

AUDIT COMMITTEE

Thursday, 7 February 2019

6.00 pm

Committee Room 1, City Hall

Membership: Councillors Geoff Ellis (Chair), Sue Burke (Vice-Chair), Thomas Dyer, Jim Hanrahan, Laura McWilliams, Gary Hewson and Ronald Hills

Substitute member(s): Councillors Bob Bushell

Independent Member: Jane Nellist

Officers attending: Democratic Services, Jaclyn Gibson and John Scott

A G E N D A

SECTION A	Page(s)
A TRAINING SESSION WILL BE HELD IMMEDIATELY PRIOR TO THE START OF THIS MEETING AT 5.00PM IN RELATION TO TREASURY MANAGEMENT TEA AND COFFEE WILL BE AVAILABLE FROM 4.45PM	
1. Confirmation of Minutes - 11 December 2018	3 - 12
2. Declarations of Interest	
Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.	
3. Information Management Update	13 - 16
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8. Audit Committee Work Programme 2018/19	111 - 116

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- Present:** Councillor Geoff Ellis (*in the Chair*)
- Councillors:** Bob Bushell, Thomas Dyer, Gary Hewson, Ronald Hills and Laura McWilliams
- Independent Member:** Jane Nellist
- Apologies for Absence:** Councillor Sue Burke and Councillor Jim Hanrahan

31. Confirmation of Minutes - 27 September 2018

RESOLVED that the minutes of the meeting held on 27 September 2018 be confirmed.

32. Declarations of Interest

No declarations of interest were received.

33. Annual Governance Statement Monitoring

Pat Jukes, Business Manager, Corporate Policy:

- a. presented a progress update on those areas identified as ‘significant governance issues’ as set out in the 2017/ 18 Annual Governance Statement (AGS), which Audit Committee had a role to review
- b. stated that the report provided details of the monitoring arrangements for the significant internal control issues raised in the latest AGS
- c. advised that the key actions would be reviewed by the Service Manager’s Group as well as monitored by the Audit Committee
- d. reported that just one significant issue, Information Management remained which was now considered by the responsible officer to be amber;
- e. highlighted the following five areas not considered as significant issues although a retained a focus was still required, as detailed at Appendix A to the report:
 - Partnership Companies
 - Loss of Compliance to Lincoln Project Management Model
 - Western Growth Corridor
 - Use of Professional Advice
 - Responsible Officers
- f. requested that members of Audit Committee give consideration to the content of the report.

Members discussed the report in further detail and raised the following main points:

- What was the time frame for ensuring that the contractors were applying GDPR to the same standards as the Council?

Officer Response: The aim was to achieve full knowledge of the extent of changes needed by the end of the financial year in March, however, this may need to be extended further than this to achieve the changes in all contracts.

- How many contractors were there?

Officer Response: There was a large number of contractors, the exact number could be circulated to Members after the meeting.

- Was GDPR part of the new contracts?

Officer Response: Yes it was included as part of all new contracts.

RESOLVED that the content of the report be noted and monitoring arrangements be continued.

34. Information Management Update

Sally Brooks, Data Protection Officer :

- a) presented an update on the progress of Information Management and the continued implementation of the EU General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA)
 - b) referred to Appendix A of the report and advised that the GDPR Action Plan had been amended to the Information Governance IG/GDPR Ongoing Action Plan
 - c) advised that the GDPR Group were prioritising ongoing compliance including building and improving completed actions, and gave details of the following areas where a lot of work was required:
 - Training
 - Data Protection Impact Assessments (DPIA)
 - Policies, Guidance and Procedures
 - Contract Review for GDPR Clauses
 - Record of Processing Activities (ROPA)
 - Individual Rights/ Retention
 - d) also discussed the project in relation to the following
 - Senior Information Risk Officer (SIRO)
 - AGS
 - Vison 2020
 - e) invited members' questions and comments
- Why was there no mention of financial implications in the report if there were resource issues?

Officer Response: Resource issues were being raised at the moment and the GDPR Group were monitoring this closely and considering the options going forward.

Jaclyn Gibson, Chief Finance Officer added that CMT (Corporate Management Team) was not aware of any resource issues and this needed to be considered by CMT using the correct procedures.

- Was there any opportunity for partnership working?

Officer Response: There was a countywide forum involving the 7 District Councils and County Council which met regularly and corresponded on joint issues. There were also plans to continue to work more closely with West Lindsey District Council and North Kesteven District Council and a meeting would be held in January.

- How did the amount of resources available compare to other Authorities?

Officer Response: Data Protection Officers in other Authorities did have a Deputy Data Protection Officer to assist them and officers within the team with specific IT expertise. There was only 1 part-time Data Protection Officer who did not have a team but did have the assistance of the GDPR Group.

- Had the Authority received any assistance from the LGA on contracts with joint suppliers?

Officer Response: The LGA had provided some guidance but they had not contacted suppliers on behalf of Local Authorities in general.

RESOLVED that

1. the report and action plan be noted
2. the resourcing issues be raised with the Corporate Management Team
3. an update report be brought back to the next committee meeting

35. Internal Audit Recommendations Follow Up

John Scott, Audit Manager presented an update on all overdue recommendations over 12 months old. He advised that Matt Smith, Business Development and IT Manager was unable to attend this meeting due to unforeseen circumstances but would attend the next meeting to provide an update on IT Disaster Recovery and IT Applications.

Matt Hillman, Maintenance Manager gave the following update on Fleet Management.

- The process to implement the Telematics System had taken 3 years which had included a 2 year and 8 month consultation exercise with the Trade Unions.
- Following the negotiations the Operatives were asked to vote on the Telematics System and Driver Protocol, the result of the vote was yes.

- The proposals were then taken to the HR Trade Union Meeting, followed by Employee Joint Consultative Committee and Executive where it was approved.
- Quotes for the telematics system had been approved by the Procurement Officer and Legal Services.
- The fitting of the system would commence next week and would be completed by January.

Members of the committee discussed the report in further detail and raised the following main points:

- Was progress being made on the IT recommendations?

Officer Response: Some of the recommendations could not be completed quickly, however, progress was being made. Matt Smith, Business Development and IT Manager would attend the next Audit Committee to provide an update.

- Could an Officer attend to provide an update on the progress of the Restoration of Boutham Park?

Officer Response: Caroline Bird, could be asked to attend the next Audit Committee to provide an update.

RESOLVED that

1. the report be noted.
2. the following officers be invited to attend the next Audit Committee to provide an update:
 - Caroline Bird – Restoration of Boutham Park
 - Matt Smith - IT Disaster Recovery and IT Applications

36. Risk Management

Jaclyn Gibson, Chief Finance Officer

- a. presented a report with information regarding the reporting arrangements in relation to risk mitigation and recommendations
- b. advised on the background as detailed at paragraph 2 of the report.
- c. summarised that the Council's Risk Management Strategy provided a framework and process that enabled the Council to manage uncertainty in a systematic, effective, consistent and efficient way.
- d. highlighted the areas where a risk register was required:
 - Strategic Risks
 - Significant Directorate Operational Risks
 - Key Projects and programmes determined by the Vision 2020 and Project Management guidance.
 - New service strategies that had a greater impact on people, finance and the Council

- Key partnerships and contracts
- e. advised that in addition to the production of risk registers all key decisions presented to the Executive must clearly show the key risks associated with the decision, the potential impact and how these would be managed
 - f. highlighted the reporting arrangements for risk registers at paragraph 3.5 of the report which were set out in the Risk Management Strategy.
 - g. referred to paragraph 3.6 of the report and advised on the roles and responsibilities of the both Members and Officers as defined in the Risk Management Strategy.
 - h. further added that the specific roles and responsibilities of the Audit Committee was set out in its Terms of Reference.
 - i. referred to paragraph 3.8 and detailed the monitoring reports received by the Audit Committee to fulfil the requirements of the Terms of Reference.

RESOLVED that the reporting arrangements for risk mitigation and recommendations and its role in ensuring the effective operation of the risk management framework be noted.

37. Internal Audit Progress Report

John Scott, Audit Manager:

- a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during the period as detailed at Appendix A
- b. highlighted that Audit Committee had the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of the public sector internal audit standards.
- c. advised that the report covered the following main areas:
 - Progress Against the Plan
 - Summary of Audit Work
 - Implementation of Audit Recommendations
 - Current Areas of Interest Relevant to the Audit Committee
- d. highlighted audits carried out in the following areas given assurances as follows:
 - Commercialisation – Substantial Assurance
 - IT Applications – Limited Assurance
 - City Lottery – Advice
- e. reported on other significant work ongoing in relation to:
 - De Wint Court
 - Culture Review
 - Dynamic Planning
 - Counter Fraud

- Northamptonshire County Council – Financial Issues
 - Private Sector Housing HMO Licensing & Hazards – Follow up
- f. advised on audits currently in progress as detailed at Appendix 2 of the report and audit plan amendments approved by the Interim Chief Finance Officer at paragraph 6
- g. provided performance information against targets for the 2018/19 audit year at 30 November 2018 as detailed at Appendix 4

Members discussed the content of the report in further detail and raised the following main points:

- Referred to Commercialisation and asked why Land Acquisition reports were considered in private at Executive when the Council should be transparent?

Officer Response: Land Acquisition reports were considered in private as the reports contained sensitive information which could affect the deal that was being negotiated. All land sales were declared and the information would be in the public domain.

RESOLVED that the contents of the report and continuation of further monitoring arrangements be noted.

38. Review of Internal Audit Effectiveness

John Scott, Audit Manager:

- a. presented a report to review the effectiveness of internal audit benchmarking against best practice and audit standards.
- b. advised that a member/officer review group was established to review documents in detail and provide feedback to the Audit Committee.
- c. summarised the areas and suggested actions that were agreed by the review group and were subject to further consideration by Audit Committee:
 - Audit Standards Review
 - QAIP – The Quality and Improvement Plan
 - Quality Reviews
 - Performance
 - Feedback
 - Terms of Reference / Charter
 - Resources
 - Assurance Lincolnshire – Making the Most of Our Partnership

RESOLVED that the points raised from the review of effectiveness be noted.

39. Review of Audit Committee Effectiveness

John Scott, Audit Manager

- a. presented a review of the effectiveness of the Audit Committee benchmarking against CIPFA best practice.

- b. advised that CIPFA had recently published new guidance for public sector audit committees and it was therefore felt that it was an appropriate time to undertake a review.
- c. advised that the review was split into different areas covering:
 - Terms of reference
 - Work programme comparison to terms of reference
 - The main CIPFA self-assessment
 - Training – Core areas of knowledge and skills
 - Effectiveness of the Audit Committee (adding value section)
- d. referred to paragraph 3 of the report and advised that these areas and suggested actions were agreed by the review group and were subject to further consideration by the Audit Committee:
 - Assurance on Value for Money Arrangements
 - Ethics – Ethical Values and Engaging with Other Committees
 - Review of Governance Arrangements for Significant Partnerships
 - External Auditors Annual Assessment Review
 - Follow Up (Track) External Audit Recommendations
 - Annual Audit Committee Report – Ensure Approved via Audit Committee if Possible
 - Oversight of Other Public Reports
 - Core Knowledge and Skills
 - Understanding and ‘Promotion’ of Local Code of Corporate Governance and AGS
 - Implementation of Audit Recommendations
 - Public Interest Entity – Requirements

RESOLVED that the contents of the report be noted.

40. Fraud and Error Update Report (2018/19) 6 months

John Scott, Audit Manager:

- a. presented his report on counter fraud arrangements 2018/19 6 months for members’ consideration, which covered the following main areas:
 - An update on the Lincolnshire Counter Fraud Partnership (LCFP)
 - A position statement on the National Fraud Initiative.
 - Fraud work within housing benefits and other areas.
 - An update on counter fraud outcomes
- b. updated members on the key messages in relation to the LCFP, areas of progress in 2018/19, and partnership priorities for the remainder of the year as highlighted within paragraph 3 of his report
- c. highlighted City of Lincoln Council activity in relation to counter fraud arrangements at paragraph 4 of the report
- d. advised that updated statistics would be circulated following the meeting.

Members of the Committee discussed in detail the contents of the report and raised the following main points:

- Referred to the table at paragraph 4.17 of the report and asked why the levels of insurance claims were significantly higher in 2016/17 than other years?

Officer Response: There was a large levels of arson in 2016/17, the levels of insurance claims were currently low but would increase throughout the year.

RESOLVED that the contents of the report be noted.

41. Money Laundering Policy

John Scott, Audit Manager

- a. presented the revised Anti-Money Laundering Policy for comment prior to referral to Executive for approval.
- b. advised that the Council's Money Laundering Policy aimed to ensure compliance with the law and manage risks appropriately around certain business transactions.
- c. explained that the policy had been updated to reflect slight changes in the regulations (2017)The Money Laundering Reporting Officer (MLRO) and deputies remained the same.
- d. advised that the limit on cash transactions, subject to approval, remained at £2,000. Amounts above this would be authorised by the MLRO (or deputy). Assistant Directors and managers authorised cash transactions up to £2,000. If there was a series of large cash payments below £2,000 these would be referred to MRLO.
- e. referred to Appendix A of the report and advised that additional guidance had been included to help support officers in managing transactions and understand the reporting process.

RESOLVED that the revised Money Laundering Policy be referred to Executive for approval.

42. Counter Fraud Strategy

John Scott, Audit Manager

- a. presented the revised Counter Fraud and Anti-Corruption policy/ strategy for comment prior to referral to Executive for approval.
- b. advised that the Council's counter fraud policy/strategy was updated in 2016 to reflect the latest guidance from CIPFA (Chartered Institute for Public Finance and Accountancy) and DCLG (Department for Communities and Local Government). The 2018 review ensured the strategy was up to date and also updated the action plan.
- c. summarised Annex A of the report and highlighted the changes to the roles and responsibilities.

- d. advised that the policy/strategy reflected the limited resources available to the Council risks/actions aimed to maximise efficiency and effectiveness where possible.

RESOLVED that the revised Counter Fraud Strategy be referred to Executive for approval.

43. Audit Committee Work Programme 2018/19

John Scott, Audit Manager

- a. presented the Audit Committee with its 2018/19 work programme
- b. invited members' questions and comments.

RESOLVED that the 2018/19 work programme be noted.

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SUBJECT: INFORMATION MANAGEMENT UPDATE

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: MATT SMITH, BUSINESS DEVELOPMENT AND IT MANAGER

1. Purpose of Report

- 1.1. To update Audit Committee on Information Management progress.

2. Background

- 2.1. In 2015 the Authority appointed a fixed term post of Information Governance Officer as a response to concerns regarding the risks surrounding management of information within the Authority.

- 2.2. With the advent of General Data Protection Regulations (GDPR) in May 2018, and the requirement for a Data Protection Officer (DPO) to be identified, the post was changed to a new DPO role, and given extra responsibilities.

- 2.3. Significant progress has been made including:

- Developing new Information Governance Policies
- Creating an Information Asset register
- Assigning Information Asset Owner roles to a number of staff
- Training (face-to-face) and electronic to staff and teams throughout the authority
- Creation of Data Protection Impact Assessments

- 2.4. However, there are still a number of areas that require further work to be completed:-

- Ongoing review of contracts to ensure compliance with GDPR
- Ongoing refresh of training
- Creation of an Records of Processing Activities (ROPA) database from the corporate Information Asset Register
- Retention and deletion of data to be rolled out and embedded

This is as outlined in previous update reports, particularly in the Action Plan.

- 2.5. This list of activities is not exhaustive and continual review of systems, processes and policies is required. In addition, many reactive issues require attention, and due to the success of the awareness raising programme these have become more numerous. Also, services across the authority will be required to manage issues and information that are specific to the service areas.

- 2.6. In recognition of this additional work, the GDPR Group have considered how best to move forwards. It is thought the following would support the work programme:-
- a. An officer with the IT knowledge to build a database from the asset register, to ensure the data gathered to date is utilised and remains up to date. The database should allow Information Assets Owners (IAO's) to view and update their records easily and to build on their records to include information flows.
 - b. An admin officer to assist in contacting all the suppliers necessary regarding varying contracts and monitoring/managing responses.
 - c. In addition some extra resources from the Business Development IT (BDIT) team will be deployed to assist the DPO in order to alleviate some of the outstanding issues.
- 2.7. Since committee last considered these issues, further resources have been identified in Chief Executive's Business Administration and Legal and Democratic Services, along resources within the Business Development service as a whole which will be applied initially.
- 2.8. As work progresses, more information will become available and this will be reflected in the regular updates to this committee.

3. Strategic Priorities

3.1. High Performing Services

This work ensures that staff are high performing in their collection and processing of customer's data. It also assists to ensure that the Council is trusted to deliver the services, and ensures compliance.

4. Organisational Impacts

4.1. Finance (including whole life costs where applicable)

There are no financial implications arising from this report as the resources will come from existing budgets.

4.2. Legal Implications including Procurement Rules

There are no legal implications arising out of this report.

4.3. Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out

their activities

There is no impact arising from this report regarding these issues.

5. Recommendation

5.1. That Audit Committee note the report.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? None

List of Background Papers: None

Lead Officer: Matt Smith, Business Development and IT Manager
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SUBJECT:	DRAFT INTERNAL AUDIT PLAN – 2019/20
DIRECTORATE:	CHIEF EXECUTIVE AND TOWN CLERK
REPORT AUTHOR:	JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 The Internal Audit Section works to an annual plan which is agreed by the Audit Committee and Senior Management.

2. Background

2.1 The plan has been developed using a combination of:

- the Council's Combined Assurance Model - which is a record of all assurances against our critical activities and key risks.
- an assessment of risk - based on the significance and sensitivity of key activities
- consultation with Senior Management
- issues raised by the Audit Committee

3. Internal Audit Plan 2019/20

3.1 Using the Combined Assurance Model helps streamline and avoid duplication of effort where assurances can be drawn from other sources e.g. management – corporate functions - third parties. The Combined Assurance Model provides coverage of all assurance – not just those from Internal Audit and will help enable the Head of Audit to produce the annual internal audit opinion for 2019/20.

3.2 Our planning work takes into account the relative risks of the activity. This may result in some low risk areas not being audited. We take account of combined assurance where a low or medium assessment is made. We also undertake cyclical work on due diligence areas particularly around financial and governance systems.

3.3 Internal Audit continues to have the right to conduct its own assurance activity freely and independently to meet its role and remit – even if there appears to be a good level management or alternative assurance in place.

3.4 Attached is the draft internal audit plan for 2019/20– Appendix A

3.5 We have conducted meetings in January 2019 with each Assistant Director and CMT to consult and agree the areas to be included in the plan.

3.6 The Internal Audit Plan should focus on the key risks facing the Council and is

adequate to support the Head of Audit opinion. We take account of key risks facing the Council when developing the plan. The plan should achieve a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year. This is undertaken through a regular review of any changing activity and risks. The audit resource should have sufficient capacity and capability to deliver the plan. The audit days are sufficient and compare adequately with others. We use external auditors / consultants as required to fill any gaps mainly ICT security specialists. Further details are included within the section below.

- 3.7 The internal audit plan, together with our combined assurance work, and review of other assurances enables us to provide an annual internal report and opinion around governance, risk and control.

4. Internal Audit Resources

- 4.1 As part of the review of the medium term financial strategy, along with other services, it was agreed to review the level of internal audit resources for the City of Lincoln Council.
- 4.2 Benchmarking was undertaken with a large number of other district councils. Whilst the size of the authority will have an impact on resources required, the benchmarking we completed showed that resources were adequate and could be reduced slightly without a detrimental effect on the authority or the annual audit opinion.
- 4.3 It is proposed to reduce the plan by 50 days (£10,000) from 2019/20 from 450 to 400.
- 4.4 The excess days will be sold on and will not impact upon existing staffing. The service already sells a number of days to another local authority as part of the Assurance Lincolnshire partnership.

5. Strategic Priorities

5.1 High Performing Services

The internal audit service and plan contributes to the Council's strategic priorities, by helping to manage risk and achieve its objectives.

6. Organisational Impacts

6.1 Finance (including whole life costs where applicable)

The proposed changes to the plan will result in a reduction of £10,000 on the audit budget from 2019/20. This is covered under delegated budget holder responsibility and savings will be allocated to TFS (Towards Financial Sustainability)

6.2 Legal Implications including Procurement Rules

The Accounts and Audit Regulations require a local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.

6.3 Human Resources

There are no direct human resource implications as a result of the budget reduction.

7. Risk Implications

7.1 (i) Options Explored

The options explored were to maintain the plan at the current levels or reduce the plan.

7.2 (ii) Key Risks Associated with the Preferred Approach

The risk of reducing the plan has been assessed and the level of reduction will not have a significant impact on the service.

8. Recommendation

8.1 Audit Committee is asked to agree the draft plan, identifying any amendments which it considers appropriate.

8.2 Audit Committee agrees to the internal audit plan reduction and associated resources as set out in section 4

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	One
List of Background Papers:	None

Lead Officer:

John Scott, Audit Manager
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City of Lincoln Council Internal Audit Plan 2019/20 Draft



What we do best

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

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..... And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

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Introduction

1. Internal Audit is a statutory service required under the Account and Audit Regulations 2015¹. We provide independent assurance designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes of the Council.
2. This report sets out the proposed Internal Audit plan. The aim is to give a high level overview of areas we are likely to cover - giving you an opportunity to comment on the proposals.
3. Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:
 - Achieve strategic objectives
 - Ensure effective and efficient operational systems and programmes.
 - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
 - Ensure the reliability and integrity of financial and operational information.
 - Ensure economic, efficient and effective use of council resources.
 - Ensure compliance with established policies, procedures, laws, regulations and contracts.
4. It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council.
5. To help us do this we propose to change the way we prioritise and schedule our work – having a set annual plan is proving too restrictive on the audit service and for clients. Working with you we intend to have a continuous rolling audit work plan – updated during the year – (with specific reviews in July and November) responding to changing circumstances or emerging risks during the year.
6. This approach has the benefit of enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more dynamic and responsive – essential for an effective Internal Audit service.
7. Our internal audit activity and plan has been driven by the Council's key objectives within the corporate plan, your key risks and critical service areas identified as part of the Combined Assurance Map.
8. Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.
9. By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. Internal Audit are then able to use our audit planning tool to target resources. This will to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.

Our Internal Audit Strategy

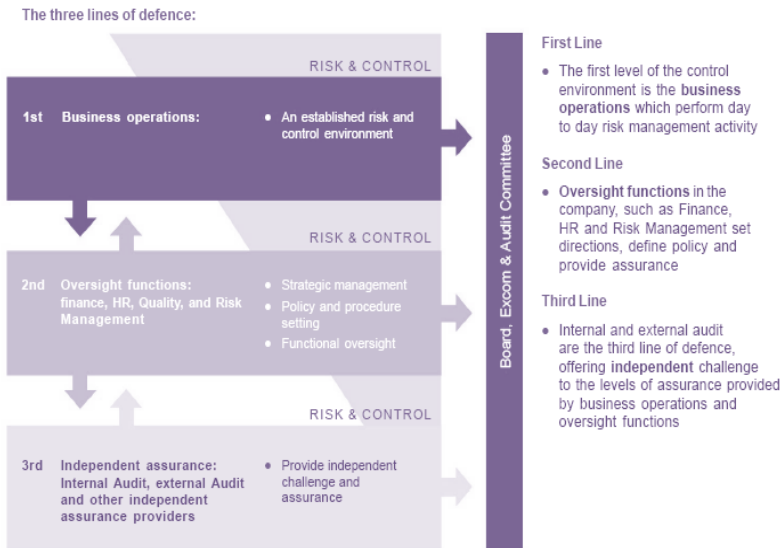
¹ The Account and Audit Regulation 2015 state that 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes – taking into

account public sector internal auditing standards or guidance'. The work of internal audit provides a substantial element of this requirement – in conjunction with the Audit Committee and Management.

10. We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 1**.

11. **Figure 2** shows the overall assurance levels on the Council's critical service areas / activities as at December 2018.

Figure 1 – Three Lines of Assurance Model



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Figure 2 –Your Assurance Status

The Combined Assurance work is being finalized and will be completed for the final audit plan

12. Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. In particular we liaise with External Audit to ensure the Council gets the most out of its combined audit resource – keeping audit fees low.

How we choose what we look at?

13. Various sources of information help inform our plan (see **Figure 3**. below)

Our Internal Audit Plan

Figure 3 – Sources of information considered when developing Internal Audit activity



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- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.
- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.
- **Level of Assurance** – we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.
- **Timescales** – when it will happen (this will determine when is the best time to do the Audit).

15. All potential pieces of audit work have been evaluated and the resources available mean that not all areas will be audited in a 12 month period. Each of the areas we propose to review are detailed in **Appendix A**. Information on other potential audit areas is provided in **Appendices B** for information.

14. We prioritise our audit work taking into account the following considerations:

Our Audit Focus for 2019/20

16. In the following table we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

Area	Reason for inclusion in the Internal Audit Strategy and Plan	Area	Reason for inclusion in the Internal Audit Strategy and Plan Area
Financial Governance	<p>Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.</p> <p>The areas proposed are; Housing Rental income, Efficiency Savings, Treasury Management, Payroll</p>	Critical Activities	<p>The combined assurance work undertaken has identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes.</p> <p>The areas proposed are; Apprentice scheme, Housing Allocations, Homelessness, Voids, Housing Strategy, Community Safety, Growth & Regeneration, Welfare Reform.</p>
Governance & Risk	<p>Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems.</p> <p>The areas proposed are; Organisation Development (People Strategy), Risk Management; Counter Fraud; Governance; Recruitment, Scrutiny, Performance Management</p>	Project Assurance	<p>There have been a number of critical projects identified by the Council. We will seek to provide assurance around their successful delivery (on-time – within budget – deliverables achieved and benefits realised).</p> <p>The projects proposed for review are; Western Growth, De Wint Court, the Vision 2020 programme</p>

Our Internal Audit Plan

Area	Reason for inclusion in the Internal Audit Strategy and Plan
IMT	<p>Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of IMT has a great impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively. Audits planned come from previous year assessments and our awareness of current IMT risks. We use external specialists for part of this work.</p> <p>The detailed IMT audit plan will be agreed once the Combined Assurance work is completed</p>
Follow Up	<p>Where an audit receives a Limited or Low Assurance level we will carry out a follow up audit to provide assurance that the identified control improvements have been effectively implemented and the risks mitigated.</p> <p>Working with management and the Audit Committee we also track the implementation of agreed management actions for all audit reports issued. We follow up and obtain evidence for high priority recommendations.</p>
Combined Assurance	<p>Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in January 2019.</p>

Area	Reason for inclusion in the Internal Audit Strategy and Plan
Consultancy /VFM / No-Opinion Reviews	<p>At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.</p>

17. For 2019/20 the Council's Internal Audit Plan is **360 Days** – with an additional **40 days** for testing of the Housing Subsidy claim on behalf of External Audit. As part of efficiency savings the plan has been reduced from 450 days in 2018-19. *The Internal Audit team also provide 145 audit days for Boston Borough Council.*

Annual Internal Audit Opinion

18. We are satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to provide their annual internal audit opinion.

19. Our approach to delivering of internal audit work is based on a clear protocol detailed in the Audit Charter. How this works in practice is set out opposite.

20. Our performance is monitored by the Section 151 Officer and the Audit Committee - measured against 3 key areas:

- Delivery of planned work.
- Timeliness (contemporary reporting).
- Quality and Impact of work (communicating results / added value).

29

21. Strong communication is fundamental to quality delivery and maintaining trusting relationships. We keep management informed in accordance with agreed protocols including:

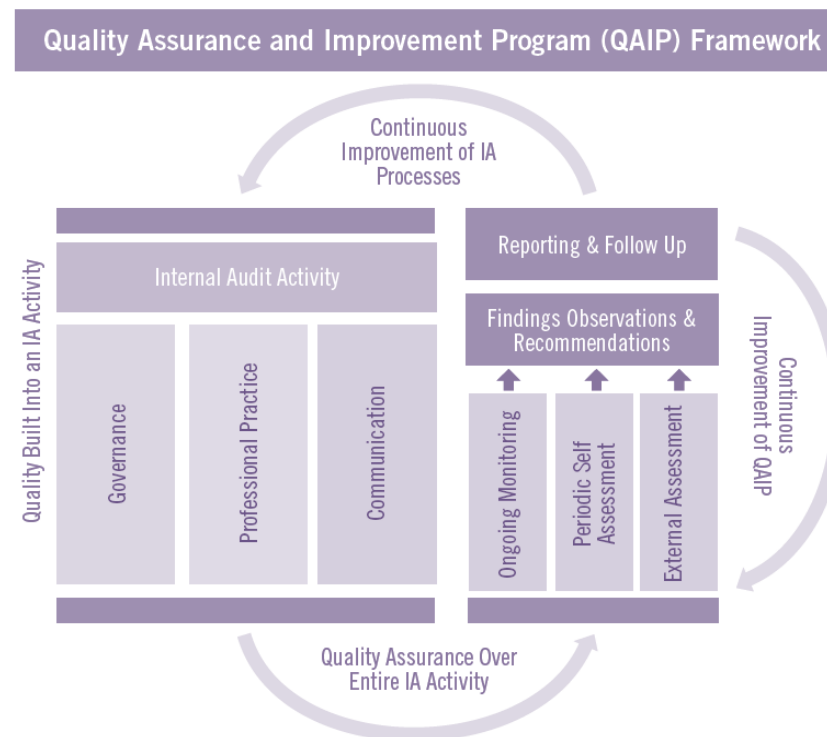
- agreeing potential audit work for the forthcoming year
- providing quarterly updates to evaluate progress and discuss activities and priorities for the next quarter.
- for individual audit engagements we hold planning meetings in person (our preference) by phone or email to discuss and agree the terms of reference and scope of our work..
- we keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.



- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.
- We support Senior Management in attending the Audit Committee where a Limited or Low Assurance level has been given against the activity or where agreed actions are overdue..

22. Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.
23. Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework and our training and development programme.
24. Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity – **Figure 4** shows how we structure our internal assessments to ensure appropriate coverage.
25. We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.
26. Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Audit Committee and is due to be reviewed in 2019/20 following the planned revision of the CIPFA Local Government Application Note.

Figure 4 - Scope of Quality Assurance Improvement Programme



Your Internal Audit Team

27. Your Internal Audit Team will be led by John Scott (Audit Manager), supported by Paul Berry (Principal Auditor) and Helen Storr and Karen Atkinson.
28. The team will be supported by specialists from Assurance Lincolnshire and our wider audit framework as and when appropriate.
29. An indicative staff mix delivering our Internal Audit service to you is shown below:

Grade	2019/20 (days)	Grade Mix (%)
Head of Internal Audit	143	36%
Principal Auditor	104	26%
Senior Auditors	143	36%
ICT Consultant	10	2%

Conflicts of Interest

30. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations.
31. We are not aware of any relationships that may affect the independence and objectivity of the team and which are required to disclose under the internal auditing standards.

Appendix A - Draft Internal Audit Plan

Audit Area	Assurance Sought	Internal Audit Risk Assessment (See Notes)**	Assurance Map RAG Rating	Risk Register SRR (All); DRR(Red);FRR	Corporate Priority Vision 2020	Management Request	Internal Audit Priority
Critical Activities							
Chief Executive							
Payroll (10)	Risk Based Audit.	SA-DD	Green				
Recruitment & Selection (10)	Review recruitment processes to ensure compliance with policy and procedures. Internal recruitment and promotions	Amber	Green		RI		
Apprentice scheme (5)	Financial arrangements	Red	Amber				
Scrutiny function (5)	Review operation of the Council's Scrutiny committees and training of Members	Red	Green				
Treasury Management (10)	Review the operation of the Treasury Management function – investments & borrowing	SA-DD	Green				
Performance Management (10)	Review the operation of the new performance management system (likely quarter 4). Focus to include data quality.	Amber	Green				
Efficiency Savings (10)	A review of the project and programme arrangements	Amber	Amber	SRR	HPS		

Appendix A - Draft Internal Audit Plan

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Risk Register SRR (All); DRR(Red);FRR	Corporate Priority Vision 2020	Management Request	Internal Audit Priority
Strategic Director - Housing and Investment							
33 Housing Allocations / Choice Based Lettings (10)	Two staged review: review of current project to respond to issues/risks and a later review (Q3/4) to review the accuracy and processing arrangements on the new IT system following the 2017 audit.	Red	Red	DRR			
	(5) A look back on the recent New Build allocations and any lessons learned.						
Homelessness (10)	Review the implementation of the requirements of the Homeless Reduction Act	Red	Amber	DRR	QH		
Housing Repairs (10)	Review the arrangements for interaction between reactive repairs (including voids) and planned maintenance including scheduling. The respective levels and links between planned and reactive repairs. Plus on-line reports/repairs project.	Amber	Amber			✓ (Part)	

Appendix A - Draft Internal Audit Plan

Housing Strategy (10)	Review of the implementation of the housing strategy including how the strategy informs housing provision (Q4) Review the arrangements between Housing Investment and Major Developments for the delivery of the Housing Strategy.	Red	Green			✓ (Part)	
Rental income (10)	Risk Based Audit, to include the impact of Universal Credit, Housing Appeals, and Tenancy Sustainability.	SA-DD	Green	DRR		✓ (Part)	
Housing ASB (5)	A review of the arrangements to deal with housing ASB	Amber	Green			✓	
Strategic Directors – Communities & Environment + Housing & Investment							
Community Safety (15)	Review the aspects of public protection; <ul style="list-style-type: none"> • City centre intervention (PIR linked- early review April) • Safeguarding • Licensing (including links with Police and enforcement) 	Red	Green		RP		
		Red	Green	DRR			
		Amber	Green				
		Amber	Green				
Private sector housing follow up (2)	<ul style="list-style-type: none"> • Further follow up of HMO work (previous Limited Assurance) 	Amber	Green				
Sport and Leisure pitches (3)	<ul style="list-style-type: none"> • Short contract review of all weather pitches (start April hopeful completion Summer) 	Amber	Green			✓	

Appendix A - Draft Internal Audit Plan

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Risk Register SRR (All); DRR(RED);FRR	Corporate Priority Vision 2020	Management Request	Internal Audit Priority
Major Developments Directorate							
Growth & Regeneration (10)	We will review the Council's Vision 2020 projects around growth and regeneration, including strategies, investment, partnerships, and infrastructure.	Red	Green	SRR	EG		
Financial Governance							
Welfare Reform (10)	Review the arrangements for the roll out of Universal Credit and the management of the risks involved plus the provision of Welfare Advice.	Red	Green	DRR	RI		
Counter Fraud (20)	We will continue to liaise with the Lincolnshire Counter fraud partnership, engage with NFI and build on work from Fraud risk assessment, continue to roll out the fraud e-learning training and other specific projects.	Amber	Amber	FRR			
Governance and Risk							
Governance (3)	Annual assurance work focussing on the key elements of corporate governance including the Annual Governance Statement	Amber	Green	SRR			
Risk Management (3)	Annual assurance work focussing on the key elements of risk management.	SA-DD	Green				

Appendix A - Draft Internal Audit Plan

Information Management and Technology (IMT)

ICT Audit (30)

Coverage to be determined following completion of a new ICT Assurance Map.
We will seek to provide assurance that key controls comply with industry best practice and are operating effectively.

Possible areas:

- Strategy (old and new) including infrastructure; budget; programme/projects (including reference to telephony system); procurement; ICT Board.
- LG Stocktake and Assurance Map (action plan)
- Security Area (s)

Amber

TBC

Appendix A - Draft Internal Audit Plan

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request	Internal Audit Priority
Projects							
Western Growth (10)	Review programme governance / project management arrangements	Red	Amber	SRR DRR	EG		
De Wint Court (10)	Review project and contract management arrangements	Red	Amber				
Vision 2020 (additional V2020 audit if time allows)	Review of programme governance / project management arrangements	Amber	Green	SRR	✓		
Consultancy /VFM / No-Opinion Reviews							
Refuse and Recycling (3)	A short review of the work done to assess the future direction of the service						
Brexit (5)	We will identify VFM issues (if they arise) during standard risk/assurance audits. To assist with risk and control issues as part of a Brexit working group and undertake audit/compliance work as required (Example issues include staffing; supplier resilience etc.). LRF links						

Appendix A - Draft Internal Audit Plan

Emerging legislation/policy (3)	To ensure managers have planned appropriately for new and emerging legislation/policy						
Key Control Testing							
Key Control Testing There is no KC work in 19/20 (all are full risk based audits)	To provide high level assurance that the Council's key controls are in place and operating effectively – this will cover financial and corporate areas. The areas of coverage and the key controls tested will be agreed with management but can cover:	Red- DD	Green	Key Control testing is part of our due diligence cyclical work			
Sub Total Days Allocated	247 days						

Appendix A - Draft Internal Audit Plan

Other Relevant Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Audit follow up work (10)	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.	N/A				
Combined Assurance (10)	Completing the integrated assurance mapping process for the Council by helping to map assurance against critical activities and key risks. Helping coordinate the development of the annual status report.	N/A				
Audits brought forward and Contingency (30)	Completion of 2018-19 audits plus Contingency	N/A				
Sub Total Days Allocated	50 days					
Advice and liaison, management, reactive investigations - (35)		N/A				
Annual Internal Audit Report – (3)		N/A				
Audit Committee – (20)		N/A				
Review IA Strategy and Planning – (5)		N/A				
Sub Total Days Allocated	63 days					
Audit Plan - Grand Total		360 days				
Housing Benefit Subsidy		40 days				

Appendix B- Auditable Areas

Service Area / Auditable Area (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2019)	Audit Risk Assessment (2019)	Included in 2019/20 Plan	Comments
Chief Executive						
City Solicitor						
Legal	2012/13		Green	Amber		
Scrutiny			Green	Red	Yes	
Ethics & Culture	2018/19		Amber	Amber		Audit in progress
Information Governance / GDPR	2018/19		Amber	Fin/Gov		Audit not yet started
Electoral Services (electoral registration & elections)	2017/18		Green	Amber		
Democratic Services			Green	Amber		
Procurement	2018/19		Amber	Fin/Gov		Audit not yet started
HR	2017/18	Subs	Green	Amber	Yes	Attendance man f/up in 18/19
Payroll	2016/17	Subs	Green	Fin/Gov	Yes	
Workbased Learning / Apprentices			Amber	Red	Yes	
Civic and Twinning			Green	Green		
Chief Finance Officer						
Income / Bank	2018/19		Green	Fin/Gov		Audit in progress
Budget / GL / Financial Strategy	2016/17	High	Green	Fin/Gov		
Insurance	2011/12		Green	Fin/Gov		
Creditors	2017/18	Subs	Amber	Fin/Gov		
Debtors	2017/18	High	Green	Fin/Gov		
Risk Management	2018/19	Subs	Green	Fin/Gov	Yes	
TOFS (Incl Commercialism)	2018/19	Subs	Amber	Amber	Yes	
Revenues - Shared Service	2016/17	Subs	Green	Green		
Revenues- NNDR	2017/18	High	Green	Fin/Gov		

Appendix B- Auditable Areas

Service Area / Auditable Area (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2019)	Audit Risk Assessment (2019)	Included in 2019/20 Plan	Comments
Revenues-CTax	2017/18	Subs	Green	Fin/Gov		
Revenues-Recovery	2016/17	Subs	Green	Fin/Gov		
Housing Benefit & CT Support	2017/18	Subs	Green	Fin/Gov		
Welfare Reform / Universal Credit			Green	Red	Yes	
Counter Fraud	2017/18		Amber	Amber	Yes	Annual audit
Asset Register	2014/15		Green	Fin/Gov		External Audit assurance
VAT	2010/11		Green	Fin/Gov		
Treasury Management	2016/17	Subs	Green	Fin/Gov	Yes	
Bank	2018/19		Green	Fin/Gov		Audit in progress
Small Business Support	2018/19	High	Green	Amber		
Property Services (<i>incl Facilities management</i>)	2018/19	High	Green	Amber		
Asset Rationalisation / AMP	2017/18	Subs	Amber	Red		
Business Strategy / Vision 2020	2018/19		Green	Amber	Yes	Audit not yet started
Performance management	2016/17	Subs	Green	Amber	Yes	
Social Policy (Anti-Poverty / Community Cohesion)			Green	Amber		
Consultation and engagement			Green	Amber		
Partnership management	2018/19		Amber	Amber		Audit in progress
Business Development and ICT (<i>Infrastructure/security, Projects and programmes, Strategy, Legal compliance, Applications</i>)	2018/19		TBC	Fin/Gov	Yes	
Customer Services (<i>incl workflow, Complaints, build security</i>)	2017/18	Subs	Green	Amber		
Business Continuity and Emergency Planning	2017/18	Subs	Amber	Fin/Gov		
Projects and programme management	2018/19		Green	Amber	Yes	Audit not yet started
Equality and Diversity	2010/11		Green	Amber		

Appendix B- Auditable Areas

Service Area / Auditable Area (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2019)	Audit Risk Assessment (2019)	Included in 2019/20 Plan	Comments
Corporate Governance	2017/18	Subs	Green	Amber	Yes	
City Lottery	2018/19		Green	Amber		
Communications			Green	Amber		
Strategic Director – Housing & Investment						
AD Housing Investment & Strategy						
Housing Strategy / Affordable Housing			Green	Red	Yes	
Housing Company			Green	Amber		
HRA Business plan	2012/13		Green	Red		
Sincil Bank Regeneration	2018/19	Subs	Amber	Amber		
Planned Maintenance	2017/18	Subs	Green	Amber		
Safety Assurance	2018/19		Amber	Amber		Audit in progress
AD Housing						
Tenancy Services	2017/18	Subs	Green	Amber		
Rent collection	2016/17	Subs	Green	Fin/Gov	Yes	
Housing Needs (Sheltered/supported)	2011/12		Green	Amber		
Choice based lettings / allocations	2016/17		Red	Red	Yes	
Homelessness	2009/10		Amber	Red	Yes	
Control Centre	2016/17		Green	Amber		
Housing Repairs Service (Voids, Fleet, H/safety, IT, Stores)	2017/18	Subs	Green	Amber	Yes	
Safeguarding	2013/14		Green	Red	Yes	
Council house sales	2018/19		Green	Amber		Audit in progress
Strategic Director – Communities & Environment						
Planning Manager						
Joint Strategic Planning	2014/15		Green	Amber		
Development Management	2014/15		Green	Amber		

Appendix B- Auditable Areas

Service Area / Auditable Area (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2019)	Audit Risk Assessment (2019)	Included in 2019/20 Plan	Comments
Planning obligations (CIL, S106)	2018/19		Green	Amber		Audit not yet started
Building Control	2012/13		Amber	Amber		
Planning (Heritage)			Green	Amber		
AD Communities & Street Scene						
CCTV	2009/10		Green	Red	Yes	
Parks & Open Spaces & Allotments	2012/13		Green	Amber		
Boultham Park	2018/19		Amber	Amber		
Street Cleansing	2015/16		Green	Amber		
Public Protection	2012/13		Green	Amber		
Grounds Maintenance	2015/16		Green	Amber		
Refuse and recycling	2015/16		Green	Amber		
Public Conveniences	2017/18	Subs	Green	Green		
Car Parks	2017/18	Subs	Green	Amber		
Bus Station	2017/18		Green	Amber		
Strategic Waste Management	2020/21		Amber	Amber		
AD Health & Environmental Services						
Licensing	2011/12		Green	Amber	Yes	
Environmental Protection			Green	Amber		
Pollution Control			Green	Amber		
Food safety	2012/13		Green	Amber		
Health & Safety (other public health, External enforcement H/S)	2016/17		Amber	Amber		
Private Sector Housing (incl Empty homes, DFG)	2017/18	Limited	Green	Amber		
Community Centres			Green	Amber		

Appendix B- Auditable Areas

Service Area / Auditable Area (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2019)	Audit Risk Assessment (2019)	Included in 2019/20 Plan	Comments
Sport and Leisure (pitches)	2015/16		Green	Amber		
Crematorium and Cemeteries	2014/15		Red	Amber		
Events, Culture and Tourism	2014/15		Amber	Amber		
Central Market			Amber	Amber		
Major Developments Director						
Growth strategy / key projects / investments (large business enquiries, promotion of the city, markets, urban extensions, master plan, renewal area strategy)			Green	Red	Yes	
Housing New Build	2015/16	Subs	Amber	Red	Yes	
Supporting strategic infrastructure projects			Green	Amber		
Transport Hub	2018/19	Subs	Green	Amber		
Western Growth Corridor	2017/18		Amber	Red	Yes	
City Centre Masterplan			Green	Amber		
Markets & City Square			Amber	Amber		

**Audit Risk Assessment: Takes account of value/volume, audit rating, sensitivity, significance, changes, other assurance

Red: Audit score between 12 and 15

Amber: Audit score between 8 and 11

Green: Audit score between 1 and 7

SUBJECT: INTERNAL AUDIT PROGRESS REPORT

REPORT BY: JOHN SCOTT, AUDIT MANAGER

LEAD OFFICER: JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 To present the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summaries of the outcomes of audits completed during the period.

2. Executive Summary

2.1 The report highlights progress against the audit plan.

3. Background

3.1 A key requirement of public sector internal audit standards is that Internal Audit should report progress periodically to those charged with governance. The Audit Committee has within its terms of reference the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan. The latest progress report for 2018-19 is attached as the appendix to this report.

3.2 Internal Audit Progress Report

3.3 The Internal Audit progress report attached (Appendix A) covers the following areas :-

- Progress against the plan
- Summary of Audit work
- Implementation of Audit recommendations
- Current areas of interest relevant to the Audit Committee

4. Organisational Impacts (nb. Finance, Legal and E & D sections below are mandatory, others to be completed only where there is an impact)

4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 The Audit Committee is asked to note the content of the latest Internal Audit Progress Report for 2018-19 and consider whether any of the following options are relevant :-

- Report and make recommendations to the Executive if they feel it appropriate
- Refer any matter under review they feel appropriate to the relevant Portfolio Holder, Scrutiny Chair or Committee
- Seek responses from Officers on matters arising (written or verbal) to be submitted to the next Audit Committee on any of the issues raised within this report or associated Appendices. Members may further wish to request the presence of the relevant Managers at the meeting to explain performance / specific issues.
- Accept the report and continue to monitor arrangements

Key Decision No

Do the Exempt Information Categories Apply? No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

How many appendices does the report contain? One

List of Background Papers:

Lead Officer: Audit Manager Telephone 873321



City of Lincoln Council

Appendix A

Progress Report – January 2019



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Appendix 1 – Details of Limited or Low Assurance Reports	
Appendix 2 – Internal Audit Plan & Schedule 2018/19	
Appendix 3 – Assurance Definitions	
Appendix 4 – Performance Details 2018/19 Planned Work	

Contact Details:

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For all your assurance needs

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Introduction

1. The purpose of this report is to:
 - Advise of progress made with the Audit Plan
 - Provide details of the audit work undertaken since the last progress report.
 - Provide details of the current position with agreed management actions in respect of previously issued reports
 - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. The 2018/19 audit plan is progressing well; at the end of December 69% has been completed of the revised plan, which is on target. The Plan is attached at Appendix 2 and shows progress to date.
3. At its last meeting Committee received additional information on some overdue recommendations and requested that two officers attend the February meeting.
4. Committee will be given an update on audit reports reaching one year old which have outstanding recommendations – see section 10 for a summary and a separate report for the details.

Internal Audit Reports Completed November - January

5. The following final reports have been issued since the last progress report;

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance	Consultancy / Advice
Corporate Property Income	Malware / Anti-virus Transport Hub	None	None	None

Note: The Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 4.

Below are summaries of the audit reports issued.

Corporate Property Income – High Assurance

Commercial property income is a key part of the Council's Towards Financial Sustainability (TFS) programme, which underpins the Medium Term Financial Strategy. The Council has a varied commercial property portfolio that generates rental income of approximately £2.6m per year (2018/19 budget) and is increasing as new properties are acquired.

We found that Property Services, in conjunction with Accountancy and Recovery, have effective processes in place for the collection of commercial property income;

The letting of space in City Hall and recent property acquisitions (two car parks and a hotel) have been successfully assimilated into the Property team's existing working practices.

Malware / Anti-Virus – Substantial Assurance

The Council has an effective layered approach to protection involving several software products and processes managing key risks around threats from email and the internet.

We found sound processes exist including server management, effectiveness and configuration of anti-malware software and the management of risks via email.

There are some agreed actions to strengthen controls. Some actions are subject to further investigation and available resources. New anti-virus software has recently been installed. Appropriate user training around IT security (including Malware) is an important element of the Council's overall security arrangements and this is currently being developed with an expected go-live date before the end of March 2019.

Transport Hub – Substantial Assurance

This risk based review focused on final account agreement, budget reconciliation, compensation events, defects and retention, contract documentation / handover.

The main contract final account was agreed in April 2018 and completion certificates issued (including any final works still to complete). At the time of audit there were some further small items and adjustments to process.

The final account has been agreed by the client and contractor and no errors were found. Overall costs to date are within budget. Final aspects of the project are being completed including the car park fifth floor. Budgets are reconciled through Finance and compensation event (CE) amounts have been agreed through the final account process. Defect liability periods have been agreed and retention will be paid once these dates have been reached and final checks made. Contract documentation/handover has taken place.

We identified some areas for management consideration and actions were agreed:

- A further Board meeting would be arranged to agree a commencement date for the PIR (post implementation review), once all final works had been completed, as well as formally receiving the final account and project closure details.
- Relevant O/M (operation and maintenance manuals / documents) will be checked by the respective managers (car park / bus station) and "signed off" for completeness.

Other Significant Work

6. Updates on other significant work;

Audit Plan 2019/20

A Draft Plan has been produced and considered by CMT. It is presented in a separate report.

The dynamic planning approach will continue to be used to identify any new areas, which will be considered for review.

Combined Assurance Map

This work is in progress and a report will be presented to the next meeting in March.

De Wint Court

Internal Audit continues to provide project risk management support for the feasibility group.

Counter Fraud

The following work is being done;

- National Fraud Initiative – the required data sets have been submitted
- Housing Tenancy Fraud – a data matching review is being arranged
- Counter Fraud training – training has been obtained through the Assurance Lincolnshire partnership and has been rolled out to all staff and members
- Updated the Counter Fraud Strategy and the Anti-Money Laundering Policy - approved by Audit Committee 11 December 2018 and Executive 7 January 2019.
- Updating the corporate Fraud Risk Register – updated December 2018 and presented to Audit committee with the Counter Fraud Strategy.
- Counter fraud health check will be completed

Northamptonshire County Council – Financial Issues

Due to the delay by the Government in issuing financial resilience guidance the report will be presented to the next meeting in March.

Private Sector Housing HMO Licensing & Hazards – Follow Up

Detailed testing on completed recommendations was scheduled for January but due to delays in implementing some aspects of the new IT system this work has been postponed to February. An update will be presented to the next meeting in March.

Audit Plan Changes

7. To support the Council's savings target 50 days will be removed from the 2019/20 Audit Plan, reducing it from 450 days (400 audit + 50 Housing Benefit subsidy) to 400 days (360 audit +40 Housing Benefit subsidy). See the separate Audit Plan report for more details.
8. There have been some changes to the Audit Plan which have been agreed with the Chief Finance Officer
 - Recruitment – postponed to 19/20

Audits in Progress

9. The following audits are in progress;
 - Values & Culture – report being produced
 - Health & Safety (Housing Fire risk) – report being produced
 - Fees & Charges VFM – fieldwork in progress
 - Council House Sales – report being produced
 - Bank (Key Controls) – fieldwork in progress
 - Procurement – being prepared
 - Vision 2020 Project Management – being prepared
 - Partnership Governance – being prepared
 - Community Infrastructure Levy / S106 agreements – being prepared

Audit Recommendations

10. There is a formal process for tracking Internal Audit recommendations; they are recorded on a monitoring spreadsheet which management can record progress updates on at any time. Performance DMT's and Portfolio Holders monitor progress quarterly. On a monthly basis Internal Audit monitor recommendations becoming due. Prior to each Audit committee Internal Audit will obtain a status report and review progress with management.

Internal Audit undertake formal follow up on all High priority recommendations and all recommendations made in audits where the overall assurance is Limited or Low; evidence of implementation will be requested and examined.

There is a separate report showing audits reaching one year old where recommendations are still outstanding.

The table below shows a summary of all audits where recommendations are overdue / extended, implemented and not yet due.

Recommendations Update (at 22nd January 2019)

Audit Area	Date	Assurance	No of Recs	Implemented	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress since previous Committee
2015/16							
ICT Mobile Devices	Mar 16	Substantial	6 (1 High)	4	2 (1 High)		
2016/17							
Malware	Nov 16	Substantial	8 (3 High)	7 (3 High)	1		
Revs & Bens – Information Governance	Feb 17	Limited	15 (8 High)	15 (8 High)			1 (High) completed All recs now implemented
Recovery	Mar 17	Substantial	11	11	1		1 completed All recs now implemented
2017/18							
Responsive Repairs	Jun 17	Substantial	6	5	1		Rec extended by 15mths – linked to replacement IT system
Boultham Park Refurbishment	Jun 17	High	2	1	1		Rec extended by 3mths
IT Disaster Recovery	Oct 17	Substantial	18	11	7		3 completed 1 risk accepted
IT Applications	Nov 17	Substantial	6	3	3		
Tenancy Services	Jan 18	Substantial	10 (3 High)	1 (1 High)	9 (2 High)		9 recs extended by 3mths
Car parking	Mar 18	Substantial	7	7			1 completed All recs now implemented

Audit Area	Date	Assurance	No of Recs	Implemented	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress since previous Committee
Procurement	Apr 18	Substantial	6 (1 High)	5 (1 High)		1	
HMO Licensing and Hazards	Jun 18	Limited	20 (5 High)	14 (3 High)	6 (2 High)	6	
Housing Investment	Jun 18	Substantial	23 (4 High)	8	9	6 (4 High)	5 completed.
Council Tax	Jul 18	Substantial	6	5	1		1 completed 1 extended by 3mths
2018/19							
Risk Management	Jul 18	Substantial	8	7	1		1 completed 1 extended by 5mths
Sincil Bank Regeneration	Aug 18	Substantial	10 (1 High)	9 (1 High)	1		6 completed
Commercialisation	Oct 18	Substantial	4 (1 High)	1 (1 High)		3	1 (High) completed
IT Applications	Oct 18	Limited	8 (2 High)		2 (2 High)	6	
Malware / Anti- virus	Nov 18	Substantial	11 (6 High)	4 (1 High)	1 (1 High)	4 (4 High)	4 completed 2 risks accepted
Transport Hub	Dec 18	Substantial	2			2	

Performance Information

11. Our performance is measured against a range of indicators and is shown at Appendix 4. There are no concerns in any areas.

Other Matters of Interest

12. At the December 2018 meeting the Audit Committee agreed to progress improvements linked to the best practice review

Ref	Area	Progress
1	Annual VFM report	Report to tie in with the AGS
2	Support ethical values	Awaiting values internal audit report + consider input from the Corporate Social Responsibility forum.
3	Partnerships report	Note partnerships internal audit quarter four 2018-19. Report will follow in 2019/20
4	External Auditors annual assessment review	Completed reported in December 18
5	Follow up (track) external audit recommendations	Completed – none outstanding
6	Annual Audit Committee report	Completed– report went to all Audit Committee members for comments
7	Other public reports - Officers would ensure that the Independent Member also received such reports	Ongoing
8	CIPFA core knowledge and skills - Officers would review what training options were available both internally and externally.	Members have received the text of these from the guidance Develop further training for 19/20
9	Public interest entity - The review group raised this again and the Chief Financial Officer agreed to raise the matter with the new External Auditors	Pending

13. Chartered Institute of Internal Auditors Audit and Risk Awards 2018

These awards recognise innovation and excellence in Internal Audit. Assurance Lincolnshire were finalists in two categories - we received Highly Commended awards in both for:

- Innovation in training and development – for our work with Universities and Apprenticeships
- Outstanding Team Public Sector – for our work on governance – Culture and Ethics

Appendix 1 – Details of Limited / Low Assurance Reports

There are none.

Appendix 2 – Internal Audit Plan & Schedule 2018/19

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Chief Executive - Critical Activities					
Human Resources (10)	Workbased learning – financial and operational risks	Q3-4			<i>Moved to 19/20 due to changes in the service (AC advised Dec 18)</i>
Human Resources (3)	Attendance management follow up	Q4			
Human Resources (10)	Recruitment process	Q4			<i>Moved to 19/20 at the request of management (AC advised Feb 19)</i>
Commercial Property & Business Support (10)	Commercial property & workspace income	Q3	Oct	Jan	Completed – High assurance
Business Strategy (Vision 2020) (10)	Management of key projects	Q4			Being prepared
Partnerships (10)	Governance and effectiveness.	Q4			Being prepared
Commercialisation (10)	Review of strategy / projects	Q2-3	July	Oct	Completed – Substantial assurance
Housing and Regeneration - Critical Activities					
Housing Allocations / Choice Based Lettings (10)	Migration of data Data accuracy	N/A	N/A	N/A	Used for risk management support to Working Groups – Completed
<i>Housing Voids, Aids & Adaptations, Rechargeable repairs</i>	<i>Management arrangements</i>	<i>TBA</i>			<i>Potential audit but no spare time. Included in 19/20 Plan</i>
Council house sales (5)	Sales / discounts and income.	Q3	Oct		Report being produced.
New Build / Housing Company (10)	Contracts and links to the housing company	TBA			Used for risk management support to the De Wint Court project group
Health and Safety (10)	Housing fire risk - governance arrangements	Q3	Sept		Report being produced.
Communities & Environment - Critical Activities					
Planning (10)	Community Infrastructure Levy & S106. Local plan delivery and monitoring.	Q4			Being prepared. Assurance on the Local Plan will be taken from work by NKDC & WLDC.

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Private Sector Housing (5)	DFG / Arrangements for the new Heating scheme	Q2	N/A		Background work has found that the audit is no longer required. The days will be used for existing audits (AC advised Dec 18).
Major Developments - Critical Activities					
Growth (10)	Economic & Growth agenda - strategies, investment, partnerships, infrastructure.	N/A			Moved to 19/20 as the strategies are being developed during 18/19. The days will be used for the Values & Culture review (AC advised Sept 18)
Transport Hub (8)	Closedown of works and final account	Q2-3	Sept	Dec	Completed – Substantial assurance
Chief Executive - Financial & Governance					
Benefits (10)	Universal Credit roll out incl Housing impact.	Q4			Research in progress. Audit will be in 19/20.
Counter Fraud (20)	Liaise with the Lincolnshire Counter fraud partnership, undertake a Counter fraud healthcheck, engage with NFI, build on work from Fraud risk assessment, and continue to roll out the fraud e-learning training.	Q1-Q4			In progress; <ul style="list-style-type: none"> • NFI data submitted. • Housing Tenancy Fraud review organized • Fraud e-learning training rolled out to staff and members
NNDR (5)	Business Rates Growth Policy/Reliefs	Q4			Being prepared
Bank (5)	Banking arrangement key controls	Q3	Nov		In progress
Procurement (10)	Review of frameworks & OJEU procurement plus social value policy.	Q4			Being prepared
City Lottery (3)	Governance arrangements	Q2	Aug	Oct	Completed – Advice work No significant issues
Governance (10)	The Council's cultural framework	Q1	May		Report being Produced
Governance (5)	Governance key controls for annual assurance.	Q1	April	May	Completed – no issues.
Risk Management (5)	Council's risk management arrangements	Q1	April	July	Completed – Substantial assurance

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Information Governance (10)	General Data Protection Regulations	Q4			Being prepared
ICT Audit (30)	Applications	Q1	July	Oct	Completed – Limited assurance
	Cyber risks	Q2-3	Sept	Nov	Completed – Substantial assurance
	ICT Strategy implementation & ICT project / programme management	Q3			Moved to 19/20 – Strategy delayed (AC advised Dec 18)
	Extended ICT Assurance mapping				Replaces ICT Strategy.
IT DR/Business Continuity (3)	Follow up of the Business Continuity Group actions from the 2017/18 IT DR audit	Q4			BC group working through previous audit recommendations. March review may be appropriate.
Western Growth (15)	To review project management arrangements	Q1-4			Progress is being monitored and work will be undertaken at the appropriate time
Programmes and Projects (13)	Sincil Bank Regeneration	Q1	June	Aug	Completed – Substantial assurance
	Review of project / programme governance arrangements, incl SPIT replacement	Q4			
Consultancy / VFM (10)	Fees & Charges review	Q3-4	Sept		In progress
Emerging Legislation (2)	Arrangements for forthcoming legislation	Q4			

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Other work					
Audit follow up work (10)	Assurance that actions from previous key audits have been implemented	Q1-Q4	Q1-4		Progress information is provided to every Audit committee
Combined Assurance (10)	Update the integrated assurance map	Q3/4	Nov		In progress
Contingency and Emerging risks (30)	Contingency for any brought forward work and emerging risks	Q1-Q4			Part used for completion of 17/18 audits.
Advice and liaison, management, reactive investigations (35)	As area	Q1-Q4			Ongoing
Annual Internal Audit Report (3)	As area	Q1	April	May	Completed. To Audit cttee June 18
Audit Committee –(20)	Audit Committee support	Q1-Q4			Ongoing
Housing Benefit Subsidy (50)	Testing on behalf of External Audit	Q1-2	May	July	Completed
Review IA Strategy and Planning – (5)	New Plan for 2019/20	Q4	Dec		Draft to Feb Audit cttee

Appendix 3- Assurance Definitions¹

<p>High Assurance</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial Assurance</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited Assurance</p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low Assurance</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

¹ These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 4 - Performance Details 2018/19 Planned Work

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed.	100%	25% end June 50% end Sept 75% end Dec 100% end Mar	69% at end of December
Percentage of key financial systems completed.	100%	100% end Mar	0% (2 due – 1 in progress & 1 starting shortly)
Percentage of recommendations agreed.	100%	100%	100% (38 out of 38)
Percentage of High priority recommendations due implemented.	100% or escalated	100% or escalated	100% (5 due and 3 implemented)
<p>Timescales:</p> <p>Draft report issued within 10 working days of completing audit.</p> <p>Final report issued within 5 working days of closure meeting / receipt of management responses.</p> <p>Period taken to complete audit –within 3 months from fieldwork commencing to the issue of the draft report.</p> <p><i>NB – Not all completed work is included within the timescales, e.g. non assurance work / where no formal report is issued such as benefit subsidy; fraud work etc.</i></p>	<p>100%</p> <p>100%</p> <p>80%</p>	<p>100%</p> <p>100%</p> <p>80%</p>	<p>86% (6 out of 7)</p> <p>100% (7 out of 7)</p> <p>86% (6 out of 7)</p>
<p>Client Feedback on Audit (average)</p> <p><i>NB – feedback is generally only obtained for formal assurance work although sometimes it may be obtained for other types of work.</i></p>	Good to excellent	Good to excellent	<p>Good to excellent.</p> <p>Average score – 31 out of 32.</p> <p>(5 issued and 5 returned)</p>

SUBJECT:	PRUDENTIAL INDICATORS 2018/19 – 2021/22 AND TREASURY MANAGEMENT STRATEGY 2019/20
DIRECTORATE:	CHIEF EXECUTIVE AND TOWN CLERK
REPORT AUTHOR:	SARAH HARDY, GROUP ACCOUNTANT (TECHNICAL AND EXCHEQUER)

1. Purpose of Report

- 1.1 The purpose of the report is for the Audit Committee to scrutinise and recommend to the Executive the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2018/19 to 2021/22 together with the 2019/20 Treasury Management Strategy prior to reporting to Council for final approval.

2. Executive Summary

- 2.1 The table below summarises the key prudential indicators that have been incorporated into the 2019/20 strategy. The projected capital expenditure will determine the capital financing or borrowing requirement, which will in turn determine the actual level of external borrowing taken and hence, cash balances available for investment. The figures are based on the draft Medium Term Financial Strategy (MTFS) 2019-24 and will be amended if necessary based on the final MTFS to be reported to the Executive on 25th February 2019.

Key Prudential Indicators	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Capital Expenditure*				
• General Fund	23,161	3,423	500	500
• HRA	26,080	16,080	11,267	11,352
• Total	49,241	20,231	11,767	11,852
Capital Financing Requirement				
• Non HRA	70,233	69,695	67,389	65,181
• HRA	58,503	58,503	58,503	58,503
• Total	128,737	128,198	125,892	123,684
Net Borrowing	87,753	77,253	79,398	77,743
External debt (borrowing only)	102,353	101,353	100,498	99,643
Investments**				
• Longer than one year				
• Under one year	14,600	24,100	21,100	21,900
• Total				

* Based on Draft MTFS 2019-24.

- 2.2 The methodology employed for selecting investment counterparties is a multi-stage formula based creditworthiness methodology provided by the Council's treasury management advisors, Link Asset Services. The aim of the investment strategy is

to generate a list of highly creditworthy counterparties, allowing the Council to maintain a diversified portfolio of investments that safeguards the cash balances whilst generating a reasonable rate of return. The Link methodology, which incorporates credit ratings, credit outlooks and watches and overlays credit default swaps as a measure of market risk, fully meets the aim of the strategy.

2.3 The Strategy for 2019/20 has been prepared taking into account changes in the Prudential Code and Treasury Management Code.

3. Background

3.1 This report covers the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year. It incorporates four key Council reporting requirements:

- **Prudential and Treasury Indicators** – the reporting of the statutory prudential indicators together with local indicators, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management Code of Practice.
- **Minimum Revenue Provision (MRP) Statement** – the reporting of the MRP policy which sets out how the Council will pay for capital assets through revenue each year (as required by regulation under the Local Government 2003)
- **Treasury Management Strategy** – which sets out how the Council's treasury activity will support capital decisions, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Authorised Borrowing Limit required by s3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.
- **Investment Strategy** – this is included within the Treasury Management Strategy and sets out the criteria for choosing investment counterparties and limiting exposure to the risk of loss. It is reported annually (in accordance with Department of Housing, Communities and Local Government (DHCLG) Investment Guidance).

4. Treasury Management Requirements 2019/20

4.1 The Capital Prudential Indicators 2018/19 – 2021/22

4.1.1 The Council's capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and to produce prudential indicators. The Prudential Code requires the Council to approve as a minimum the statutory indicators and limits. This report revises the indicators for 2018/19 and details them for 2019/20 to 2021/22. An explanation and calculation of each Prudential Indicator

is provided in **Appendix 1** and the key messages summarised in section 4.1.3.

4.1.2 Capital Expenditure and Financing

The Council's capital expenditure plans (as detailed in the Draft MTFS 2019-24) are summarised below. Capital expenditure can be paid for immediately (by resources such as capital receipts, capital grants or revenue resources) but if these resources are insufficient, any residual capital expenditure will form a borrowing need. This can be supported by government grant for the repayment of debt (very limited support available) or can be unsupported (prudential borrowing) where the Council needs to identify the resources to finance and repay debt through its own budget.

Indicators 1&2	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Capital Expenditure				
General Fund	23,161	3,423	500	500
HRA (including New Build)	26,080	16,808	11,267	11,352
Total Expenditure	49,241	20,231	11,767	11,852
Financed by:				
Capital receipts	8,021	3,321	820	42
Capital grants & contributions	1,496	1,620	300	300
Depreciation (HRA only)	14,594	10,137	6,646	6,237
Revenue/Reserve Contributions	4,884	4,283	3,800	5,073
Borrowing need	20,247	870	200	200

4.1.3 The Council's Borrowing Need - the Capital Financing Requirement (CFR)

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either capital or revenue resources. It is essentially a measure of the Council's underlying borrowing need. Based on the capital expenditure plans in paragraph 4.1.2 the CFR for 2018/19 to 2021/22 is projected to be:

Indicators 3&4	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Capital Financing Requirement				
General Fund	70,233	69,695	67,389	65,181
HRA	58,503	58,503	58,503	58,503
Total CFR @ 31 March	128,737	128,198	125,892	123,684
Net movement in CFR	19,256	(539)	(2,305)	(2,209)
Actual debt (borrowing & other liabilities)	102,353	101,353	100,498	99,643
Net borrowing need for the year	20,247	870	200	200

Minimum Revenue Provision (MRP)	(841)	(1,259)	(1,500)	(1,404)
Repayment of GENF borrowing	0	0	(855)	(855)
Application of Capital Receipts to reduce CFR	(150)	(150)	(150)	(150)
Movement in CFR	19,256	(539)	(2,305)	(2,209)

The CFR also includes any other long term liabilities (e.g. finance and embedded leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility, so the Council is not required to separately borrow for them. The Council has £0.342m of such leases within the CFR in 2018/19 reducing to £0.105m by the end of 2019/20. The CFR does not yet include any allowance for the planned replacement of the majority of the vehicle fleet under leasing. If following a full financing options appraisal the most cost effective funding method is identified as either borrowing or finance lease then the CFR will be increased to reflect a borrowing requirement for the replacement fleet.

- 4.1.4 **Limits on Borrowing** – In order to ensure that borrowing decisions are based on consideration of affordability, prudence and sustainability and that treasury management decisions are taken in accordance with good professional practice, in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to City of Lincoln Council, the Prudential Code requires that Council's set limits on borrowing activity.

Limiting Borrowing for Capital Purposes - the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future.

Operational Boundary for External Debt – boundary based on the expected maximum external debt during the course of the year

Authorised Limit for External Debt - represents the limit beyond which external debt is prohibited. It represents the level of debt, which while not desired, could be afforded in the short term, but is unsustainable in the long term. This limit needs to be set or revised by full Council.

The level of the proposed operational and authorised limits is based on an assessment of the level of borrowing required to meet the Capital Financing Requirement (CFR) and also an allowance for temporary borrowing for working capital and also in lieu of other capital financing sources (e.g. capital receipts). Financial modelling has been carried out for both and the affordability and sustainability of the potential borrowing requirement has been assessed and can be contained within the Draft MTFS 2018-23. This is reflected in the table below and in the Prudential Indicators 7 and 8 tables in Appendix 1.

Indicator 7	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Authorised limit				
Borrowing	135,458	149,600	145,700	143,200
Other long term liabilities	342	1,400	2,300	1,800
Total Authorised limit	135,800	149,600	145,700	143,200

4.2 Minimum Revenue Provision (MRP) Policy

- 4.2.1 The Council is required to pay off an element of the accumulated General Fund borrowing each year (the CFR) through a revenue charge - the Minimum Revenue Provision (MRP), and is also allowed to undertake additional voluntary payments (VRP). No revenue charge is currently required for the HRA. However, under self-financing, the HRA is now required to charge depreciation on its assets, which has been built into the revenue charges in the HRA 30 year Business Plan.

The Department of Homes, Communities and Local Government have issued statutory guidance on the options available for making prudent provision for the repayment of debt. The Council must have regard to this guidance. The guidance is not prescriptive and makes it clear that councils can follow an alternative approach, provided they still make a prudent provision. The broad aim of a 'prudent provision' is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits to service delivery.

Guidance issued by the Secretary of State requires that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to Full Council for approval. There has been one amendment to the proposed MRP policy for 2019/20 which has been to remove an additional option included in 2018/19 to negate the need to apply MRP in respect of land purchases. This has been amended in light of more recent MHCLG guidance.

The MRP policy statement is set out in **Appendix 2**.

4.3 The Treasury Management Strategy 2019/20

- 4.3.1 Treasury Management is an important part of the overall financial management of the Council's affairs. The treasury management service performs the borrowing and investment activities of the Council and effectively manages the associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Treasury Management Policy and Practices and the annual Treasury Management Strategy provides the operational rules and limits by which day to day treasury management decisions are made.
- 4.3.2 The Treasury Management Strategy for 2019/20 is attached at **Appendix 3**. The strategy outlines expected treasury activity for the coming year and expected prudential indicators relating the treasury management for the next three years. The key principals in the strategy are summarised below.

- **Debt and Investment Projections (Treasury Management Strategy section 2)** – based on the budgeted borrowing requirements, estimated balances and cash flow, year-end debt and investment projections are:

	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
External Debt				
Debt at 31 March (including other long term liabilities)	102,695	101,458	100,497	99,642
Investments				
Total Investments at 31 March	14,600	24,100	21,100	21,900

- **Expected Movement in Interest Rates (Treasury Management Strategy section 3)** - short term interest rates are not expected to rise until June 2019 and then will rise slowly in future years. Long term rates for external borrowing are not expected to rise until June 2019 and then only marginally. After this they will continue to rise slowly in future years.
- **Borrowing & Debt Strategy (Treasury Management Strategy section 4)** - The main aims are:
 - To reduce the revenue costs of debt
 - To manage the Council's debt maturity profile
 - To effect funding at the cheapest cost commensurate with future risk.
 - To forecast average future interest rates and borrow accordingly
 - To proactively reschedule debt in order to take advantage of potential savings as interest rates change.
 - To manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing.
- **Investment Strategy (Treasury Management Strategy section 5)** - The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time, then ensuring adequate liquidity, with investment return being the final objective.

The current investment climate continues to present one over-riding risk consideration, that of counterparty security risk. In order to fully consider counterparty risk factors when selecting investment counterparties, the Council employs the multi-stage formula based creditworthiness methodology provided by the Council's treasury management advisors, Link Asset Services. This methodology, developed by Link, uses credit ratings as the core criteria but also incorporates other market information on a mathematical basis. The methodology is continuously reviewed and changes are made in response to changes made by the credit rating agencies. There haven't been any major changes made to the credit rating methodology since last year's change when any reference to the implied levels of sovereign support (which were phased out last year) were taken out. The current methodology is explained in detail in the Council's Investment Strategy 2019/20 in **Section 5 of Appendix 3**.

The aim of the investment strategy is to generate a list of highly creditworthy

counterparties which will also enable diversification and thus avoidance of concentration risk (i.e. placing a large proportion of investments with a small number of counterparties). The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use are listed in **Appendix 3** under the specified and non-specified investments categories. Counterparty limits will be as shown in **Appendix 3**. Examples of institutions which currently fall under the various colour coded categories are as follows:

- Blue (part-government owned - 1 year)
- Orange (1 year)
- Green (100 days)
- Yellow (5 years) – Local Authorities.

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

The criteria to be used to select investment counterparties are set out in Appendix 3. These include:-

- Maintenance of a counterparty list with approved credit ratings and time and principal limits
- Regular monitoring of counterparties with the help of the Council's treasury management advisors
- Limits on the amounts on non-specified investments (e.g. over 1 year investments)
- Limits on non-UK counterparties

Risk Benchmarking – The revised CIPFA Code and the CLG Investment Guidance adopted 2nd March 2010 introduced the consideration and approval of security and liquidity benchmarks. The Investment Strategy for 2019/20 includes the following benchmarks for liquidity and security:-

Liquidity – The Council's bank overdraft limit is nil. The Council will seek to maintain liquid short-term deposits of at least £5,000,000 available with a week's notice. The weighted average life (WAL) of investments is expected to be 0.35 years.

Security – the Council's expected security risk benchmark from its budgeted investment strategy is 0.005% historic risk of default when compared to the whole portfolio. This means that the risk amounts to approximately £0.001m on the expected investment portfolio of £24.1 million.

- **Treasury Limits on Activity (Treasury Management Strategy section 6)** – This section includes statutory and local indicators covering treasury management activity. These include limits on fixed and variable interest rate exposure, maturity structure of debt and performance targets for interest rates on new investments and loans.

- **Breakdown of Investment Categories (Treasury Management Strategy section 7)** – covers authorised posts for treasury management activities

The need to limit the risk to the Council of loss from counterparty failure results in a restricted range of counterparties available for investment.

4.4 Treasury Management Practices

The Council adopted the CIPFA Code of Practice on Treasury Management (which was revised December 2017) on 2nd March 2010. At this time the Treasury Management Policy Statement was also adopted. The Treasury Management Policy and Practices (TMP's) are updated annually to reflect the Treasury Management Strategy approved by Council and to reflect any changes in staffing structures or working practices of the treasury function.

5. Organisational Impacts

5.1 Finance

Financial implications are contained in the main body of the report.

5.2 Legal Implications

The Treasury Management Strategy and Prudential Indicators meet the requirements under legislation and code of practice.

6. Risk Implications

The risk implications are contained within the body of the report.

7. Recommendations

7.1 The Audit Committee are recommended to:

7.2 Review and recommend for approval by the Executive and Council the prudential indicators detailed in section 4.1 and Appendix 1 of the report.

7.3 Review and recommend for approval by Executive and Council the Treasury Management Strategy (including the treasury management prudential indicators and the Investment Strategy) set out section 4.3 and Appendix 3 of the report.

7.4 Review and recommend for approval by Executive and Council the revised MRP policy in Appendix 2 of the report.

Is this a key decision? Yes

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? 4

List of Background Papers: Draft Medium Term Financial Strategy 2019-24
CIPFA Code of Practice
CIPFA Prudential Code
Treasury Management Practices

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Prudential Indicators 2018/19 – 2021/22

1.0 Introduction

- 1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and to produce prudential indicators. The Code sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Prudential Code operates by the provision of prudential indicators, which highlight particular aspects of the capital expenditure planning. This report revises the indicators for 2018/19 and details them for 2019/20-2021/22. Each indicator either summarises the expected capital activity or introduces limits upon the activity, and reflects the outcomes of the Council's underlying capital appraisal systems.
- 1.2 The Prudential Code requires the Executive and full Council to approve as a minimum the 15 statutory indicators. The Chief Finance Officer has added 8 local indicators that are believed to add value and assist understanding of the main indicators.
- 1.3 The purpose of the indicators is to provide a framework for capital expenditure decision-making. It highlights, through the prudential indicators, the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.
- 1.4 Within this overall capital expenditure framework there is a clear impact on the Council's treasury management activity, either through increased borrowing levels or the investment of surplus balances. As a consequence the treasury management strategy for 2019/20 (see Appendix 3) includes the expected treasury management activity, together with the 5 specific Prudential indicators and 8 local indicators, which relate to treasury management.
- 1.5 The 15 statutory prudential indicators can be categorised under the following four headings:
- Capital Expenditure and External Debt (numbers 1, 2, 3, 4, 5, 7, 8)
 - Prudence (number 6)
 - Affordability (numbers 9,10)
 - Treasury Management limits (numbers 11, 12, 13, 14, 15)
- (The numbers above relate to the reference given to each indicator).
- 1.6 The paragraphs 2 to 4 below detail the 10 statutory indicators under the headings of Capital Expenditure/External Debt, Prudence and Affordability. The remaining 5 statutory and 8 local indicators relating to the treasury management strategy are set out in appendix 3.

2.0 Capital Expenditure Prudential Indicators

- 2.1 The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This expenditure can be paid for immediately (by

resources such as capital receipts, capital grants etc.), but if resources are insufficient any residual expenditure will form a borrowing need.

2.2 A certain level of capital expenditure may be supported by government grant; any decisions by Council to spend above this level will be unsupported and will need to be paid for from the Council's own resources. This unsupported capital expenditure needs to have regard to:

- Service objectives e.g. strategic planning
- Stewardship of assets e.g. asset management planning
- Value for money
- Prudence and sustainability e.g. implications for external borrowing and whole life costing
- Affordability
- Practicality e.g. achievability of plan

The revenue consequences of capital expenditure, particularly the unsupported expenditure, will need to be paid for from the Council's own resources.

The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been required.

2.3 The key risks to the plans are that some estimates for sources of funding, such as capital receipts, may be subject to change over this timescale. For instance, anticipated asset sales may be postponed due to the impact of the recession on the property market.

2.4 The summary capital expenditure and financing projections are shown in the table below.

Indicators 1&2	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Capital Expenditure				
General Fund	23,161	3,423	500	500
HRA (including New Build)	26,080	16,808	11,267	11,352
Total Expenditure	49,241	20,231	11,767	11,852
Financed by:				
Capital receipts	8,021	3,321	820	42
Capital grants & contributions	1,496	1,620	300	300
Depreciation (HRA only)	14,594	10,137	6,646	6,237
Revenue/Reserve Contributions	4,884	4,283	3,800	5,073
Borrowing need	20,247	870	200	200

3.0 External Debt and Prudence Prudential Indicators

- 3.1 **Borrowing Need** - The Council's Capital Financing Requirement (CFR) represents the Council's borrowing need. The CFR is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.
- 3.2 The CFR also includes any other long term liabilities (e.g. finance and embedded leases) brought on to the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, they are purely accounting adjustments and include a borrowing facility, so the Council is not required to separately borrow for them. The Council has £0.342m of such leases within the CFR in 2018/19 reducing to £0.105m by the end of 2019/20. The CFR does not yet include any allowance for the planned replacement of the majority of the vehicle fleet under leasing arrangements.
- 3.3 Capital Financing Requirement projections are detailed below:

Indicators 3&4	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Capital Financing Requirement				
General Fund	70,233	69,695	67,389	65,181
HRA	58,503	58,503	58,503	58,503
Total CFR @ 31 March	128,737	128,198	125,892	123,684
Net movement in CFR	19,256	(539)	(2,305)	(2,209)
Actual debt (borrowing & other liabilities)	102,695	101,458	100,497	99,642
Net borrowing need for the year	20,247	870	200	200
Minimum Revenue Provision (MRP)	(841)	(1,259)	(1,500)	(1,404)
Repayment of GENF borrowing			(855)	(855)
Application of Capital Receipts to reduce CFR	(150)	(150)	(150)	(150)
Movement in CFR	19,256	(539)	(2,305)	(2,209)

* MRP = Minimum Revenue Provision – Statutory requirement to annually fund the repayment of General Fund borrowing.

- 3.4 **Estimates of External Debt** - The expected impact of the capital expenditure decisions on the Council's net debt position is shown below:

Indicator 5	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
External Debt				
Gross Borrowing	102,353	101,353	100,498	99,643
Other Long Term Liabilities*	342	105	0	0
Total Debt at 31 March	102,695	101,458	100,497	99,642

*Other Long Term liabilities include finance leases

- 3.5 The expected movement in the CFR over the next three years is dependent on the level of capital borrowing taken during the budget cycle. Such borrowing is the capital expenditure freedom allowed under the Prudential Code i.e. prudential borrowing which allows the freedom to enter into projects such as spend to save schemes, or decisions to allocate additional resources from revenue to capital to enable service enhancements (subject to affordability).
- 3.6 There are two limiting factors on the Council's ability to undertake prudential borrowing:
1. Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs. Can the Council afford the implications of the capital expenditure?
 2. The Government may use a long stop control to ensure that either the total of all the Councils' plans do not jeopardise national economic policies, or in the event of an assessment by Central Government that local plans are unaffordable at a council, it may implement a specific control to limit its capital expenditure plans. No such control has been implemented during 2018/19.
- 3.7 **Limits to Borrowing Activity** - Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.
- 3.8 For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

Indicator 6	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Gross Borrowing	102,353	101,353	100,498	99,643
Investments	14,600	24,100	21,100	21,900
Net Borrowing	87,753	77,253	79,398	77,743
CFR	128,737	128,198	125,892	123,684
Net Borrowing is below CFR	40,984	50,945	46,494	45,941

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.9 A further two key prudential indicators control or anticipate the overall level of borrowing, these are:

- **The Authorised Limit for External Debt** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt, which while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.
- **The Operational Boundary for External Debt** – This indicator is based on the expected maximum external debt during the course of one year; it is not a limit and actual borrowing could vary around the boundary for short times during the year.

The level of the proposed operational and authorised limits is based on an assessment of the level of borrowing required to meet the Capital Financing Requirement (CFR) and also an allowance for temporary borrowing for working capital and also in lieu of other capital financing sources (e.g. capital receipts). The affordability and sustainability of the borrowing requirement for both have been assessed and can be contained within the Draft MTFS 2019-24. The operational and authorised limits for 2019/20 have been set to allow these.

Indicator 7	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Authorised Limit				
Borrowing	135,458	149,600	145,700	143,200
Other long term liabilities*	342	1,400	2,300	1,800
Total Authorised Limit	135,800	151,000	148,000	145,000

Indicator 8	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Operational Boundary				
Borrowing	130,658	136,195	131,900	130,100
Other long term liabilities*	342	1,205	2,000	1,600
Total Operational Boundary	131,000	137,400	133,900	131,700

*Other Long Term liabilities include finance leases

3.10 **Borrowing in advance of need** – The Council has some flexibility to borrow funds this year for use in future years. The Chief Finance Officer may do this under delegated power where, for instance, a sharp rise in

interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Chief Finance Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 36 months in advance of need

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

4.0 Affordability Prudential Indicators

4.1 The 8 statutory indicators above cover the overall capital and control of borrowing, but in addition, within this framework, there are further indicators that assess the affordability of the capital investment plans. These indicators provide an indication of the impact of the capital investment plans on the Council's overall finances and these are shown below:

4.2 **Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream (Indicators 9 & 10)** – 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. The estimates of financing costs include current commitments and the proposals in this budget. The General Fund financing costs increase across the MTFS period. This reflects the need to borrow to support the capital programme.

The HRA financing costs decrease very marginally year on year. As there is no planned borrowing to fund the capital programme this has no impact on the financing costs over the four year period.

Neither the General Fund nor the HRA indicators include the effect of replacing some of the finance leases for vehicles replaced in 2015/16 and 2016/17 yet. This may increase the interest charges if finance leasing or borrowing if it is the most cost effective method of financing.

Indicators 9 & 10	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
General Fund	14.0%	24.4%	26.6%	24.4%
HRA	29.9%	30.0%	29.1%	28.4%

Minimum Revenue Provision (MRP) Policy

1.0 The Council is required to pay off an element of the accumulated General Fund borrowing each year through a revenue charge (the Minimum Revenue Provision), and is also allowed to undertake additional voluntary payments (VRP).

1.1 MHCLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided so long as there is a prudent provision. The MRP policy has been revised to take into account recent changes to guidance issued by MHCLG, this revision has seen the removal of an option to not apply MRP in respect of land purchases. This was an option included for the first time in 2018/19, but based on recent guidance this has now been removed.

1.2 Members are recommended to approve the following MRP Statement:

For capital expenditure incurred:

(A) Before 1st April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

Existing practice - MRP will follow the existing practice outline in former DHCLG Regulations, but on a 2% straight-line basis, i.e. provision for the full repayment of debt over 50 years;

(B) From 1st April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

Asset Life Method – MRP will be based on the estimated life of the assets on either a straight line or annuity basis (as deemed most appropriate for capital expenditure being financed through borrowing). Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(C) The Council has set aside £750k of capital receipts to the Capital Adjustment Account instead of applying these receipts to new expenditure in order to reduce the total debt liability (£150k per annum over the period 2017/18 to 2021/22). The Council will reduce the MRP provision for the year by the same amount.

Treasury Management Strategy 2019/20

1.0 Introduction

- 1.1 Treasury Management is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. The prudential indicators in Appendix 1 cover the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992. There are 5 specific statutory treasury management prudential indicators and 8 local indicators.
- 1.2 The treasury management service performs the borrowing and investment activities of the Council and effectively manages the associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management - Revised December 2017). The adoption of the Code is one of the 12 statutory Prudential Indicators. This Council adopted the Code of Practice on Treasury Management on 2nd March 2010. As a result of adopting the Code, the Council also adopted a Treasury Management Policy Statement on 2nd March 2010.
- 1.3 The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. Further reports are produced; a mid-year monitoring report and a year-end report on actual activity for the year (Annual Treasury Management Stewardship Report). In addition, Treasury Management Practice (TMPs) documents are also maintained by the Chief Finance Officer. The TMPs have been reviewed and updated to reflect any changes in the Treasury Management Strategy and are attached as appendix 4.
- 1.4 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. This strategy covers:
- The Council's debt and investment projections;
 - The expected movement in interest rates;
 - The Council's borrowing strategy;
 - The Council's investment strategy;
 - Treasury Management prudential indicators and limits on activity;
 - Local Treasury issues

2.0 Debt and Investment Projections 2018/19 – 2021/22

- 2.1 The borrowing requirement comprises the expected movement in the Capital Financing Requirement (CFR) and any maturing debt that will need to be re-financed. The table below shows the anticipated effect on the treasury position over the current and next three years based on the current capital programme. The expected maximum debt position during each year represents the Operational Boundary prudential indicator (for borrowing only) and so may be

different from the year-end position. It also highlights the expected change in investment balances.

	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
External Debt				
Debt at 1 April	81,103	102,353	101,353	100,498
Expected change in debt	21,250	(1,000)	(855)	(855)
Debt at 31 March	102,353	101,353	100,498	99,643
Operational Boundary (debt only)	131,000	137,400	133,900	131,700
Investments				
Total Investments at 31 March	14,600	24,100	21,100	21,900
Investment change	(800)	9,500	(3,000)	800

Expected borrowing has been profiled to take out loans before current low borrowing interest rates are forecast to rise significantly.

2.2 The related impact of the above movements on the revenue budgets are:

	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Revenue Budgets				
Total interest payable on borrowing	3,319	3,830	3,784	3,720
Related HRA charge	(2,352)	(2,352)	(2,332)	(2,310)
Net General Fund interest payable	967	1,478	1,452	1,410
Investment Income				
Total investment income	103	124	135	145
Related HRA income share	47	37	35	42
Related to other commitments	16	18	18	19
Net General Fund income	40	70	82	85

3.0 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.

The following table gives the Link central view and paragraph 3.1 gives Link's view on economic prospects.

Annual Average %	Bank Rate	PWLB Rates*		
		5 year	25 year	50 year
March 2019	0.75	2.10	2.90	2.70
March 2020	1.25	2.30	3.20	3.00
March 2021	1.50	2.60	3.40	3.20
March 2022	2.00	2.80	3.60	3.40

* Borrowing Rates

3.1 **GLOBAL OUTLOOK.** World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks. At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in liquidity creation over the last five years where the US has moved from boosting liquidity by QE

purchases, to reducing its holdings of debt, (currently about \$50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in October, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI

inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the political arena, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November, However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European

Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

4.0 The Council's Borrowing and Debt Strategy 2019/20

- 4.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing.
- 4.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances as follows.
- 4.3 If it was felt that there was a significant risk of a sharp fall in long term rates e.g. due to a marked increase of risks around a relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- 4.4 If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap
- 4.5 The Council's overall core borrowing objectives will remain uniform and follow a similar pattern to previous years as follows:

- To reduce the revenue costs of debt in line with the targets set for the Chief Finance officer (see local indicators).
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing.
- To effect funding at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.
- To monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements.
- To proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.
- To manage the day-to-day cash flow of the Council in order to, where possible, negate the need for short-term borrowing. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

4.6 There is unsupported borrowing in the General Fund Investment Programme (GIP) as detailed in the Capital Strategy – the requirement to produce a Capital Strategy was introduced in 2018. The Council expects to take out loans for the General Fund before current low borrowing interest rates are forecast to rise significantly, and it will continue to use internal balances whilst interest rates on investments remain low. Officers are continually evaluating the cost effectiveness of borrowing as opposed to selling capital assets. Proposals are presented to Members when borrowing becomes more cost effective.

4.7 There are currently no plans to borrow for the HRA planned new build programme during the next MTFS period, starting in 2019/20. It is planned to fund the programme using alternative sources of funding.

4.8 The strategy allows for additional borrowing in line with the expected movement in the Capital Financing Requirement (CFR), should it become necessary for cash flow requirements. The Council will consider PWLB loans, Market loans, the Municipal Bond Agency and other financial institutions, if attractive rates are offered. In addition, should schemes be identified that benefit the Council's strategic aims and be deemed cost effective, i.e. Invest to Save schemes where the income streams more than pay for the borrowing costs, unsupported borrowing will be considered.

5.0 The Council's Investment Strategy 2019/20

5.1 The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, ensuring adequate liquidity, with the investment return being the final objective.

The intention of the strategy is to provide security of investment and minimisation of risk.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

In line with this aim, the Council will ensure:

- It maintains a policy covering the types of specified and unspecified investments it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the paragraphs below.
 - **Specified Investments** – these are high security investments (i.e. high credit quality) and high liquidity investments in sterling with a maturity of no more than one year.
 - **Non-specified Investments** – investments that do not fall into the category of Specified Investments, representing a potential greater risk (e.g. over one year).
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

5.2 Risk Benchmarking

Yield benchmarks are widely used to assess investment performance. Discrete security and liquidity benchmarks are also requirements to Treasury Management reporting, although the application of these is more subjective in nature. Additional background in the approach taken is shown at the end of this appendix.

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

5.4 Security

The Council's expected security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.005% historic risk of default when compared to the whole portfolio.

5.5 Liquidity

In respect of this area the Council seeks to maintain:

- Bank overdraft - £nil.
- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.35 years.

5.6 Yield

Local measure of yield benchmark employed is:

- Investments – return above the 7 day LIBID rate

5.7 Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

It has sufficient liquidity in its investments. For the purpose it will set out procedures for determining the maximum periods for which funds may be prudently committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

5.8 The Chief Finance Officer will maintain a counterparty list in compliance with the criteria set out in the table contained within this appendix and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which chooses Specified and Non-Specified investments as they provide an overall pool of counterparties considered high-quality which the Council may use rather than defining what its investments are.

5.9 Following the Comprehensive Spending Review on the Council's grant funding settlement and the ongoing financial pressures, the identification of savings and income generation are critical to the delivery of the Medium Term Financial Strategy. Treasury Management is an important area for further income generation and therefore, the main theme of the Council's investment strategy must continue to be to maximise interest from investments, after ensuring adequate security and liquidity. The Investment Strategy 2019-20 seeks to achieve this objective by establishing a pool of counterparties available for investment whilst still containing overall risk within acceptable levels.

5.10 The Council uses Link Asset Services' creditworthiness service. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard and Poor's.

In accordance with the guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

As with previous practice, ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the creditworthiness methodology provided by Link Asset Services. The result is a colour coding system, which shows the varying

degrees of suggested creditworthiness.

Alongside the credit ratings other information sources are used and include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process with regard to the suitability of potential investment counterparties.

The credit ratings of counterparties are supplemented with the following overlays:

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

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

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to part-government owned UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

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

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

The credit ratings specified above are defined as follows:-

F1 (short term rating) – Highest credit quality

A- (long term rating) – High credit quality, denoting a very strong bank

- 5.12 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Link's creditworthiness service.

- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn

immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's counterparty list.

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

5.13 **Country and Sector Considerations**

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:

- No more than 50% will be placed with any non-UK country at any time (see below).
- Group limits have been set to ensure that the Council is not exposed to excessive risk due to concentration of investments within any one institution or group. These are detailed in the Investment Counterparty Limits table contained within this appendix.

Although the strategy sets a limit for investment in non-UK countries at no more than 50%, the Council has been operating a tighter operational strategy in the light of the Eurozone difficulties and has not been investing outside the UK. This operational restriction will continue until the problems in the Eurozone economy have been sufficiently resolved.

5.14 In the normal course of the Council's cash flow operations it is expected that both Specified and Non-specified investments will be used for the control of liquidity as both categories allow for short-term investments. The Chief Finance Officer will strive to keep investments within the Non-specified category to a prudent level (having regard to security and liquidity before yield). To these ends the Council will maintain a maximum of 75% of investments in Non-specified investments.

5.15 The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. The investment in longer-term instruments is also limited by the prudential indicator 14 shown in paragraph 6.3, which gives the maximum amount to be invested over 1 year, as well as the limits on the amounts that can be placed with the categories within the non-specified range of investments (see above paragraph 5.14).

5.16 Expectations on shorter-term interest rates, on which investment decisions are based, reflect the fact that an increase in the current 0.75% Bank Rate is unlikely until June 2019. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

5.17 There is a clear operational difficulty arising from the ongoing economic conditions. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security

5.18 The criteria for choosing counterparties set out above provide a sound approach to investment in the current difficult market circumstances.

5.19 Sensitivity to Interest Rate Movements

The Council's Statement of Accounts is required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 0.5% increase/decrease in the average interest rates for investments for next year. That element of the debt and investment portfolios, which are of a longer term, fixed interest rate nature, will not be affected by interest rate changes. There will be no effect on borrowing costs as all the Council's existing debt is fixed rate and the additional borrowing planned will also be fixed rate and has been included within the budget figures in this report at the forecast rate for 2019/20.

£000	2019/20 Estimated + 0.5%*	2019/20 Estimated - 0.5%
Revenue Budgets		
Investment income	175,765	51,265
Related HRA Income	58,303	15,115
Net General Fund/Other Income	117,462	36,150

*This assumes that the rise of 0.50% would be reflected in the rates available to invest– in practice a rate rise of 0.50% would not equal an increase in the rates available.

6.0 Treasury Management Limits on Activity

6.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these is to contain the activity of the treasury function within certain limits, thereby managing the risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunity to reduce costs. The indicators are:

- **Upper limit on variable rate exposure** – this identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- **Upper limit on fixed rate exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- **Maturity structures of borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing at the same time and are required for upper and lower limits.
- **Total principal sums invested for periods longer than 1 year** – 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.

6.2 In addition the Chief Finance Officer has set eight additional local indicators. The aim of these indicators is to increase the understanding of the treasury management indicators.

6.3 The 4 treasury limits above together with the adoption of the Code of Practice indicators are shown below:

Indicator 11	2019/20 Target £m	2020/21 Target £m	2021/22 Target £m
Upper Limit on variable interest rate exposure	40.5	40.2	39.9

Indicator 12	2019/20 Target £m	2020/21 Target £m	2021/22 Target £m
Upper Limit on fixed interest rate exposure	95.3	95.2	94.2

Indicator 13	2019/20		2020/21		2021/22	
Maturity Structure of fixed borrowing	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	40%	0%	40%	0%	40%
12 months to 2 years	0%	40%	0%	40%	0%	40%
2 years to 5 years	0%	60%	0%	60%	0%	60%
5 years to 10 years	0%	80%	0%	80%	0%	80%
10 years and above	10%	100%	10%	100%	10%	100%

Indicator 14	2019/20 £m	2020/21 £m	2021/22 £m
Maximum principal sums invested for longer than 1 year	5	5	5

Indicator 15
CIPFA Code of Practice for Treasury Management in the Public Services (Revised December 2017) adopted by Council on 2nd March 2010.

6.4 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury management function over the year. The Chief Finance Officer has therefore set 8 local indicators, which are believed to add value and assist the understanding of the main prudential indicators. These indicators are:

- Debt – Borrowing rate achieved against average 7 day LIBOR.
- Investments – Investment rate achieved against average 7 day LIBID.
- Average rate of interest paid on the Councils Debt – this will evaluate performance in managing the debt portfolio to release revenue savings.
- Amount of interest on debt as a percentage of gross revenue expenditure.
- Limit on fixed interest rate investments
- Limit on fixed interest rate debt

- Limit on variable rate investments
- Limit on variable rate debt

6.5 The 8 indicators are shown below:

	2019/20 Target	2020/21 Target	2021/22 Target
Debt - Borrowing rate achieved i.e. temporary borrowing (loans of less than 1 year)	Less than 7 day LIBOR	Less than 7 day LIBOR	Less than 7 day LIBOR

	2019/20 Target	2020/21 Target	2021/22 Target
Investment rate achieved	Greater than 7 day LIBID	Greater than 7 day LIBID	Greater than 7 day LIBID

	2019/20 Target	2020/21 Target	2021/22 Target
Average rate of Interest Paid on Council Debt (%)	4.75%	4.75%	4.75%

	2019/20 Target	2020/21 Target	2021/22 Target
Interest on Debt as a % of Gross Revenue Expenditure	3.5%	4.1%	3.9%

	2019/20 Target	2020/21 Target	2021/22 Target
Upper Limit on fixed interest rate Investments	100%	100%	100%

	2019/20 Target	2020/21 Target	2021/22 Target
Upper Limit on fixed interest rate debt	100%	100%	100%

	2019/20 Target	2020/21 Target	2021/22 Target
Upper Limit on variable interest rate investments	75%	75%	75%

	2019/20 Target	2020/21 Target	2021/22 Target
Upper Limit on variable interest rate debt	40%	40%	40%

6.6 Treasury Management Advisers

The Council uses Link Asset Services as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt rescheduling advice surrounding the existing portfolio;
- Credit ratings/market information service comprising the three main credit rating agencies.

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

6.7 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers.

This Council has addressed this important issue by:

- Member Training – Our treasury management advisers provided training to the Audit Committee prior to the consideration of this year's strategy. They also provided training to the Performance Scrutiny Committee to support their consideration of the mid-year report. The training needs will be regularly reviewed and updated as necessary in 2019/20.
- Staff Training – training needs for staff engaged in treasury management are addressed through the appraisal process. Training is provided both by the Council's treasury management advisers, other external providers and internally. In addition, the Council encourages staff engaged in treasury to undertake a professional accountancy qualification and ensures that the day-to-day trading is overseen by a professionally qualified accountant following the CIPFA Code of Practice.

7.0 Breakdown of Investment Categories with Maximum Amounts and Periods

The Chief Finance Officer, in accordance with TMP 1 (1) within the Council's Code of Practice, is authorised to invest funds surplus to immediate requirements with the following types of institutions subject to the minimum ratings produced by the three credit rating agencies Fitch, Moody's and Standard & Poor's. The Link Asset Services creditworthiness service is applied to determine a list of suitable counterparties available for investment. The minimum ratings applied by Link Asset Services in compiling their recommended counterparty list are set out in section 5.11 of the investment strategy.

All counterparty ratings are updated on a regular basis on the advice of the Council's Treasury Consultants. Notifications of rating changes are received as they happen.

Investment Counterparty Limits

Institution	Minimum credit criteria/colour band	Maximum limit per group or institution £ million	Maximum maturity period
SPECIFIED INVESTMENTS			
UK Bank ^{*1}	Orange/Blue Red Green	£5 million	1 year 6 months 100 days
Non-UK Banks ^{*1} Sovereign rating AA	Orange Red Green	£5 million	1 year 6 months 100 days
Building Society ^{*2}	Orange Red Green	£5 million	1 year 6 months 100 days
Money Market Fund ^{*3}	Yellow	£5 million	Liquid
UK Government ^{*4}	Yellow	unlimited	6 months
UK Local Authority ^{*4}	Yellow	£2 million	1 year
NON-SPECIFIED INVESTMENTS			
UK Bank ^{*1}	Purple	£5 million	2 years
Non-UK Banks ^{*1} Sovereign rating AA	Purple	£3 million	2 years
Building Society ^{*2}	Purple Yellow	£2 million	2 years 5 years
UK Local Authority ^{*4}	Yellow	£2 million	5 years
Lincoln Credit Union	N/A	£10K	N/A
Council's own bank ^{*5} (operational cash limit in addition to the investment group limit)	N/A	£500K	Overnight

^{*1}Where the term 'Bank' is used, this denotes a UK or European Bank authorised to accept deposits through a bank account incorporated within the UK banking sector. The maximum amount indicated is the 'Group total' and covers the total amount that can be invested when spread over any number of subsidiaries within that group.

^{*2} Where the term Building Society is used, this denotes a UK Building Society.

^{*3} Money market funds (MMF) are mutual funds that invest in short-term high quality debt instruments. The assets are actively managed within very specific guidelines to offer liquidity and competitive returns. Recently MMFs have changed from a constant net asset value basis to a low volatility net asset value. Although money funds are regarded as short-term investments the rating agencies use a classification system based on long-term debt ratings.

^{*4} The UK Government (i.e. HM Treasury and its Executive Agency, the Debt Management Office) and Local Authorities, although not rated as such, are classified as having the equivalent of the highest possible credit rating.

^{*5}This limit covers normal treasury management activities but excludes any deposits received after money market trading has closed.

It allows up to £500K of operational cash to be held in the Council's main bank account in addition to the group investment limit for the bank, if the bank is included on the Council's counterparty list.

Approved Investment Instruments

In addition to determining the rating and limits of authorised counterparties TMP 4 “Approved instruments, methods and techniques” within the Council’s Code of Practice requires the Council to define the instruments that the Authority will use in undertaking its Treasury Management activities. In accordance with this, and the investment regime issued as part of the prudential capital finance system, the Instruments that the Chief Finance Officer will consider investing surplus funds in are shown below:

Instruments of Specified Investments *₁

1. Gilt-edged securities issued by the United Kingdom Debt Management Office (UK DMO), an Executive Agency of HM Treasury.
2. Treasury Bills issued by the UK DMO.
3. Deposits with the Debt Management Office Debt Management Account Deposit Facility (DMADF).
4. Deposits with a Local Authority, Parish Council or Community Council.
5. Deposits with Banks and Building Societies (Including opening Business Accounts).
6. Certificates of deposit issued by Banks and Building societies.
7. Pooled investment vehicles (e.g. money market funds)

*₁ To be defined as a Specified Investment the above instruments will have these features common to all:

- Be denominated in Sterling,
- Of not more than 1 year maturity,
- Of longer than 1 year maturity but the Council has the right to be repaid within 12 months,
- For instruments numbered 5 to 7 these must be with institutions of high credit quality.

Instruments of Non-Specified Investments *₂

1. Deposits with Banks, Building Societies and their subsidiaries.
2. The Council’s own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.
3. Certificates of deposit issued by Banks and Building Societies.

*₂ To be defined as a Non-Specified Investment the above instruments will have these features common to all:

- Denominated in Sterling,
- Of more than 1 year maturity,
- Of less than 1 year maturity with an institution that does not meet the basic security requirements under Specified Investments e.g. a deposit with a non-credit rated Bank or Building Society

Security, Liquidity and Yield Benchmarking

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service

A requirement for Treasury Management reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Benchmarks for the cash type investments are set out below and these will form the basis of reporting in this area. In other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - nil
- Liquid short term deposits of at least £5m available with a week’s notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – a shorter WAL would generally embody less risk. In this respect the proposed benchmark to be used is:

- WAL benchmark is expected to be 0.35 years.
- Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poor’s). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy.

The Council’s expected security risk benchmark from its budgeted investment strategy is:

- 0.005% historic risk of default when compared to the whole portfolio which equates to a potential loss of £1,205 on an investment portfolio of £21.4m. In addition that the security benchmark for each individual year is:

	1 year	2 year	3 year	4 year	5 year
Maximum	0.30%	0.30%	0.30%	0.30%	0.30%

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported

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SUBJECT: INTERNAL AUDIT RECOMMENDATION FOLLOW UP

REPORT BY: JOHN SCOTT, AUDIT MANAGER

LEAD OFFICER: JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 To present an update to the Audit Committee, on all outstanding recommendations over 12 months old.

2. Executive Summary

2.1 The report provides members with more information on older audit recommendations and the ability at the meeting to request managers to provide further feedback.

3. Background

3.1 Audit recommendations are reviewed by the Audit Committee with each progress report and members were concerned with the length of time some agreed actions were taking to implement. It was agreed that a separate report of recommendations older than 12 months would be provided and managers would attend to provide an update.

3.2 Audit Recommendations

3.3 The attached Appendix (A) provides details of the relevant audits, outstanding recommendations / agreed actions and detailed current position / explanation from the service manager.

Depending on the response received Members may wish to receive further updates in future.

4. Organisational Impacts (nb. Finance, Legal and E & D sections below are mandatory, others to be completed only where there is an impact)

4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)

There are no direct E and D implications arising as a result of this report.

5. Recommendation

- 5.1 Audit Committee is asked to review the attached Appendix and review responses received both in writing and at the meeting.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
How many appendices does the report contain?	One

List of Background Papers:

Lead Officer: Audit Manager Telephone 873321

Members requested written explanations for all audit recommendations outstanding for more than one year plus responsible officers to attend to provide explanations. These are set out in the tables below.

Recommendations over 2 years old

Ref	Dir	Assist Dir	Audit	Revised Due Date	Agreed Action & Priority	Status	Service Manager comments
1	DoH	AD-SD	ICT Mobile Devices	31/03/2019	Identify and locate IT assets (High)	In progress	An asset register is held in IT. This exercise has been completed previously, but IT are now considering options to detect most devices in an automated manner – now largely complete. This is linked to a wider rollout of technology and will be updated once that has been completed. Finance are also to complete a full inventory - which will help for comparison purposes. It is very difficult to track every asset as some are mobile devices which move frequently and are not always connected to the network, so rely on visible checks over a period.
2	CX	CFO	ICT Mobile Devices	31/03/2019	Complete the (Corporate) annual inventory check (Medium)	In progress	Finance are in the process of facilitating an inventory check, with Directorates; This will help IT asset audit for comparison purposes.
3	CX	AD-SD	ICT Malware	31/03/2019	IT security summary training (Medium)	In progress	Delayed due to getting Netconsent operational and producing the material. NC is now operational and have bought materials but need to test to determine if there are any technical issues. This is being tested and trialled currently. Questions are being developed to ensure the effectiveness of the training. New target date 31 March 2019

Recommendations over 1 year old

Ref	Dir	Assist Dir	Audit	Revised Due Date	Agreed Action & Priority	Status	Service Manager comments
1	DCE	AD-CSS	Restoration of Boutham Park	31/03/2019	Partnership Agreement to be signed (Medium)	In progress. 6mth extension agreed.	We made good progress on agreeing the terms of the revised Partnership Agreement with Linkage. There are just a few details to finalise which neither party envisages causing any problems. The delay has been purely down to the lack of staff resource to deal with this within the service. The Boutham Park project has been without a dedicated Project Manager for over a year now, and this task is one of many that are having to be covered by the Community Services Manager as caretaker Project Manager, alongside 'business as usual' and other projects. We are aware of the need to sign off the revised agreement and doing our best to prioritise this by the end of February. In the meantime, we have a Partnership Agreement which fulfils the needs for the project at the current stage. (Community Services Manager)
2	DHI	AD-H	Responsive Repairs	30/01/2020	Take and store photographs for repairs completed (Medium)	In progress	Current software does not allow this but a planned software upgrade is likely to have this capability. The revised target date is linked to software upgrade.
3	CX	CFO	IT Disaster Recovery	31/03/2019	Seating allocation at Hamilton House (Medium)	In progress	Seating arrangements and draft accommodation designs now complete and presented to Service Managers – now needs incorporating into Alternative Accommodation Strategy and presenting to CMT
4	CX	AD-H	IT Disaster Recovery	31/03/2019	Accommodation for contractors. (Medium)	In progress	Formal confirmation required. In progress

5	CX	AD-SD	IT Disaster Recovery	31/03/2019	LAN connections Hamilton House. (Medium)	In progress	As draft accommodation plans are in place, suppliers have been contacted to determine options for connectivity in the event on invocation.
6	CX	CFO	IT Disaster Recovery	31/03/2019	Limited Business Continuity Plans for all services (Medium)	In progress	Identified that Building Control need to produce a BCP. LCC attending service managers in December 18 to go through BIA's (business impact assessments) and identify any further critical services and to also highlight fact managers can still prepare at BCP (Business continuity plan) even if they aren't on the critical list.
7	CX	CFO	IT Disaster Recovery	31/03/2019	Address the lack of RPOs (Recovery Point Objective) in BCPs (Business Continuity Plans) . (Medium)	In progress	Will be addressed in refreshed BCP's for 2019.
8	CX	CFO	IT Disaster Recovery	31/03/2019	Next BCP desktop exercise to include the IT DR plan (Medium)	In progress	Has been delayed pending resolution of the accommodation strategy and completion of a number of the audit recommendations. However propose that this is undertaken Feb/Mar 19.
9	CX	AD-SD	IT Disaster Recovery	30/06/2019	Produce a test plan. (Medium)	Risk accepted	Testing already occurs for backup of data. Significant elements of the ICT infrastructure are due to be replaced, so any test plan will also change substantially. In addition any testing beyond a low level is likely to be extremely intrusive into the day-to-day running of the business for a sizeable amount of time, so is likely to be unfeasible. Testing would take place if and when the situation arose where testing could be completed more easily.

							No further tracking
10	CX	CFO	IT Disaster Recovery	31/03/2019	Services to plan for loss up to 2 weeks (Medium)	In progress	Issue was highlighted to service managers at SMT session in November 18. This will then be included in the refresh of BCP's in 2019.
11	CX	AD-SD	IT Applications	31/03/2019	Review current agreement arrangement My Info (Medium)	In progress	New solution pending - agreement will be reviewed at that time. SLA currently in place.
12	HI	AD-H	Tenancy Services	31/03/2019	Assistant Director agrees to consider a permanent transfer of the voids team to tenancy services will provide a more coordinated approach	In progress	New Director requested service review which is still in progress - until outcome no decisions to be made Currently Voids Team under repairs & maintenance, Tenancy Services Manager attends weekly Voids update meeting. Housing Solutions allocating housing now situated in the Tenancy Services office to help better information sharing.
13	HI	AD-H	Tenancy Services	31/3/2019	Pre-tenancy process developed to make sure up front work smooths sustainability of the tenancy	In progress	Will be linked to decision above

14	HI	AD-H	Tenancy Services	31/3/2019	Look at procedures and continue to review and update	In progress	Tenancy staff currently updating procedures hope to complete by end of March Introduction of universal credits changing a lot of the procedures, working with the benefits team this will require the update of procedures when clear on process.
15	HI	AD-H	Tenancy Services	31/3/2019	Look at the way forward for update of Service Standards as part of the new allocation system	In progress	Linked to review of allocations - still ongoing and service standards rely on outcome of review The Services Standards officer is now working under the repairs and maintenance service. The ASB improvement plan will also require service standards to be updated.
16	HI	AD-H	Tenancy Services	31/3/2019	Photographic evidence to be stored on workflow so that it can be checked when tenant is seen	In progress	Implementation of checks part of review by Assistant Director no outcome until review complete
17	HI	AD-H	Tenancy Services	31/3/2019	Once the photographic evidence process is put in place the Voids & Housing Officers will check ID at sign up and the 3 week visit	In progress	As above

18	HI	AD-H	Tenancy Services	31/3/2019	Tenancy Fraud Risk Assessment to be undertaken in conjunction with the Housing Business Support Manager	In progress	Current data matching exercise to identify potential tenancy fraud – results should be received by end of February 19. Fraud risk assessment will be updated following review
19	HI	AD-H	Tenancy Services	30/06/2019	Once updates to the fraud policy and strategy have taken place review the training needed	In progress	Linked to action on fraud above Policy and strategy will be updated following review
20	HI	AD-H	Tenancy Services	31/3/2019	Tenancy Services Manager to consider annual tenancy inspections	In progress	Currently the volume of tenancies and the resources available make annual inspections of all properties impractical. Review again based on the outcomes of the external review and identification of potential fraud cases.

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SUBJECT:	AUDIT COMMITTEE WORK PROGRAMME 2018/19
REPORT BY:	JOHN SCOTT, AUDIT MANAGER
LEAD OFFICER:	JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 To provide details of the draft Audit Committee work programme for 2018/19

2. Executive Summary.

2.1 The Audit Committee approves a work programme each year and monitors progress.

3. Details

3.1 The proposed work programme is attached at Appendix A. The frequency of meetings has been reviewed and is considered appropriate for 2018/19.

4. Organisational Impacts

4.1 Finance

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 That Audit Committee comment on and agree the work programme for 2018/19.

Key Decision No

Do the Exempt Information Categories Apply? No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

How many appendices does the report contain? One

List of Background Papers: None

Lead Officer: Audit Manager Telephone 873321

AUDIT COMMITTEE AUDIT WORK PROGRAMME FOR 2018/19

Meeting dates	Audit Items	Training (Suggested)	Comments
14 th June 2018	<ul style="list-style-type: none"> • Internal Audit Progress report • Statement of Accounts (Draft) • Annual Governance Statement (Draft review) • Audit Committee Work Programme • Annual Internal Audit Report • 12 month Fraud and Error report 	<ul style="list-style-type: none"> • Audit Committee effectiveness (new members) • Local Government Financial Statements explained • Annual Governance Statement/Corporate Governance (Part of Meeting) 	
19 Jul 2018 6.00 pm	<ul style="list-style-type: none"> • Statement of Accounts / Annual Governance Statement (Final) • Annual Governance Report / Auditors Report (External Audit) • Terms of Reference review - Audit Committee • Review of the effectiveness of Internal Audit and Audit Committee • Appointment of External Auditor • Annual Audit Letter (External Audit) 		

<p>27 Sep 2018 6.00 pm</p>	<ul style="list-style-type: none"> • Internal Audit progress report • Audit Committee Work Programme • Annual Governance Statement monitoring report • Annual Complaints report 		
<p>18 Dec 2018 6.00 pm</p>	<ul style="list-style-type: none"> • Audit recommendations report • Risk Management (options) report • Internal Audit progress report • Six Month Fraud and Error report • Annual Governance Statement - monitoring • Audit Committee Work Programme • Counter fraud policies - anti money laundering / fraud strategy + fraud risk register) • Information Governance Update • Review of the effectiveness of Internal Audit and Audit Committee 	<ul style="list-style-type: none"> • Counter Fraud <p>(Via e-learning)</p>	
<p>12 Feb 2019 6.00 pm</p>	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit Recommendations report • Treasury management policy and strategy (consultation prior to approval by Council) • Audit Committee Work Programme • Draft Internal Audit plan 19-20 • Information management report 	<ul style="list-style-type: none"> • Treasury Management 	
<p>26 Mar 2019</p>	<ul style="list-style-type: none"> • Internal Audit Progress report 		

<p>6.00 pm</p>	<ul style="list-style-type: none"> • Combined Assurance report • Annual Governance Statement –update report • Final Internal Audit Strategy and Plan 19-20 • Risk Management Strategy / annual report • Statement on Accounting Policies • Audit Committee Work Programme • External Audit Inquiries – 18/19 Statement of Accounts • IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations • Strategic Fraud risk register • Information Governance Update report • Terms of Reference review – Internal Audit • External Audit annual report on grants and returns • External Audit plan 		
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A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.

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