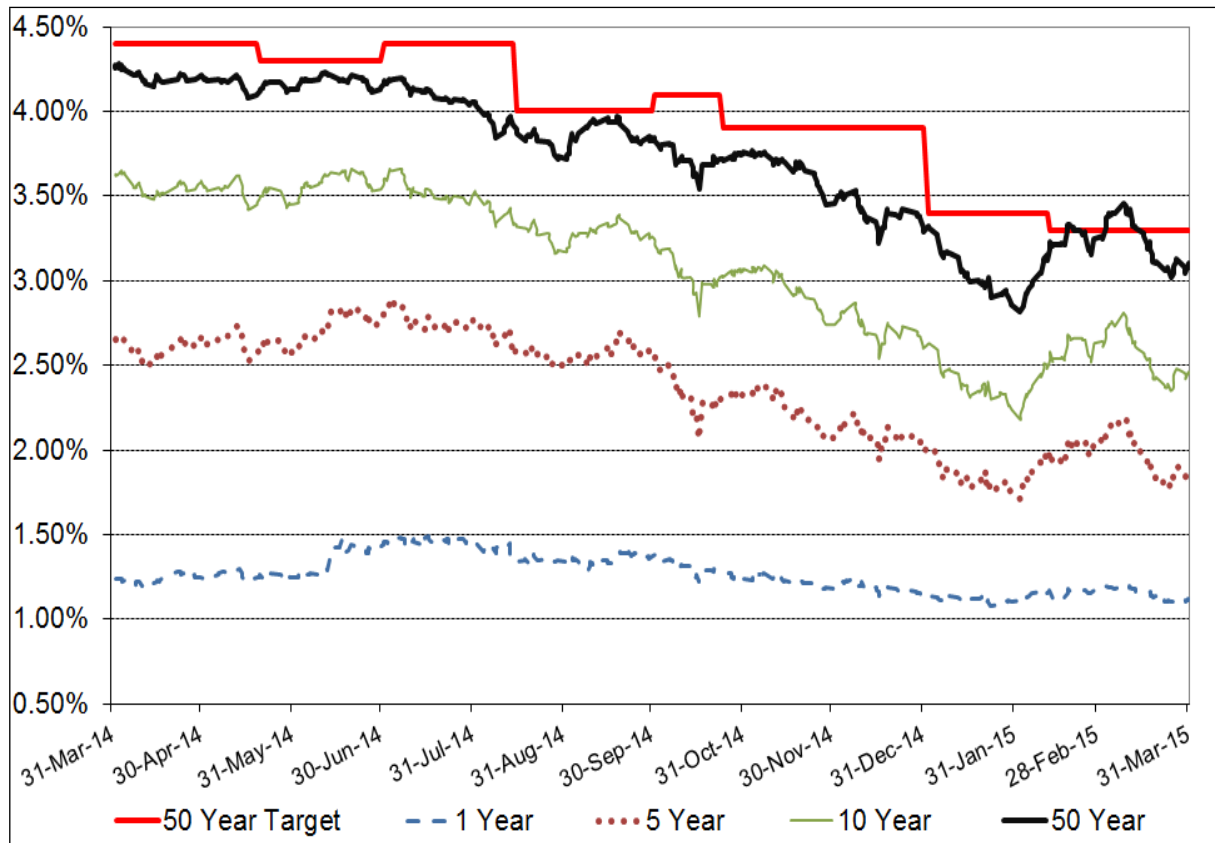
4. The Strategy for 2014/2015

- 4.1 Capita Asset Services (Sector), the Council's treasury advisors, recommended a treasury strategy for 2014/2015, based on their view that the expectation for interest rates anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.
- 4.3 The actual movement in gilt yields meant that PWLB rates saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February.
- 4.4 For further information on economic conditions during 2014/2015 please see Appendix 2

5 Borrowing Rates in 2014/2015 – (Rates based on PWLB maturity profiles)

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

PWLB 2014/15 New Borrowing Rates for 1 to 50 Years:



PWLB Borrowing Rates 2014/15 for 1 to 50 Years:

	1	1-15	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/14	1.240%	1.420%	1.990%	2.340%	2.650%	3.630%	4.290%	4.270%	1.250%
31/3/15	1.110%	1.190%	1.480%	1.680%	1.860%	2.450%	3.110%	3.080%	1.320%
High	1.490%	1.700%	2.280%	2.600%	2.870%	3.660%	4.300%	4.280%	1.340%
Low	1.080%	1.110%	1.380%	1.570%	1.710%	2.180%	2.850%	2.820%	1.250%
Average	1.266%	1.417%	1.863%	2.130%	2.362%	3.083%	3.737%	3.719%	1.290%
Spread	0.410%	0.590%	0.900%	1.030%	1.160%	1.480%	1.450%	1.460%	0.090%
High date	16/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	20/06/2014	03/04/2014	02/04/2014	17/09/2014
Low date	23/01/2015	06/01/2015	07/01/2015	07/01/2015	02/02/2015	02/02/2015	02/02/2015	02/02/2015	01/04/2014

6 Borrowing Outturn for 2014/2015

6.1 The Council Strategy was based on the following views:

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.*

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

6.2 Borrowing as at 31st March 2015:

Start Date	End Date	Loan No	Value £	Institution	Rate	Term
				No Short Term borrowing required		
Total Short Term			0			
22.03.07	21.03.77	5888	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term – fixed for initial 10 year period, and option to change every 5 years thereafter
12.04.07	11.04.77	5887	5,000,000	Barclays – fixed rate LOBO (lenders option, borrowers option)	3.81%	Long Term - fixed for initial 10 year period, and option to change every 5 years thereafter
15.09.09	14.09.19	495951	900,000	PWLB	2.92%	Long Term – fixed for 10 years
27.03.14	30.11.18	3789	2,500,000	Suffolk County Council (LEP)	1.80%	**see note below
Total Long Term			13,400,000			
Total Borrowing			13,400,000		3.38%	

**A loan was taken out, on behalf of Norfolk and Waveney Enterprise Services Ltd (NWES), with Suffolk County Council for the Local Enterprise Partnership. A corresponding investment is shown in table 10.9 with NWES at the same rate of interest (only £500,000 had been drawn down in 2013/2014, a further £274,275 followed in 2014/2015, with the remainder due to follow in 2015/2016).

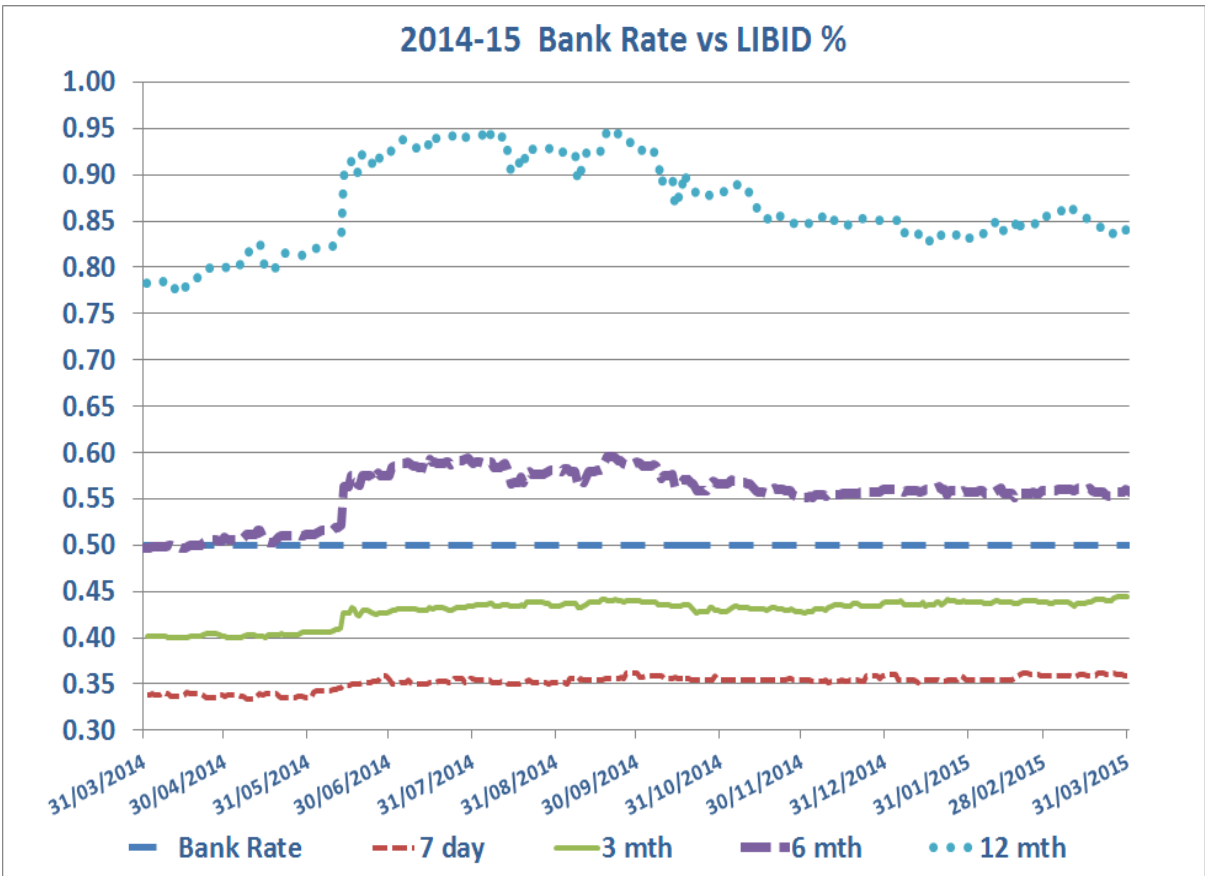
The table at 3.1 shows average rate of debt as being 3.38%.

7. Compliance with Treasury Limits

7.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council’s Treasury Policy Statement and annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in appendix 1.

8. Investment Rates in 2014/2015

8.1 Bank Rate remained at its historic low of 0.50% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.



9. Investment Outturn for 2014/2015

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

9.2 **Investment Strategy** - *The expected short-term investment strategy for in-house managed funds was:*

9.3 *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).*

9.4 **Investment returns expectations.** *Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:*

- 2013/ 2014 0.50%
- 2014/ 2015 0.50%
- 2015/ 2016 0.50%
- 2016/ 2017 1.25%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be a downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove too optimistic.

9.5 *The estimated budgeted investment returns on investments included in the Councils Financial Plan as approved by Cabinet on the 5 Febuary are as follows:*

2013/2014	0.50%
2014/2015	0.75%
2015/2016	1.00%
2016/2017	2.00%

9.6 **Investment treasury indicator and 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			
	2014/2015	2015/2016	2016/2017
	£m	£m	£m
<i>Principal sums invested > 364 days</i>	2	2	2
<i>With Local Authorities</i>	10	10	10

9.7 *Capita Asset Services, Treasury Solutions, the Council's treasury advisors, recommend that due to current market conditions, all investments should be made for periods less than 364 days, due to risk as detailed in 6.1, **unless they are placed with other Local Authorities.** The Council will continue to monitor creditworthiness on a daily basis.*

- 9.8 *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. A £2m limit has been set in case of this eventuality.*
- 9.9 *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.*
- 9.10 **Investments for 2014/2015** - Detailed below is the result of the investment strategy undertaken by the Council.

	Investments as at 1 April 2014 (£millions)	Investments as at 31 March 2015 (£millions)	Rate of Return (net of fees) %	Benchmark Return %
Investments	31.30	26.63	0.93	0.35

- 9.11 Investments as at 31st March 2015:

Institution	Principal	Start Date	End Date	Rate %	Ratings
Barclays FIBCA**	2,400,000	12/11/2012		0.45	A
Barclays FIBCA**	2,600,000	20/12/2012		0.45	A
Natwest (RBS)	2,000,000	28/04/2014	30/08/16	1.68	A
Bank of Scotland	2,000,000	11/04/2014	11/04/2015	0.98	A
Bank of Scotland	2,000,000	01/12/2014	02/12/2015	1.05	A
Bank of Scotland	3,000,000	03/12/2014	04/12/2015	1.05	A
Goldman Sachs International Bank	2,000,000	22/09/2014	22/01/2015	0.59	A
Norfolk & Waveney Enterprise Services (LEP)***	500,000	27/03/2014	30/11/2018	1.80	AAA
Norfolk & Waveney Enterprise Services (LEP)***	274,275	27/03/15	30/11/2018	1.80	AAA
Roydon Parish Council	1,333	19/02/2013	01/04/2015	1.50	AAA
Wyre Forest District Council	2,000,000	14/07/2014	14/07/16	0.95	AAA
Newcastle City Council	2,000,000	04/08/2014	04/08/2016	1.00	AAA
Glasgow City Council	3,000,000	12/11/13	12/11/15	0.95	AAA
Cheshire West & Chester Council	2,000,000	20/01/14	20/01/16	1.10	AAA
BNP (Banque Nationale de Paris) – Money Market Fund	850,000	20/01/15		0.45	AAA
Total	26,625,608			0.93	

** Barclays FIBCA (Flexible Interest Bearing Current Account) deposits are in a current account which attracts an additional 0.30% bonus when the investments are held in the account for a year (rate is 0.15% plus 0.30% bonus)

***see also 7.2 borrowings from Suffolk County Council

9.12 The benchmark rate is derived from the 7 day LIBID (London Interbank Bid Rate) rate. The Council exceeded this rate, as investments were tied in for longer periods to take advantage of higher interest returns while the bank rate remained at 0.50%.

9.13 In addition, the Council utilised business reserve accounts which were providing higher returns from those available on the markets, due to problems with the worlds' financial markets. The Council targeted investments with banks which met their minimum criteria counterparty limits. If changes in ratings occurred to banks where funds were deposited, this was noted on Monthly Monitoring reports and reviewed.

9.14 The Council also ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.

9.15 The Council is also a member of a Treasury Benchmarking Group, where Capita Treasury clients from neighbouring authorities (including those in Norfolk, Suffolk and Cambridgeshire) meet to discuss treasury instruments relevant to their authority and discuss ideas for borrowing and investments. All authorities want to try to maximise their returns, whilst maintaining good credit quality and security during the difficult financial climate. In addition to this, percentage rate returns are disclosed at each quarterly meeting. The Councils return of 0.9% is the highest return for the last quarter against the group with the average return being 0.76%.

9.16 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

9.17 In view of recent publications, that some local authorities may encounter cash flow issues within the next 10 years, Capita Treasury solutions have recommended that the Council places a time limit of 3 years for local authority investments, and a maximum of £5 million per local authority.

10.0 Debt Rescheduling

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

11.0 Summary

11.1 In summary the Council:

- Did not pursue any debt rescheduling as long term loans were reviewed against future long term rates and early repayment penalties, which were proven to be disadvantageous.
- Undertook a lending list review to ensure security and liquidity were maintained.
- Took advantage of higher business reserve account rates on short term investments, and tied in rates for fixed term investments to take advantage of higher interest rate returns (while bank rate remained at 0.50%).
- Ensured counterparty listings on our lending lists were maintained and updated regularly, and reported on monthly monitoring reports if changes occurred to any banks where funds were deposited.
- Ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Sector's methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.
- Undertook benchmarking with other local Councils to ensure that experiences were shared and investment instruments were consistent, while maintaining good credit quality and security.
- Amend the limit for investments over 364 days with local authorities to £5 million per local authority for a maximum duration of 3 years.

APPENDIX 1: PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2013/2014	2014/2015
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	£'000	£'000
	Actual	Actual
Capital Expenditure	8,484	8,894
Ratio of financing costs to net revenue stream	2.52%	2.82%
Net borrowing requirement		
brought forward 1 April	17,720	16,600
carried forward 31 March	16,600	13,400
in year borrowing requirement	(1,120)	(3,200)
Net Investment		
brought forward 1 April	27,205	31,335
carried forward 31 March	31,335	26,625
in year investment	4,130	4,710

PRUDENTIAL INDICATOR	2013/2014	2014/2015
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000
	Actual	Final
Authorised limit for external debt -		
Borrowing	25,000	30,000
Operational boundary for external debt -		
Borrowing	20,000	25,000
Actual External Debt	16,600	13,400
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	20,000	30,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	20,000	25,000
Upper limit for total principal sums invested for over 364 days (per maturity date)	No limit	No limit

Maturity structure of fixed rate borrowing during 2014/2015	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 2: The Economy 2014/2015

The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB (European Central Bank) was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC (monetary policy committee) would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone (EZ) once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.

The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to

APPENDIX 3: Greece Update

Financial markets have reacted to the weekend news that Greece will seek to undertake a referendum on its negotiations with creditors. For many, this has substantially raised the likelihood that the country will default on outstanding loans (starting with tomorrow's €1.5bn payment due to the International Monetary Fund - IMF) and eventually exit the Eurozone. Adding to today's equity market selling pressure is mixed Japanese data and "bear" market territory for Chinese onshore stocks (which have fallen over 20% from their previous high).

"Safe haven" flows have seen equities fall as investors switch to positions in major developed economies' bond markets. We have also seen Credit Default Swap (CDS) spread prices rise in Europe, with some seeing their price increase by over 10% on the day. The iTraxx CDS European Senior Financial Index has risen by a similar amount.

However, we would stress that the markets have been prepared for a Greek default for some time. Yes, the underlying view was that there would be some last minute resolution, but with this looking less and less likely, market volatility is likely to ramp up in the coming days. Nevertheless, today's movement has, in many sectors, simply reversed trades seen through the past week, when optimism over a debt deal was rising.

Gilts have already been the subject of "safe haven" purchases by worried investors, and this scenario may persist in the near term. This could provide an opportunity to borrow at cheaper levels. On the investment front, there should be little direct impact on financial institution counterparties, as most have lowered Greek exposure to extremely low, if not nil, positions. While market contagion cannot be discounted, we would hope that central banks have also been preparing for this scenario and will, therefore, be ready to helicopter liquidity into markets if they see contagion spreading.

In terms of interest rate outlook, the uncertainty that this situation is likely to engineer could push back market rate expectations. This particular issue was highlighted in the minutes of the June Monetary Policy Committee (MPC) meeting, where the Committee suggested that an escalation in the Greek problem could delay future policy action. In market terms, this could lower investment yields in the 6 to 12 month area and beyond.

At least in the near-term, the euro could fall further against other major currencies, including sterling. This would most likely make our goods less competitive in our major export market – the Eurozone. Consequently, this evolving situation could prolong the timing of the start of the UK interest rate hike cycle. Nevertheless, this could prove to be temporary if the fallout is relatively contained and any lasting impact on the EZ / UK economic outlook is contained.

At the current stage, we do not believe that the situation warrants us to revise either our views on suggested counterparty durations (as we did in 2011) or to change our economic and interest rate outlook for the UK. However, we continue to monitor the situation closely and will update clients if the situation changes markedly.

REPORT TO CABINET

Open		Would any decisions proposed :		
Any especially affected Wards	Mandatory	(a) Be entirely within cabinet's powers to decide	NO	
None		(b) Need to be recommendations to Council	YES	
		(c) Is it a Key Decision	NO	
Lead Member: Cllr Nick Daubney E-mail: cllr.nick.daubney@west-norfolk.gov.uk		Other Cabinet Members consulted:		
		Other Members consulted:		
Lead Officer: Tony Hague, Procurement E-mail: tony.hague@west-norfolk.gov.uk Direct Dial: 01553 616791		Other Officers consulted: Extended Management Team		
Financial Implications NO	Policy/Personnel Implications YES	Statutory Implications YES	Equal Impact Assessment YES	Risk Management Implications YES
If not for publication, the paragraph(s) of Schedule 12A of the 1972 Local Government Act considered to justify that is (are) paragraph(s)				

Date of meeting: 28 July 2015

REVIEW AND UPDATE OF CONTRACT STANDING ORDERS

Summary

Since the current version of Contract Standing Orders was approved by Council on 29 November 2012 there have been several changes in procurement policy. These changes include the publication of the new Local Government National Procurement Strategy in July 2014, the EU Procurement Directive in 2014 and the transposition of this into the Public Contracts Regulations 2015. These regulations also include UK government measures to support SMEs that have been referred to as the "Lord Young reforms". Contract Standing Orders have been reviewed and amendments are proposed that include measures to take account of the changes mentioned above.

Recommendation

Details of the main changes are provided in the body of this report. It is recommended that Cabinet accept the new version of Contract Standing Orders and that they recommend acceptance by full Council.

Reason for Decision

To ensure that the Council's purchasing and disposal procedures continue to reflect best practice in order to obtain best value and to guard against corruption, discrimination and breaches of public procurement regulations.

BACKGROUND AND DETAIL

1. The current version of Contract Standing Orders was approved by Council on 29 November 2012. In November 2014 a review commenced with the object of making a more user friendly and simplified document. This resulted in a significant change to the layout as well as an update of specific policy items.
2. The Public Contracts Regulations 2015 were published in February and came into force shortly afterwards on 26 February 2015. The Procurement Officer updated Contract Standing Orders further to ensure that the new regulations are fully reflected.
3. The new draft of Contract Standing Orders has now been circulated amongst the Extended Management Team and a number of other key officers, and their views and suggestions have been incorporated into the document where appropriate.
4. The layout has changed so significantly that it is not possible to highlight particular paragraphs or items that have changed. However the main changes are as follows: -
 - a) Inclusion of new regulations on advertising (CSO.19)
 - b) Changes to the detail of when the Public Services (Social Value) Act applies as the, then new, Act was not fully understood at the last review in 2012 (CSO.14)
 - c) Replacement of Approved List information, which the Council has never used, with better information on the use of Framework Agreements (CSO.20-25)
 - d) Major changes to short-listing reflecting new regulations banning PQQs from low value tenders (CSO.29)
 - e) The fine detail covering submission, receipt and evaluation of tenders along with post-tender negotiation and contract award have been placed into Appendix 2 linked to CSO.41-42.
 - f) A complete change to the reasons that can be used to justify exemptions from Contract Standing Orders (now CSO.43-45)

Policy Implications

Contract Standing Orders dictate the Council's procurement policy.

Financial Implications

There are no direct financial implications from the proposed changes although, of course, one of the main objectives of Contract Standing Orders is to obtain best value for the Council.

Statutory Considerations

The proposed changes in part take into account new law and Government guidance, and the Standing Orders refer to EU Procurement regulations and other statutory considerations.

Equality Impact Assessment (EIA)

Completed pre-screening form attached

Risk Management Implications

Potential costs to the Council could be substantial if regulations and guidelines are not complied with and, as a result, a successful challenge to a contract award is made. It is therefore vital that Contract Standing Orders are kept up to date and the compliance with those Orders is promoted by Members and senior Officers.

Background Papers

Proposed new version of Contract Standing Orders

Current version of Contract Standing Orders (2012) – available on the website

AUDIT AND RISK COMMITTEE WORK PROGRAMME 2015/2016

8 June 2015

- Final Accounts and Statement of Accounts for year ended 31 March 2015: Revenue Outturn, Capital Programme and Resources.

23 June 2015

- Internal Audit end of Year 2014/2015 Progress Report.
- End of Year Report of Benefit Investigations Unit and Internal Audit work on the National Fraud Initiative.
- Corporate Risk Monitoring Report April 2015
- Strategic Internal Audit Plan 2015/2018

21 July 2015

5.30 pm start – First Item – Presentation on the Annual Governance Statement – all Members invited to attend

- Audit Manager's Annual Report
- Effectiveness Reviews
- Business Continuity Annual Update – D Robson

Cabinet Report

- Annual Treasury Report 2014/2015.

7 September 2015

5.30 pm Start – First Item – Briefing/Training on Closing of Accounts, etc – all Members invited to attend

- Statement of Accounts 2014/20145
- Annual Governance Statement.
- Monitoring Officer Report 2014/2015 – E Duncan

27 October 2015

- Internal Audit Half Year Progress Report
- Fraud Report
- Risk Register

24 November 2015

5.30 pm Start – First Item – Risk Assessment Training – all Members invited to attend

- Annual Audit Letter – External Audit
- Mid Year Treasury Report

23 February 2016

- Treasury Management (Cabinet Report)
- Annual Certification of Claims and Returns
- External Audit Plan