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AUDIT COMMITTEE

Tuesday, 2 February 2021	6.00 pm	Virtual Meeting

Membership:	Councillors Geoff Ellis (Chair), Laura McWilliams (Vice-Chair), Thomas Dyer, Gary Hewson, Jackie Kirk, Rebecca Longbottom and Bill Mara
Substitute member(s):	Councillors Pat Vaughan
Independent Member:	Jane Nellist
Officers attending:	Paul Berry, Democratic Services, Jaclyn Gibson, Heather Grover, John Scott and Colleen Warren

A G E N D A

To join this virtual meeting please use the below link:

https://zoom.us/j/91849622334?pwd=akh1clBGTnhRajMrck9iV3VlR1ltZz09

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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.

1. Confirmation of Minutes - 15 December 2020 **3 - 8**

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. Prudential Indicators 20-21 - 2023/24 and Treasury Management Strategy 2021/22 **9 - 42**

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5.	Audit Committee Terms of Reference	**57 - 62**
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10.	Exclusion of the Press and Public	**87 - 88**

You are asked to resolve that the press and public be excluded from the meeting during the consideration of the following item(s) because it is likely that if members of the press or public were present, there would be disclosure of 'exempt information'

SECTION B

11.	Fraud Risk Register PART B **[Exempt Para(s) 7]**	**89 - 102**

Present:	Councillor Geoff Ellis *(in the Chair)*
Councillors:	Thomas Dyer, Gary Hewson, Jackie Kirk, Rebecca Longbottom and Bill Mara
Independent Member:	Jane Nellist
Apologies for Absence:	Councillor Laura McWilliams

78. Confirmation of Minutes - 17 November 2020

RESOLVED that the minutes of the meeting held on 17 November 2020 be confirmed.

79. Declarations of Interest

No declarations of interest were received.

80. Annual Governance Statement Monitoring

Heather Grover, Principal Policy Officer:

a. presented a progress update on those areas identified as ‘significant governance issues’ as set out in the 2019/20 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, as detailed at Appendix A of the report

c. advised that key actions would be reviewed by the Service Manager’s Group and be overseen by Corporate Leadership Team as well as monitored by Audit Committee

d. reported that IT Disaster Recovery Plan in place for IT arrangements was red status and was carried forward from the previous AGS, and had one action remaining. The delay had been in part due to the pandemic and in part due to the need to construct a purpose built facility.

e. advised that there were two new significant issues identified for the first time in the 2019/20 AGS, both of which were considered by the responsible officer to be amber

   I. Review of impact of Coronavirus on the council’s service delivery and embedding new ways of working for staff.
   II. Vision 2025 needed to be re-profiled and communicated to a wider audience in the light of COVID-19

g. requested that members of Audit Committee give consideration to the content of the report.

Question: Would Vision 2025 be brought back to members for consideration once it had been re-profiled?

Response: Vision 2025 would be looked at to consider which schemes would be appropriate to do now and which schemes could be put back a year or two. Members would be consulted on the re-profiled Vision 2025 and then it would go out to public consultation.

Question: IT disaster recovery had been identified for some time would this be continually monitored?

Response: A lot of work had been completed over the last year, there was a new purpose built facility at the depot and all of the kit had been installed. There was one small issue that needed resolving before the project could be completed. There would always be risk of attacks with running an IT facility and we were constantly looking at ways to improve our protection.

Question: How had the team been affected by remote working?
Response: We have started rolling out new devices and we would be in a different position once roll out had been completed.

Question: Referred to page 13 of the report and asked for clarification on the purpose built IT facility?

Response: IT equipment needed a different environment to function at its best. Air conditioning had been fitted and added fire proofing so that it was more secure within its environment.

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

81. <u>Internal Audit Progress Report</u>

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 September to November 2020, as detailed at Appendix A

b. highlighted that Audit Committee held the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of public sector internal audit standards

c. detailed the content of the report covering 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. advised that in line with corporate strategy responding to the pandemic during the early part of 20/21 audit resources were redeployed to deliver key services, supporting business and protecting the most vulnerable.

e. explained that as a result of this and due to the organisations overall response to the pandemic the 20/21 audit plan was reduced in size and effectively commenced in September 2020. It was intended that sufficient audit coverage would be undertaken to meet statutory responsibilities ad provide and audit opinion for 20/21 across governance, risk and internal control.

f. advised that as a result of the second national lock down and now tier 2 restrictions the audit resources had again be diverted to support the assurance processes around the payment of business support grants. As a result there would be an impact on the audit plan which would be reviewed and re-prioritised in January 2021.

g. invited committees questions and comments

Question: Expressed concern that the Audit Team were still being utilised to deal with the business grants.

Response: There was a minimum amount of work that was required to be completed to provide assurance each year. Staff had now been brought back to provide support to the audit work. An Audit plan would be brought to a future meeting for consideration.

RESOLVED that the report be accepted and the monitoring arrangements be continued.

82. <u>Internal Audit Recommendations Follow Up</u>

John Scott, Audit Manager:

a) presented an update to Audit Committee on outstanding audit recommendations including recommendations over 12 months old.

b) referred to Appendix A attached to his report which provided details of relevant audits, outstanding recommendations, agreed actions and the current position/explanation from the service manager

c) invited members' questions and comments.

Question: Did the HMO Licensing and Hazards include the Trusted Landlord Scheme?

Response: Yes, it formed part of their work.

Question: A Housing Company on Facebook had publicly questioned the standard of some of the HMO properties that had been accredited by the Councils Trusted Landlord Scheme and asked if this would be addressed as part of the audit?

Response: Yes, this would be looked into further and a response would be sought from Management on this matter.

RESOLVED that updates on Audit Recommendations older than 12 months be noted.

83. Fraud and Error Half Year Report 2020/21

John Scott, Audit Manager

a. presented the Fraud and Error half year report as attached at Annex A of the report.

b. advised that Covid-19 had some impact in terms of delaying some pro-active work for 2020/21 and this was outlined in the report and action plan.

c. advised that the report covered key messages, investigations proactive work, fraud partnerships , referrals and action plans and highlighted the following key areas:

- Housing Benefit/ Council Tax Support
- Cyber Crime and Cyber Security
- National Non Domestic Business Rates and Small Business Rate Relief
- Council Tax – Single Person Discount
- Housing tenancy
- NFI – National Fraud Initiative
- Grants
- Fraud Strategy and Policy Review
- Whistleblowing
- Fraud Awareness
- Fraud Risk Register

d. invited committees questions and comments.

Question: Referred to grants at paragraph 11 of the report and asked if different people would be involved in the fraud work than in the processing of the business grants.

Response: The individual risk assessment and framework had to go to government, we could be subject to independent spot checks.

RESOLVED that the Fraud and Error Half Year Report 2020/21 be noted.

84. Audit Committee Work Programme

John Scott, Audit Manager:

a. presented a report to inform members of Audit Committee on the work programme for 2020/21 as detailed at Appendix A of the report.

b. advised that the frequency if meetings had been reviewed and revised to take into account impacts relating to the pandemic and was considered appropriate for 2020/21.

RESOLVED that the contents of the Audit Committee work programme 2020/21 be noted.

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AUDIT COMMITTEE **2 FEBRUARY 2021**

SUBJECT:	**PRUDENTIAL INDICATORS 20-21 – 2023/24 AND TREASURY MANAGEMENT STRATEGY 2021/22**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**COLLEEN WARREN, FINANCIAL SERVICES MANAGER**

1. Purpose of Report

1.1 The purpose of the report is for Audit Committee to review and recommend to Council for approval the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2020/21 to 2023/24 together with the 2021/22 Treasury Management Strategy.

2. Executive Summary

2.1 The table below summarises the key prudential indicators that have been incorporated into the 2021/22 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.

Key Prudential Indicators	**2020/21 Revised £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**	**2023/24 Estimated £'000**
Capital Expenditure				
• General Fund	5,656	16,603	1,160	948
• HRA	22,111	22,387	14,387	11,549
• Total	**27,767**	**38,990**	**15,547**	**12,497**
Capital Financing Requirement				
• Non HRA	68,539	75,263	71,737	70,300
• HRA	66,839	69,177	72,047	143,784
• Total	**135,378**	**144,440**	**143,784**	**142,347**
Net Borrowing				
External debt (borrowing only)	121,000	127,000	129,000	124,000
Investments				
• Under one year	20,000	22,000	20,000	19,000

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 2021/22 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 Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance).

4. Treasury Management Requirements 2021/22

4.1 The Capital Prudential Indicators 2020/21 – 2023/24

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 2020/21 and details them for 2021/22 to 2023/24. 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 2021-26) 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	**2020/21 Revised £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**	**2023/24 Estimated £'000**
Capital Expenditure				
General Fund	5,656	16,603	1,160	948
HRA (including New Build)	22,111	22,387	14,387	11,549
Total Expenditure	**27,767**	**38,990**	**15,547**	**12,497**
Financed by (General Fund):				
Capital receipts	124	2,339	195	0
Capital grants & contributions	3,831	2,596	720	740
Revenue/Reserve Contributions	67	129	8	8
Borrowing need	1,635	11,539	237	200
Financed by (HRA):				
Capital receipts	2,467	1,539	1,730	713
Capital grants & contributions	4,639	2,205	0	0
Depreciation (HRA only)	7,568	9,034	7,559	6,774
Revenue/Reserve Contributions	2,772	7,271	2,228	4,062
Borrowing need	4,665	2,338	2,870	0

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 2020/21 to 2023/24 is projected to be:

Indicators 3&4	**2020/21 Revised £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**	**2023/24 Estimated £'000**
Capital Financing Requirement				
General Fund	68,539	75,263	71,737	70,300
HRA	66,839	69,177	72,047	72,046
Total CFR @ 31 March	135,378	144,440	143,784	142,346
Net movement in CFR	**4,642**	**9,062**	**(656)**	**(1,436)**
Actual debt (borrowing & other liabilities)	121,000	127,000	129,000	124,000
Net borrowing need for the year	6,300	13,876	3,108	200
Minimum Revenue Provision (MRP)	(1,508)	(1,443)	(1,620)	(1,636)
Application of Capital Receipts to reduce CFR	(150)	(3,371)	(2,142)	0
Movement in CFR	**4,642**	**9,062**	**(656)**	**(1,436)**

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 no such leases within the CFR in 2020/21. 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.

In future years all lease liabilities, including some of those currently treated as operating leases and expensed through revenue, will be 'on balance sheet' which will increase the CFR. At this point the Treasury Management Strategy does not reflect the effect of the change in accounting treatment and further updates will be presented to committee at the mid-year update, when the liabilities have been established.

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 2021-26. This is reflected in the table below and in the Prudential Indicators 7 and 8 tables in Appendix 1.

Indicator 7	**2020/21 Revised £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**	**2023/24 Estimated £'000**
Authorised limit				
Borrowing	150,768	156,453	158,738	153,664
Other long term liabilities	1,380	1,380	1,380	1,380
Total Authorised limit	**152,148**	**157,833**	**160,118**	**155,044**

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 no amendment to the proposed MRP policy for 2021/22.

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

4.3 The Treasury Management Strategy 2021/22

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 2021/22 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:

	2020/21 Revised £'000	2021/22 Estimated £'000	2022/23 Estimated £'000	2023/24 Estimated £'000
External Debt				
Debt at 31 March (including other long term liabilities)	121,000	127,000	129,000	124,000
Investments				
Total Investments at 31 March	(20,000)	(22,000)	(20,000)	(19,000)

- **Expected Movement in Interest Rates (Treasury Management Strategy section 3) -** short term interest rates are not expected to rise until after March 2024 and then will rise slowly in future years. Long term rates for external borrowing are expected to rise slowly during 2021 and 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 2021/22 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 2020/21 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 0.11 years as investments are kept in short term accounts.

Security – the Council's expected security risk benchmark from its budgeted investment strategy is 0.006% 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 £22 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 (revised December 2017) on 2nd March 2010. The Treasury Management Policy Statement was also adopted at this time. 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 and are attached as Appendix 4.

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 Council the prudential indicators detailed in section 4.1 and appendix 1 of the report.

7.3 Review and recommend for approval by Council the Treasury Management Strategy (including the treasury management prudential indicators and the Investment Strategy) set out section 4 and appendix 3 of the report.

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

7.5 Review and recommend for approval by Council the revised Treasury Management Practices and Schedules in Appendix 4 of 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?	4
List of Background Papers:	Medium Term Financial Strategy 2021-26 CIPFA Code of Practice CIPFA Prudential Code Treasury Management Practices
Lead Officer:	Colleen Warren – Financial Services Manager Telephone (01522) 873361

Appendix 1

Prudential Indicators 2020/21 – 2023/24

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 2020/21 and details them for 2021/22-2023/24. 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 2021/222 (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	**2020/21 Revised £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**	**2023/24 Estimated £'000**
Capital Expenditure				
General Fund	5,656	16,603	1,160	948
HRA (including New Build)	22,111	22,387	14,387	11,549
Total Expenditure	**27,767**	**38,990**	**15,547**	**12,497**
Financed by:				
Capital receipts	2,591	3,878	1,925	713
Capital grants & contributions	8,470	4,801	720	740
Depreciation (HRA only)	7,568	9,034	7,559	6,774
Revenue/Reserve Contributions	2,839	7,400	2,236	4,070
Borrowing need	6,300	13,876	3,108	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 no such leases within the CFR in 2020/21. 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	**2020/21 Revised £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**	**2023/24 Estimated £'000**
Capital Financing Requirement				
General Fund	68,539	75,263	71,737	70,300
HRA	66,839	69,177	72,047	72,046
Total CFR @ 31 March	135,378	144,440	143,784	142,347
Net movement in CFR	**4,642**	**9,062**	**(656)**	**(1,437)**
Actual debt (borrowing & other liabilities)	121,000	127,000	129,000	124,000
Net borrowing need for the year	6,300	13,876	3,108	200
Minimum Revenue Provision (MRP)	(1,508)	(1,443)	(1,620)	(1,636)
Application of Capital Receipts to reduce CFR	(150)	(3,371)	(2,144)	
Movement in CFR	**4,642**	**9,062**	**(656)**	**(1,436)**

* 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	2020/21 Revised £'000	2021/22 Estimated £'000	2022/23 Estimated £'000	2023/24 Estimated £'000
External Debt				
Gross Borrowing	121,000	127,000	129,000	124,000
Other Long Term Liabilities*				
Total Debt at 31 March	121,000	127,000	129,000	124,000

*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 2020/21.

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 2021/22 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	2020/21 Revised £’000	2021/22 Estimated £’000	2022/23 Estimated £’000	2023/24 Estimated £’000
Gross Borrowing	121,000	127,000	129,000	124,000
Investments	(20,000)	(22,000)	(20,000)	(19,000)
Net Borrowing	101,000	105,000	109,000	105,000
CFR	135,378	144,440	143,784	142,347
Net Borrowing is below CFR	34,378	39,440	34,784	37,347

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 2020-25. The operational and authorised limits for 2020/21 have been set to allow these.

Indicator 7	2020/21 Revised £’000	2021/22 Estimated £’000	2022/23 Estimated £’000	2023/24 Estimated £’000
Authorised Limit				
Borrowing	150,768	156,453	158,738	153,664
Other long term liabilities*	1,380	1,380	1,380	1,380
Total Authorised Limit	**152,148**	**157,833**	**160,118**	**155,044**

Indicator 8	2020/21 Revised £'000	2021/22 Estimated £'000	2022/23 Estimated £'000	2023/24 Estimated £'000
Operational Boundary				
Borrowing	135,948	141,633	143,918	138,844
Other long term liabilities*	1,200	1,200	1,200	1,200
Total Operational Boundary	**137,148**	**142,833**	**145,118**	**140,044**

*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. For 20/21 and 21/22 the figures used to calculate these indicators have been adjusted to reflect one-off adjustments in respect of business rates as a result of the Covid 19 pandemic. The adjusted calculations are shown below:

Indicators 9 & 10	2020/21 Revised £'000	2021/22 Estimated £'000	2022/23 Estimated £'000	2023/24 Estimated £'000
General Fund	22.0%	26.6%	28.8%	27.0%
HRA	31.6%	30.8%	29.9%	29.1%

Appendix 2

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 takes into account recent changes to guidance issued by MHCLG.

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 CLG 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.

Appendix 3

Treasury Management Strategy 2021/22

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 2020/21 – 2023/24

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.

	2020/21 Revised £'000	2021/22 Estimated £'000	2022/23 Estimated £'000	2023/24 Estimated £'000
External Debt				
Debt at 1 April	120,000	121,000	127,000	129,000
Expected change in debt	1,000	6,000	2,000	(5,000)
Debt at 31 March	121,000	127,000	129,000	124,000
Operational Boundary (debt only)	135,948	141,633	143,918	138,844
Investments				
Total Investments at 31 March	20,000	22,000	20,000	19,000
Investment change		2,000	(2,000)	(1,000)

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:

	2020/21 Revised £'000	2021/22 Estimated £'000	2022/23 Estimated £'000	2023/24 Estimated £'000
Revenue Budgets				
Total interest payable on borrowing	3,903	3,975	4,085	4,055
Related HRA charge	(2,441)	(2,500)	(2,550)	(2,535)
Net General Fund interest payable	1,462	1,475	1,535	1,520
Total investment income	64	27	24	34
Related HRA income share	(20)	(9)	(5)	(6)
Net General Fund income	41	18	19	28

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 2021	0.10	0.80	1.50	1.30
March 2022	0.10	0.90	1.60	1.40
March 2023	0.10	0.90	1.70	1.50
March 2024	0.10	1.00	1.80	1.60

* Borrowing Rates

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen.

However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

4.0 The Council's Borrowing and Debt Strategy 2021/22

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 2021/22 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.

4.7 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 however, 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.

4.8 During the next MTFS period borrowing is planned for the HRA investment programme.

4.9 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 2021/22

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:

- 0.006% 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 0.11 years.

5.6 Yield

Local measure of yield benchmark employed is:

- Investments – return above the 7 day LIBID rate – The provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

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 reductions to the Council's grant funding settlement and 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 2021/22 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, engaging 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 resulting in 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 0.10% Bank Rate is unlikely until after March 2024. 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 are operational challenges arising from the ongoing economic conditions. Ideally investments would be invested longer to secure better returns, however shorter dated investments provide better security.

5.18 The criteria for choosing counterparties set out above provide a sound approach to investment in 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 2021/22.

£000	2021/22 Estimated	2021/22 Estimated

	+ 0.5%*	- 0.5%
Revenue Budgets		
Investment income	86,500	0
Related HRA Income	29,500	0
Net General Fund/Other Income	57,000	0

*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. As the rates of interest on investments assumed in the MTFS are lower than 0.50% a reduction of 0.50% would result in Nil income.

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	2021/22 Target £m	2022/23 Target £m	2023/24 Target £m
Upper Limit on variable interest rate exposure	56.1	56.8	58.1

Indicator 12	2021/22 Target £m	2022/23 Target £m	2023/24 Target £m
Upper Limit on fixed interest rate	135.4	136.6	140.3

exposure			

Indicator 13	**2021/22**		**2022/23**		**2023/24**	
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	**2021/22 £m**	**2022/23 £m**	**2023/24 £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

*See paragraph 5.6 above

6.5 The 8 indicators are shown below:

	2021/22 Target	**2022/23 Target**	**2023/24 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

*See paragraph 5.6 above

	2021/22 Target	**2022/23 Target**	**2023/24 Target**

Investment rate achieved*	Greater than 7 day LIBID	Greater than 7 day LIBID	Greater than 7 day LIBID

*See paragraph 5.6 above

	2021/22 Target	2022/23 Target	2023/24 Target
Average rate of Interest Paid on Council Debt (%)	4.25%	4.25%	4.25%

	2021/22 Target	2022/23 Target	2023/24 Target
Interest on Debt as a % of Gross Revenue Expenditure	4.4%	4.7%	4.5%

	2021/22 Target	2022/23 Target	2023/24 Target
Upper Limit on fixed interest rate Investments	100%	100%	100%

	2021/22 Target	2022/23 Target	2023/24 Target
Upper Limit on fixed interest rate debt	100%	100%	100%

	2021/22 Target	2022/23 Target	2023/24 Target
Upper Limit on variable interest rate investments	75%	75%	75%

	2021/22 Target	2022/23 Target	2023/24 Target
Upper Limit on variable interest rate debt	40%	40%	40%

6.6 **Treasury Management Advisers**

The Council has engaged the services of 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 2021/22.
- 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	£7 million	1 year 6 months 100 days
Non-UK Banks*1 Sovereign rating AA	Orange Red Green	£7 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	£7 million	Liquid
UK Government*4	Yellow	unlimited	6 months
UK Local Authority*4	Yellow	£3 million	1 year
NON-SPECIFIED INVESTMENTS			
UK Bank*1	Purple	£7 million	2 years
Non-UK Banks*1 Sovereign rating AA	Purple	£7 million	2 years
Building Society*2	Purple Yellow	£2 million	2 years 5 years
UK Local Authority*4	Yellow	£3 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- see paragraph 5.6 above.

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 0.11 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:

- 0.006% historic risk of default when compared to the whole portfolio which equates to a potential loss of £1,320 on an investment portfolio of £22m. 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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Item No. 4

AUDIT COMMITTEE **2 FEBRUARY 2021**

SUBJECT:	**INTERNAL AUDIT PROGRESS REPORT**
REPORT BY:	**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 2020-21 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**

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 (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 2020-21 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:	*None*
Lead Officer:	John Scott, Audit manager Telephone 01522 873321

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Internal Audit
Progress Report

City of Lincoln Council
January 2021

For all your assurance needs

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Overview of Assurances
Audit Reports at Draft
Work in Progress

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Key Performance Indicators

Other Matters of Interest Page 9

Appendices Page 10

1 Limited Assurance Reports (None)
2 Assurance Definitions
3 Audit Recommendations
4 2020/21 Audit Plan

John Scott - Audit Manager (Head of Internal Audit)
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Paul Berry – Principal Auditor
paul.berry@lincoln.gov.uk

This report has been prepared solely for the use of Members and Management of Boston Borough Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not bought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Introduction

The purpose of this report is to:

- Provide details of audit work during the period December 2020 – January 2021
- Advise on progress with the 2020/21 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

In this period we have completed an update of the IT Assurance Map and an update of the wider Assurance Map for the whole Authority is in progress.

We have not completed any assurance reviews.

Audit Plan completion at the end of December is 59% against the target of 65%

20/21 planned work will continue to the end April 2021 – this has been accounted for in the completion figure above.

Assurances

No assurance reviews have been completed in this period.

Consultancy – IT Assurance Map (Combined Assurance)

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

0
HIGH ASSURANCE

0
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

1
CONSULTANCY

Consultancy

IT Assurance Map

We have reviewed and updated the assurance map for ICT (separate to the combined assurance exercise) . We have also reviewed key actions from the last exercise.

There has been some progress since March 20 but due to Covid and other priorities some actions have been deferred.

Actions are linked to IT projects (reported into the Technology Board) or to the draft IT risk register; this went to CLT in December 2020 and will be reviewed again in January 2021.

Some of the key actions from the assurance map include:

- Completion of the draft IT risk register and regular review by CLT as the (IT security) governance Board (Final version February 2021)
- Completion of the IT security policy and standards (March 2021)
- Completion of the Hamilton House infrastructure project to improve DR and allow an update of the IT DR plan (March 2021 and June 2021)
- PSN (public services network) compliance (June 2021)
- Completion of existing audit recommendations, including anti-malware (various/2021)
- “Cyber essentials” assessment completion (March 2021)

The two areas that are now red, moving from amber, are linked to resources, which are flagged as a red risk on the IT risk register. This is being managed through the Technology Board and the usual budget processes.

Other work

Work in Progress

- All Weather Pitches (Consultancy) – fieldwork stage. Delayed due to Covid
- Rogue Landlord PIR (Consultancy) – fieldwork stage. Delayed due to Covid
- Covid-19 Assessment – fieldwork has been completed and the report is being agreed.
- Council Tax key controls – fieldwork has been completed and the report is being agreed.
- Western Growth – fieldwork stage..
- NNDR – fieldwork stage
- ICT - Microsoft 365 – fieldwork stage (January 2021)
- ICT - Programme and project management – terms of reference agreed

Other work

- Combined Assurance

The annual process to refresh the Council's Combined Assurance Map and produce a Report is ongoing. Questionnaires have been returned by service managers, discussions have been held with Assistant Directors and a report is being produced

Non-Audit Work

The team are no longer involved in processing Business Grants. Advice and guidance will continue to be provided in this area where required.

Benchmarking

Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators (2020/21)

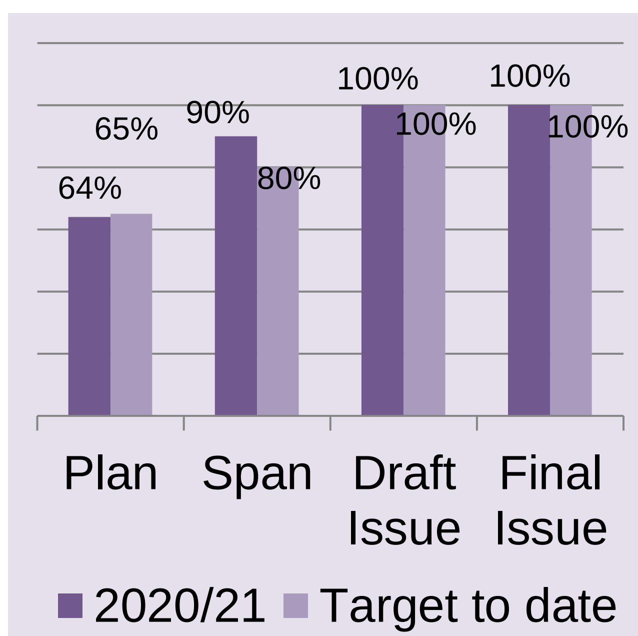
100%

Rated our service Good to Excellent

(This is based on 19/20 work – will be updated as feedback is received on 20/21 audits)

Achievement of Audit KPI's to date

(Span, Draft Issue & Final Issue figures are based on 19/20 work – these will be updated as 20/21 audits are completed)



The Head of Internal Audit's Annual Opinion

The Head of Internal Audit's Annual Opinion

CIPFA have issued recent guidance on the 20-21 HIA opinion as follows:

Your head of internal audit is required by the Public Sector Internal Audit Standards (PSIAS) to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Usually this is presented in an internal audit annual report to the audit committee following the end of the year to which it relates. The annual opinion should be used to inform the organisation's annual governance statement which is published alongside the financial statements. The internal audit annual report should also include a statement on conformance with PSIAS and the results of the quality assurance and improvement programme of the year. Issues for 2020/21

The impact of COVID-19 on internal audit will have been significant for all internal audit teams. As a result you may already be aware of changes to internal audit plans and possibly some changes to internal audit resources. For some heads of internal audit there will be concerns whether sufficient internal audit work will be completed to support issuing an opinion in accordance with the professional standards. For this reason CIPFA has decided to issue guidance about the annual opinion for 2020/21.

The guidance is aimed at the leadership team and audit committee, who are the main recipients of the annual opinion, as well as the head of internal audit who must present it. It should be followed therefore by all responsible for internal audit in local government.

One of the requirements of the PSIAS is that where the head of internal audit believes that the level of internal audit resources will impact adversely on the annual opinion they must raise it. CIPFA would like to see early discussions with the audit committee so that options for mitigating action can be discussed and agreed.

It is felt that the revised plan, together with work on Combined Assurance, will ensure there is no significant impact on the annual opinion linked to governance, risk management and internal control.

National Fraud Initiative 2020 Report England

The Cabinet Office has reported the latest results from the National Fraud Initiative in England.

Latest figures show that between April 2018 and April 2020, a total of £245 million of fraud and overpayments was detected across the UK, taking the total figure identified since 1996 up to £1.9 billion. The most common cases included the abuse of housing benefits, with £26.3 million of fraud found between 2018 and 2020 and claims for single person council tax discounts, with £17.2 million of fraudulent claims detected over the same period. Further investigations over the past two years resulted in 6,092 false applications made by people across the country being removed from housing waiting lists. Other common frauds include the abuse of disabled parking badges and subsidised travel cards. Between 2018 and 2020, investigations led to 151,815 travel passes and 46,750 blue badges being cancelled. https://tinyurl.com/y6yagbea

Recent public interest reports and S114 notices

Audit committee members are likely to be aware of recent developments where the London Borough of Croydon has issued two s114 notices. In addition a public interest report was issued by their external auditor. A Report in the Public Interest was also issued by the auditor of Nottingham City Council in respect of the council's energy company. While these developments will reflect local factors it is useful for audit committee members to be aware of any 'lessons learned' that could be relevant for their organisation.
https://tinyurl.com/yxesqlql

Financial scrutiny practice guide

The Centre for Public Scrutiny and CIPFA have released a new guide for local authorities in England to support effective financial scrutiny following the COVID-19 pandemic.
https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

Assurance Definitions

High	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. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	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. 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.
Limited	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. 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.
Low	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. 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.

An update will be provided to the next meeting in March.

Appendix 4 2020/21 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Covid-19 Assurance (NEW)	Determine any impacts on the risk & control environment.	Sept 20	Sept 20		In progress
Finance & Accounting	Budgetary control key controls	Mar/April 21			
Creditors	Risk Based Audit	January 21			
Debtors	Risk Based Audit	January 21			
Business Continuity / IT Disaster Recovery	Follow up of 2017/18 audit	See comment			IT DR project will complete in August 2021; audit delayed until the 21-22
NNDR	Risk Based Audit	Nov 20			In progress
Council Tax	Key Controls	Nov 20			Draft report
Housing Benefit & CTS	Risk Based Audit	Mar 21			
Partnerships	Annual assurance report to Audit committee	Feb 21			
ICT 1	IT security - Combined Assurance follow up	Dec 20	Dec 20	Jan 21	
ICT 2	Office 365	Jan 21	Jan 21		
ICT 3	Programme management	Jan 21			
De Wint Court	Risk management support	-			Ongoing support
Health & Safety	Risk assessment	Mar 21			

Appendix 4 2020/21 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Growth & Regeneration	Town Deal Governance	Jan 21			
Western Growth	Risk based audit	Oct 20	Oct 20		In progress
Counter Fraud	NFI Risk Register update Strategy update Strategy action plan	Oct 20 Jan 21 Mar 21 Mar 21			In progress Completed
Governance	Annual assurance work	Mar 21			
Risk Management	Annual assurance work	Mar 21			
Combined Assurance	2020/21 report	Nov 20	Nov 20		In progress
Annual Internal Audit Report	2019/20 report				Completed
IA Strategy & Planning	2021/22 Audit Plan	Feb 21			
<u>Additional Work</u>					
Rogue Landlord Project	Post Implementation Review	Oct 20	Oct 20		In progress Delay due to Covid
Self Isolation Payments	Advice & support				Completed
Local Restrictions Support Grant	Assist the Business Cell with grant processing				Completed

Item No. 5

AUDIT COMMITTEE **2 FEBRUARY 2021**

SUBJECT:	**AUDIT COMMITTEE TERMS OF REFERENCE**
DIRECTORATE:	**CHIEF EXECUTIVE**
REPORT AUTHOR:	**JOHN SCOTT, AUDIT MANAGER**

1. Purpose of Report

1.1 To obtain comments on the Audit Committee Terms of Reference as part of an annual review.

2. Executive Summary

2.1 The Audit Committee terms of reference are based on best practice issued by CIPFA, (Chartered Institute of Public Finance and Accountancy) and the Audit Committee is also referenced within the Public Sector Internal Audit standards.

2.2 CIPFA updated their guidance on Audit Committees including standard terms of reference in 2018, after which revised terms of reference were agreed to reflect this guidance.

3. Background

3.1 CIPFA's 2018 guidance on the function and operation of audit committees in local authorities and police bodies, represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

3.2 Guidance recognises that audit committees are a key component of governance. The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation.

3.3 Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the Accounts and Audit (England) Regulations 2015 state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs"

4. Changes to Terms of Reference

4.1 The last changes to the terms of reference were in July 2018. The current terms of reference are attached at Appendix A and there are no suggested changes at the current time.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

There are no direct financial implications.

5.2 Legal Implications including Procurement Rules

There are no direct legal implications

6 Recommendation

6.1 That the Audit Committee note the current Audit Committee terms of reference.

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 Telephone (01522) 873321

Audit Committee terms of reference (Constitution) **Appendix A**

9.1 Audit Committee
The Council will appoint an Audit Committee.

9.2 Composition
Audit Committee
(a) The Audit Committee will comprise • seven Councillors • one independent member
(b) The seven councillors of the Audit Committee should include the Chair of Performance Scrutiny Committee.
(c) A member of the Executive may not be a member of this Committee

9.3 Statement of purpose
(a)The Audit Committee will have the following roles and functions:

(b)The audit committee is a key component of the City of Lincoln's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
(c) The purpose of the Audit Committee is to provide independent assurance to the Council members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the City of Lincoln's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
(d) To decide upon and authorise allowances to the Committee's Independent Member.

Governance, risk and control
(a) To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
(b) To engage with relevant committees to help support ethical values and reviewing arrangements to achieve those values as appropriate
(c) To appoint Lead Member to monitor and oversee Information Governance practices within the Council along with the Information Governance Board.
(d) To monitor the effectiveness of the Authority's risk management Arrangements (development and operation),
(e) To monitor the Council's anti-fraud and anti-corruption arrangements (including an assessment of fraud risks);
(f) To monitor the counter-fraud strategy, actions and resources.
(g) To monitor progress in addressing risk-related issues reported to the committee.
(h) To maintain an overview of the Council's constitution in respect of contract procedure rules and financial procedure rules;
(i) To review any issue referred to it by the Chief Executive, a Strategic Director, Monitoring Officer, Chief Financial Officer or any Council body as the Chair considers appropriate within the general Terms of Reference of the Committee
(j) To review the Authority's assurance statements, including the Annual Governance Statement prior to approval, ensuring it properly reflects the risk environment and

supporting assurances (including internal audit's annual opinion on governance, risk and control)
(k) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
(l) To review the Council's arrangements for corporate governance, including the local Code of Corporate Governance and agreeing necessary actions to ensure compliance with best practice (the good governance framework, including the ethical framework)
(m) To review the governance and assurance arrangements for significant partnerships or collaborations.
(n) To consider the Council's compliance with its own and other published standards and controls;
(o) To report and make recommendations to Executive or Council on major issues and contraventions;
(p) To have rights of access to other Committees of the Council and to strategic functions as it deems necessary.
(q) To receive on an annual basis a report on the Treasury Management Strategy before approval by the Executive and Full Council.
(r) To be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Internal audit
(a) Receive and consider the annual report and opinion of the Internal Audit Manager including conformance with Internal Audit Standards
(b) Review a summary of internal audit activity including internal audit reports on the effectiveness of internal controls, seeking assurance that action has been taken where necessary on the implementation of agreed actions;
(c) To consider summaries of specific internal audit reports as requested by the Audit committee.
(d) To Approve (but not direct) internal audit's risk-based annual audit plan including resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those sources.
(e) Audit Committee Chair to approve significant interim changes to the risk based internal audit plan and resource requirements followed by report to Audit Committee.
(f) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
(g) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments
(h) To monitor audit performance, including QAIP results and any nonconformance with PSIAS and LGAN.
(i) To consider whether the non-conformance is significant enough that it must be included in the AGS
(j) Consider the annual review of effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations
(k) To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years
(l) To receive reports outlining the action taken where the Audit manager has concluded that management has accepted a level of risk that may be

unacceptable to the authority or there are concerns about progress with the implementation of agreed actions
(m) To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.
(n) To have the right to call any officers or Members of the Council as required to offer explanation in the management of internal controls and risks.
(o) To approve the internal audit charter.

External audit
(a) To consider the reports of external audit and inspection agencies, including the external auditor's annual letter, relevant reports, and the report to those charged with governance
(b) To consider specific reports as agreed with the external auditor.
(c) To advise and recommend on the effectiveness of relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
(d) To comment on the scope and depth of external audit work and to ensure it gives value for money.
(e) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
(f) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
(l) To commission work from internal and external audit, as required, and as resources allow;

Financial reporting
(a) The Audit Committee, as the Committee "Charged with Governance" should consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts
(b) To review the annual statement of accounts. The Committee should consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
c) The Committee will monitor management action in response to any issues raised by external audit 151

Accountability arrangements
(a) To report to full council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

9.4 Proceedings of the Audit Committee
(1) The Audit Committee must conduct its proceedings in accordance with Rules 6-8, 12.3 to 12.7, 14 -17 and 18-28 (but not Rule 23.1 or 26 of the Council Procedure Rules set out in Part 4 of this Constitution.

9.5 Quorum
Audit Committee
The quorum for any meeting of the Audit Committee shall be three Councillors.

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Item No. 6

AUDIT COMMITTEE **2 FEBRUARY 2021**

SUBJECT:	**INTERNAL AUDIT CHARTER**
REPORT BY:	**AUDIT MANAGER**
LEAD OFFICER:	**JOHN SCOTT, AUDIT MANAGER**

1. Purpose of Report

1.1 To undertake the annual review of the Internal Audit Charter.

2. Executive Summary.

2.1 The Audit Charter formally defines Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and defines the scope of Internal Audit activities. It is linked to Internal Audit's roles and responsibilities set out in the Constitution (Financial Procedure Rules) but provides more detail around compliance with the Accounts and Audit Regulations and the Public Sector Internal Audit Standards. It is reviewed annually.

3. Main report

3.1 The current Charter was approved by the Audit Committee and Council in December 2019.

There has been no new national guidance since then and no changes are suggested at this time.

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

The Accounts and Audit Regulations require that internal audit takes into account the Public Sector Internal Audit Standards (The Standards) which are mandatory. The Charter sets out the roles and responsibility of Internal Audit in line with these standards and the Chartered Institute of Public Finance (CIPFA) have also developed an application note for the Standards – which sets out the proper practice for Internal Audit in local government. The Charter supplements the Constitution (Financial Procedure Rules) in the area of Internal Audit.

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 The current Charter is noted.

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:	John Scott, Audit Manager Telephone (01522) 873321

Internal Audit Charter 2021 (V0.2)

Our Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight to our clients

The Council expects the internal audit service to achieve the mission statement through its overall delivery arrangements – this Charter sets out how this is done.

Assurance LINCOLNSHIRE
For all your assurance needs

Organisation	City of Lincoln Council
Title	Internal Audit Charter
Author - name and title	John Scott Audit Manager
Owner - name and title	John Scott Audit Manager
Date	December 2019
Approvals	CMT/Audit Committee
Filename	
Version	V.01
Next review date	February 2022

Revision	Originator of change	Date of change	Change description
V0.2	Audit Manager	February 2021	Reviewed - no changes

Internal Audit Charter

Purpose of this Charter

This Charter formally defines Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and defines the scope of Internal Audit activities.

Internal Audit's Purpose

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

Internal Audit also provides the Audit Committee with information necessary for it to fulfil its own responsibilities and duties.

Implicit in Internal Audit's role is that it supports the organisation's management to fulfil its own risk, control and compliance responsibilities.

** This is also the "definition" of internal auditing.*

Internal Audit's Authority

There is a statutory requirement for the Council to have an internal audit of its governance, risk and control processes. The Accounts and Audit Regulations 2015, more specifically require that the audit takes into account the Public Sector Internal Audit Standards (**The Standards**) or guidance which are mandatory.

These Standards set the basic principles for carrying out internal audit in the public sector and provide criteria against which quality and performance can be evaluated. The Chartered Institute of Public Finance (CIPFA) have also developed an application note for the Standards – which sets out the proper practice for Internal Audit in local government.

Internal Audit derives its authority from these, from this Charter and from the Council's Constitution, specifically the Financial Procedure Rules

The Head of Internal Audit (Audit Manager) is the "Chief Audit Executive". The HIA and internal audit staff are authorised to:

- Have unrestricted access to all the organisation's records, property, and personnel, management and elected members relevant to the performance of its engagements. Including those relevant to services provided in partnership or under contract with external organisations.
- Receive information and explanations that are sought in the course of audit work
- Obtain the necessary assistance of the organisation's personnel in relevant engagements, as well as other specialised services from within or outside the organisation.

Internal Audit has no authority or management responsibility for any of its engagement subjects.

Internal Audit (and its auditors) will not make any management decisions or engage in any activity which could reasonably be construed to compromise its independence. Auditors are free from operational system involvement or influence.

Internal Audit Charter

Internal Audit's Responsibility

The Head of Internal Audit is responsible for all aspects of Internal Audit activity, including strategy, planning, performance, quality and reporting.

For each Authority, the Head of Internal Audit will:

Strategy

- Develop and maintain an Internal Audit Strategy.
- Review the Internal Audit Strategy at least annually with management and Audit Committee.

Planning

- Develop and maintain a risk based Internal Audit Plan
- Engage with Management and consider the organisation's strategic and operational objectives and related risks in the development of the Internal Audit Plan.
- Review the Internal Audit Plan periodically with management to reflect changes in the risk environment and these changes are approved when significant.
- Present the Internal Audit Plan, including updates, to the Audit Committee for periodic review and approval.
- Agree an Internal Audit Budget sufficient to fulfil the requirements of this Charter, the Internal Audit Strategy, and the Internal Audit Plan.
- The Internal Audit budget is reported to the Executive and Full Council for approval annually as part of the overall Council's budget. The Audit Manager will draw to the attention of the Chief Executive, Section 151 officer and the Audit Committee any resourcing issues that potentially impact on the effectiveness of the Internal Audit function.
- Coordinate with and (where relevant) provide oversight of other control, monitoring and assurance functions, including Risk Management, external audit.
- Consider the scope of work of the external auditors (and other assurance providers) for the purpose of providing optimal audit coverage to the organisation.

The Head of Internal Audit should be consulted about significant proposed changes to the internal control system and the implementation of new systems - providing advice on the standards of controls to be applied. This need not prejudice the audit objectivity when reviewing systems at a later date.

In developing the Internal Audit Plan we also take account of the Council's assurance framework – using the Three Lines of Assurance (see below) which is obtained through our Combined Assurance work.

Internal Audit Charter

Performance

- Implement and deliver the risk based Internal Audit Plan
- Maintain professional resources with sufficient knowledge, skills and experience to meet the requirements of this Charter, the Internal Audit Strategy and the Internal Audit Plan.
- Allocate and manage resources to accomplish Internal Audit engagement objectives.
- Establish and maintain appropriate internal auditing procedures incorporating best practice approaches and techniques.
- Monitor delivery of the Internal Audit Plan using appropriate performance indicators.
- Hold regular senior management / statutory officer liaison meetings.

Quality

- Establish a Quality Assurance Framework is to:
  - ✓ provide a system for monitoring and evaluating our effectiveness and conformance with the **Standards**.
  - ✓ ensure continuous improvement within the internal audit service.
  - ✓ ensure compliance with professional Standards, Code of Ethics and Council Codes of Conduct.
  - ✓ meet client expectations / demonstrate our importance to the business.
  - ✓ facilitate the Head of Audit's statement on conformance with the International Standards for the Professional Practice of Internal Auditing.

Internal Audit Charter

- Undertake annual assessment of the service and its compliance with the UK Public Sector Internal Audit Standards (the **Standards**) – with this assessment being undertaken through an external assessment at least every five years by a suitably qualified, independent assessor.
- Obtain regular feedback on the quality and impact of our work (added value).

The **Standards** are principles-focused and consist of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance. The ten **Core Principles** set out what we must do to be considered effective – all principles must be present and operating effectively to achieve our mission, they are:-

1 demonstrates integrity.
2 demonstrates competence and due professional care.
3 is objective and free from undue influence (independent).
4 aligns with the strategies, objectives and risks of the organisation.
5 is appropriately positioned and adequately resourced.
6 demonstrates quality and continuous improvement.
7 communicates effectively.
8 provides risk based assurance.
9 is insightful, proactive and future focused.
10 promotes organisational improvement

Reporting

- Issue a report to management at the conclusion of each engagement to confirm the results of the engagement and the timetable for the completion of agreed management actions to be taken.
- Provide periodic reports to management and the Audit Committee summarising Internal Audit activities and the results of Internal Audit Engagements.
- Provide periodic reports to management and the Audit Committee on the status of agreed management actions taken in response to Internal Audit Engagements.
- Report annually to the Audit Committee and management on Internal Audit performance against goals and objectives including an annual assurance opinion on governance, risk and control. This will also help inform the Council's Annual Governance statement.
- Report as needed to the Audit Committee on management, resource, or budgetary impediments to the fulfilment of this Charter, the Internal Audit Strategy, or the Internal Audit Plan.
- Inform the Audit Committee of emerging trends and practices in internal auditing.
- Provide results of the annual review on the effectiveness of internal audit (including outcomes of its Quality Assurance and Improvement programme to both the Management and the Audit Committee. This will include a statement on organisational independence of Internal Audit and conformance with the Code of Ethics. Any significant non-conformance must be included in the Annual Governance Statement.
- The Head of Internal Audit will meet informally in private with members of the Audit Committee or the Committee as a whole as required.
- Report as necessary any significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee or any response to risk by management that may be unacceptable to the organisation.

Internal Audit Charter

Internal Audit's Scope

The scope of Internal Audit activities includes all activities conducted by the organisation - the entire control environment including those services provided in partnership or under contract with external organisations. There are no restrictions.

The Internal Audit Plan identifies those activities that have been identified as the subject of specific Internal Audit engagements.

Assurance engagements involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are **determined by Internal Audit**.

Consulting engagements are advisory in nature and are generally performed at the **specific request of management**. The nature and scope of consulting engagement are subject **to agreement with management** and should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Internal Audit should not assume management responsibility.

The Head of Internal Audit will assist with the implementation of the Council's counter fraud policy/strategy and the investigation of fraud and irregularities in line with policy/strategy and the constitution. The HIA must be notified of all suspected or detected fraud, corruption or impropriety

Consultancy engagements should only be performed where resources and skills exist and should focus on governance, risk and control – supporting the Head of Internal Audit annual opinion. They **should not** replace assurance engagements.

The Head of Internal Audit cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of accountability. They should ensure that appropriate and adequate risk management, control systems, accounting records, financial processes and governance arrangements exist (the control environment), without depending on internal audit activity to identify weaknesses or control failures.

Independence and Internal Audit's Position within the organisation

To provide for Internal Audit's independence, the Head of Internal Audit reports directly to the Audit Committee (The Board) and the Corporate Management (Senior Management) Team and the Chief Executive.

Internal Audit also supports the Chief Finance Officer, Monitoring Officer and the Head of Paid Service discharge statutory responsibilities including those responsibilities set out in the Constitution.

Internal Audit Charter

The Head of Internal Audit has free and full access to the Chair of the Audit Committee.

The Head of Internal Audit reports administratively to the Section 151 Officer (CFO) who provides day-to-day oversight.
The Chief Finance Officer reports directly to the Chief Executive as Head of Paid Service

The appointment or removal of the Head of Internal Audit will be performed in accordance with established procedures.

Internal Audit service will have an impartial, unbiased attitude and will avoid conflicts of interest.

If the independence or objectivity of the Internal Audit Service is impaired, details of the impairment should be disclosed to either the Section 151 Officer, or the Chair of the Audit Committee, or both dependent upon the nature of the impairment.

The Internal Audit Service is not authorised to perform any operational duties for the organisation; initiate or approve accounting transactions external to the Internal Audit Service; or direct the activities of any organisation employee not employed by the Internal Auditing Service, except to the extent such employees have been appropriately assigned to Service or to otherwise assist the Internal Auditor.

Where the Head of Internal Audit is responsible for delivery of operational functions other than Internal Audit. External assurance is sought on these - overseen by the Section 151 Officer.

Constructive working relationships make it more likely that internal audit work will be accepted and acted upon – although the internal auditor does not allow their objectivity or impartiality to be impaired.

Audit Committee

The Audit Committee is a key component of the Council's governance framework providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. It provides independent assurance to the Council members of the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

For the purposes of the UK Public Sector Internal Audit Standards the Audit Committee performs the role of the 'Board'. The Audit Committee complies with CIPFA best practice standards through their terms of reference and work programme.

The Audit Committee will:

- Approve the internal audit charter.
- Approve the risk-based internal audit plan.
- Receive reports from the head of internal audit on internal audit activity's performance relative to its plan and other matters.

Internal Audit Charter

Standards of Internal Audit Practice

Internal Audit will perform its work in accordance with the International Professional Practices Framework of the Chartered Institute of Internal Auditors, and further guided by interpretation provided by the Public Sector Internal Audit Standards (the **Standards**), the CIPFA Local Government Application note and the CIPFA publication on the "Role of the Head of Internal Audit". This Charter is a fundamental requirement of the Framework.

External Work

Assurance Lincolnshire provides internal audit services to a number of public sector external clients. Approval is sought from the Section 151 officer and the Audit Committee before entering into any significant engagement. The level and extent of external work is also reported in the approval of the audit plan and annual report.

The nature and extent of work for external clients is kept under review to ensure:

a) it does not impinge on the audit work carried out for the Council, and;
b) there is no conflict of interest or impairment of independence arising from this work.

Approval and Validity of this Charter

This charter shall be reviewed and approved annually by Senior Management and by the Audit Committee as the Board of the organisation and Council .

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Item No. 7

AUDIT COMMITTEE **2 FEBRUARY 2021**

SUBJECT:	**AUDIT COMMITTEE AND INTERNAL AUDIT REVIEW OF EFFECTIVENESS**
DIRECTORATE:	**CHIEF EXECUTIVE**
REPORT AUTHOR:	**JOHN SCOTT, AUDIT MANAGER**

1. Purpose of Report

1.1 To provide information on the review of effectiveness for the Audit Committee and Internal Audit and obtain agreement in terms of the composition of a review group.

2. Executive Summary

It is good practice to undertake regular “reviews of effectiveness” of internal audit and the audit committee against terms of reference, standards and guidance.

3. Background

3.1 The previous internal assessment was reported to Audit Committee in December 2018.

3.2 Both internal audit and the audit committee have recently updated their terms of reference and these were reviewed again in February 2021.

3.2 Internal Audit was subject to a formal external assessment against audit standards in October 2016, and there will be a further assessment later in 2021.

4. Review

4.1 It is suggested that a review group is formed in February/March consisting the Chair, Vice Chair and Independent member, plus any other member who may wish to be included. The Chief Financial Officer and Audit Manager will also assist. This review group will report back to the Committee in June 2021.

5. Organisational Impacts

5.1 Finance
There are no direct financial implications

5.2 Legal Implications including Procurement Rules

The review of effectiveness aids compliance with the Accounts and Audit Regulations

6 Recommendation

6.1 Members agree on the composition of the review group.

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:	John Scott , Audit Manager Telephone (01522) 873321

Item No. 8

AUDIT COMMITTEE **2 FEBRUARY 2021**

SUBJECT:	**AUDIT COMMITTEE WORK PROGRAMME**
REPORT BY:	**AUDIT MANAGER**
LEAD OFFICER:	**JOHN SCOTT, AUDIT MANAGER**

1. Purpose of Report

1.1 To provide details of the Audit Committee work programme for 2020/21

2. Executive Summary.

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

3. Main report

3.1 The proposed work programme is attached at Appendix A. The frequency of meetings has been reviewed and revised taking account of impacts relating to the pandemic. It is considered appropriate for 2020/21.

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 The Audit Committee should comment on and agree the work programme for 2020/21.

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	No

Procedure Rules apply?	
How many appendices does the report contain?	One
List of Background Papers:	None
Lead Officer:	Audit Manager Telephone 873321

Appendix A

AUDIT COMMITTEE
AUDIT WORK PROGRAMME FOR 2020/21

Meeting dates	Audit Items – Revised Agenda	Training (Suggested)
13th June 20	Meeting cancelled	
23rd July 20	• Annual Internal Audit Report • Internal Audit Progress report (19/20) • Audit Committee Work Programme	• Audit Committee effectiveness (Dec 2020)
27th Aug 20	• Statement of Accounts (Draft) • Annual Governance Statement (Draft) • External Audit Progress report • Audit Committee Work Programme	• Local Government Financial Statements explained • Annual Governance Statement/Corporate Governance (Part of Meeting)
24th Sept 20	• Internal Audit progress report • Annual Complaints report • Audit recommendations report • Information Governance Update • Whistleblowing policy • 12 Month fraud and error report • Audit Committee Work Programme • Internal Audit Plan 20-21	

17th Nov 20	• Statement of Accounts (including Annual Governance Statement) (Final) • Annual Governance Report (Isa 260)/ Auditors Report (External Audit) • Going Concern report • Audit Committee Work Programme	
15th Dec 20	• Audit recommendations report • Internal Audit progress report • Six Month Fraud and Error report • Annual Governance Statement - monitoring • Audit Committee Work Programme	• Counter Fraud (e-learning)
2nd Feb 21	• Internal Audit Progress report • Treasury management policy and strategy (consultation prior to approval by Council) • Audit Committee Work Programme • Counter fraud policies • Fraud risk register • Terms of Reference review - Internal Audit (Audit Charter) • Terms of Reference review – Audit Committee • Audit / Audit Committee effectiveness	• Treasury Management
23rd Mar 21	• Internal Audit Progress report • Audit recommendations report • Combined Assurance report • Annual Governance Statement –update report • Internal Audit Strategy and Plan 21-22 • Risk Management Strategy / annual report • Statement on Accounting Policies • External Audit Inquiries – 20/21 Statement of	

	Accounts (those charged with governance) • **IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations** • **External Audit plan** • **Audit Committee Work Programme** • **Financial Management Code / Financial Resilience** • **Anti-Money laundering policy review** • **Information Governance update** • ***Counter Fraud Policies – Fraud Strategy review (June 21)*** • ***Review of effectiveness (IA/Audit Committee) (June 21)***	

A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.

AUDIT COMMITTEE **2 FEBRUARY 2021**

SUBJECT:	**FRAUD RISK REGISTER**
DIRECTORATE:	**CHIEF EXECUTIVE**
REPORT AUTHOR:	**JOHN SCOTT, AUDIT MANAGER**

1. Purpose of Report

1.1 To update members with the latest version of the fraud risk register.

2. Executive Summary

2.1 As part of the Council's fraud strategy a counter fraud risk register is maintained, and members are requested to consider this annual update.

3. Background

3.1 The Audit committee has a responsibility within its terms of reference to monitor the Council's anti-fraud and anti-corruption arrangements including an assessment of fraud risks.

3.2 The register was last updated in December 2019.

4. Risk register

4.1 Highest risks

The register includes a range of Amber risks

Highest Amber risks:

13 - ICT – high (Critical) impact
15 – Council Tax – high (probable) likelihood

Other Amber risks with "possible" likelihood or "major " impact:

2 -Procurement
3 -Creditor payments
9 -Treasury
10 -Property
11 -Grants
17 -CTS
18 -HB
19 -Housing
23 -Election
24 -Bribery
25 -Scams
26 -Identity fraud

4.2 New risks

There were no new fraud risks included but government covid grants were added to risk 11 “Grants - Housing and Economic Support / Third Sector”

4.3 Removed risks

None

4.4 Changes in risk score

Risk 11 grants - now 2,2 on target risk, was 1,2
Risk 25 scams - now 2,2 on target risk was 1,2

4.5 Mitigation/Actions

Some of the main mitigations for the highest risks are:

15 Council Tax

The latest bulk review was due to be undertaken during April –August 2020 and then on a rolling review from October 2020 onwards (pending successful tender process). However due to COVID the SPD bulk review has been postponed until April – August 2021, with the rolling review starting October 2021 (post tender process).

13 IT/Data/Cyber fraud

Finalise updated IT security policies and roll out
Cyber security training
Anti-malware audit recommendations
Finalise IT risk register
PSN compliance
Cyber essentials
IT projects (relevant security projects)
IT DR project work

(all these actions are included within existing audit recommendations or the ICT project register/risk register)

4.6. Links to CIPFA Fraud and Corruption tracker 2019

The CIPFA fraud and corruption tracker highlights the following as key fraud risks and comparison to our own risk assessment :

CIPFA	ColC Risk Score
Council tax	Amber
Disabled parking	N/A
Housing fraud	Amber
Business rates	Green

And other risks as:

CIPFA	ColC Risk Score
Adult social care	N/A
Insurance	Green
Procurement	Amber
No recourse to public funds/welfare assistance	Amber
Economic and voluntary sector support and debt	Amber
Payroll, recruitment, expenses and pension	Green
Mandate fraud and manipulation	Amber

The CIPFA survey shows that Council tax fraud represents 78% of the identified instances of fraud with an estimated value of £30.6m followed by disabled parking concession (Blue Badge scheme) and housing frauds representing 10% and 5% of the total cases of UK public sector fraud, respectively

The survey highlights a steady downward trend in the number of housing and tenancy related frauds detected/prevented, decreasing by roughly 20% year-on-year. This trend likely indicates successful efforts by local authorities to tackle housing fraud and remove illegally sublet properties from the system. The main types of housing fraud are Right to buy and Illegal sublet with other tenancy frauds that are neither right to buy nor illegal sublet, and may include succession and false applications.

Business rate fraud in the survey represents 2% of the total estimated number of fraud cases detected or prevented in 2018/19. This represents a marginal increase from the previous year’s figure of 1.7% and is reflected in the fact that councils reported it as the fifth highest fraud risk area on a national scale and third highest specific to districts. Examples of business rates fraud include fraudulent applications for exemptions, tax relief and the failure to list properties as being a business address. It often takes a visit from someone in the fraud team to discover the truth. Even with the increased percentage overall, the estimated loss decreased to £8m from £10m the previous year.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

There are no direct financial implications.

5.2 Legal Implications including Procurement Rules

There are no direct legal implications

6 Recommendation

6.1 That the Audit Committee note and comment on the fraud risk register

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 Telephone (01522) 873321

Item No. 10

SUBJECT:	**EXCLUSION OF THE PRESS & PUBLIC**
DIRECTORATE:	**CHIEF EXECUTIVE & TOWN CLERK**
REPORT AUTHOR:	**CAROLYN WHEATER, MONITORING OFFICER**

1. **Purpose of Report**

1.1 To advise members that any agenda items following this report are considered to contain exempt or confidential information for the reasons specified on the front page of the agenda for this meeting.

2. Recommendation

2.1 It is recommended that the press and public be excluded from the meeting at this point as it is likely that if members of the press or public were present there would be disclosure to them of exempt or confidential information.

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