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COMMITTEE: **JOINT AUDIT AND STANDARDS COMMITTEE**

VENUE: **Elisabeth Room - Endeavour House, 8 Russell Road, Ipswich**

DATE: **Monday, 12 November 2018 at 9.30 am**

BABERGH MEMBERS

Conservative Group	Independent Conservative Group	Independent Group	Labour Group
Tom Burrows – VC Michael Creffield Jennie Jenkins – C Frank Lawrenson Peter Patrick	John Hinton	Derek Davis	Tony Bavington

MID SUFFOLK MEMBERS

Conservative and Independent Group	Liberal Democrat Group	Green Group
Michael Burke John Levantis Lesley Mayes Suzie Morley Dave Muller Kevin Welsby	Mike Norris	Andrew Stringer

AGENDA

ITEM	BUSINESS	PAGES
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PART 1

1 **SUBSTITUTES AND APOLOGIES**

Any Member attending as an approved substitute to report giving his/her name and the name of the Member being substituted.

2 **DECLARATION OF INTERESTS**

Members to declare any interests as appropriate in respect of items to be considered at this meeting.

3 **JAC/18/7 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 30 JULY 2018**

1 - 6

ITEM	BUSINESS	PAGES
4	PETITIONS	
	The Corporate Manager – Democratic Services to report, in accordance with Council’s Rules of Procedure, the receipt of any petitions submitted to the Chief Executive.	
5	QUESTIONS BY THE PUBLIC	
	To consider questions from, and provide answers to, the public in relation to matters which are relevant to the business of the meeting and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.	
6	QUESTIONS BY COUNCILLORS	
	To consider questions from, and provide answer to, Councillors on any matter in relation to which the Committee has powers or duties and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.	
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Note: The date of the next meeting is Monday 14 January 2019 at 9.30 a.m.

Introduction to Public Meetings

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Agenda Item 3

BABERGH AND MID SUFFOLK DISTRICT COUNCILS

Minutes of the meeting of the **JOINT AUDIT AND STANDARDS COMMITTEE** held in the Elisabeth Room - Endeavour House, 8 Russell Road, Ipswich on Monday, 30 July 2018

PRESENT:

Councillor: Dave Muller (Chair)

Councillors:	Melanie Barrett	Michael Burke
	Michael Creffield	Derek Davis
	Jennie Jenkins	Lesley Mayes
	Suzie Morley	Mike Norris
	Andrew Stringer	Kevin Welsby

In attendance: Assistant Director – Corporate Resources (KS)
Corporate Manager – Finance (ME)
Corporate Manager – Internal Audit and Deputy Monitoring Officer (JS)
Senior Financial Services Officer (SP)
Senior Governance Support Officer (LS)
Suresh Patel and Melanie Richardson (Ernst and Young LLP) were present for the Statements of Accounts and Auditor's Report (Minute No 72 refers)

Apologies: Tony Bavington
Tom Burrows (Vice-Chair)
Siân Dawson
Frank Lawrenson
John Levantis

1 SUBSTITUTES AND APOLOGIES

2 DECLARATION OF INTERESTS

Councillor Dave Muller declared a local non-pecuniary interest in Minute No 72 as a Trustee of the Mid Suffolk Citizens Advice Bureau (CAB).

3 JAC/18/1 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 14 MAY 2018

The wording of Minute No 62.3 – third bullet point – was queried and it was agreed that the signing of the Minutes as a correct record would be put on hold pending clarification of this item.

It was RESOLVED

That, subject to clarification if required to the wording of Minute No 62.3, the Minutes of the meeting held on 14 May 2018 be confirmed and signed as a correct record.

4 PETITIONS

None received.

5 QUESTIONS BY THE PUBLIC

None received.

6 QUESTIONS BY COUNCILLORS

None received.

7 JAC/18/2 STATEMENT OF ACCOUNTS 2017/18 AND AUDITOR'S REPORT

7.1 Members had before them a covering report – Paper JAC/18/2 with Appendices B and C (Statements of Accounts 2017/18 for Babergh and Mid Suffolk respectively) which had been published with the agenda for the meeting, together with the following documents:-

- Appendix A to Paper JAC/18/2 – External Auditor's Joint Report for 2017/18 (circulated to Members on 25 July 2018 and published on the Council's website 26 July).
- Update to Joint Audit and Standards Committee setting out the changes to Statement of Accounts since the publication of Paper JAC/18/2 (circulated to Members at the meeting).

7.2 Suresh Patel, Associate Partner from the Councils' External Auditor, Ernst and Young LLP, together with Melanie Richardson, were present at the meeting.

7.3 Mr Patel began his introduction to the Auditor's report by informing the Committee that, for various reasons including the earlier deadlines this year, it would not be possible for the accounts to be signed off by 31 July. He made reference to the updated position as set out in Appendix A to Paper JAC/18/1 and to the adjustments which are still required to the Accounts, including in relation to CIL, the pensions liability estimate and, in Babergh's case, the valuation of Borehamgate. He confirmed that an unqualified audit opinion would be issued for both Councils.

7.4 In response to a question from Councillor Jenkins about possible penalties for late submission, Mr Patel explained that there was no financial penalty on the Councils, although they would be listed as not meeting the deadline. He added that approximately 10% of Councils across the country were in a similar position in this first year of the new arrangements.

7.5 Melissa Evans, Corporate Manager – Finance advised Members that future Narrative report facts would have more comparatives back to previous years like the planning approvals and other information such as % spent would be included for other items including Disabled Facility Grants (DFG's) in order to tell a fuller story. Narrative report General Fund pie charts will also include the previous year, for comparative purposes. More use would be made of pictures.

7.6 Sue Palmer, Senior Financial Services Officer, took Members through the Changes to the Statements of Accounts, which related to the following as listed in the Update document:-

1. **Grant income**

A new description and table added for the Disclosure of Grants Received in Advance (MS/BDC)

2. **PV Panel – Feed in Tariff and heat incentive scheme income** Income had been netted off expenditure. Amended to increase both gross expenditure and gross income. Also re-stated 2016/17 amounts. (MS/BDC)

3. **Property Plant and Equipment – Stowmarket Middle School** Amendment to value of non-operational asset. The incorrect value had been used and was overstated by £845k. The asset value and revaluation reserve has been amended. (MSDC)

Sue Palmer also made reference to the District Valuer's over-valuation of Borehamgate Sudbury as an investment property. (BDC)

4. **Audit Opinion**

Updated from the Audit Results Report presented to Committee (including reference to Group Accounts). (MS/BDC)

5. **Pension Scheme**

Future liabilities and assets valued at 31 March 2018 updated to agree with adjusted Note 32 (pensions). (MS)

6. **Employers Pension**

Next year's employer's contribution updated to correct year. (MS)

7.7 During the course of the Committee's consideration of this matter, the following were also identified for correction, or to be followed-up in response to questions from Members:-

- Narrative report – the number of completed Neighbourhood Plans to be checked and amended if necessary.
- MSDC page 4 of Narrative report – net favourable variance to be amended to £3.797m to tie up with table on page 6.
- MSDC page 28 Note 6 – Councillor Burke asked why the depreciation etc figure had gone up from 6,291 in 16/17 to 9,395 in 17/18.
- MSDC page 52 – Note 23 – Councillor Stringer asked for more information about why the Members expenses had increased from £20k in 16/17 to £27k in 17/18.
- MSDC page 58 – Note 27 – CAB. Need to amend the wording to say that Councillor Muller has 'an interest' and not 'a controlling interest'.

- MSDC page 65 Note 32 – Councillor Burke asked why the Current service cost figure had increased from 1,871 in 16/17 to 3,043 in 17/18.
- More training will be put in place, following the unfortunate cancellation of a recent planned session.
- The deficit on the HRA (BDC) continues to be monitored through reports to Cabinet.

7.8 Mr Patel and the Assistant Director responded to a question about the degree of independence of the External Audit process by outlining the national procurement arrangements for the public sector audit appointments and its application to local authorities.

7.9 Before proceeding to the vote, the Chairman referred to an amendment which would be required to each of Recommendations 3.2 and 3.3 of Paper JAC/18/2, in view of the delay in finalising the Accounts as referred to above. Members would be asked to delegate authority to the Section 151 Officer in consultation with the relevant Chairman to approve the finalised versions of the Accounts.

It was RESOLVED

(1) That the External Auditor's Joint Report as set out in Appendix A to Paper JAC/18/2 be approved.

(2) That the Section 151 Officer, in consultation with the Babergh Chairman of Joint Audit and Standards, be authorised to approve the final Statement of Accounts for 2017/18 for Babergh District Council as set out in Appendix B to Paper JAC/18/2, which will be amended to reflect the outcome of the audit.

(Note – only the four Babergh Members voting, all in favour)

(3) That the Section 151 Officer, in consultation with the Mid Suffolk Chairman of Joint Audit and Standards, be authorised to approve the final Statement of Accounts for 2017/18 for Mid Suffolk District Council as set out in Appendix C to Paper JAC/18/2, which will be amended to reflect the outcome of the audit.

(Note – only the seven Mid Suffolk Members voting, all in favour)

8 JAC/18/3 JOINT ANNUAL TREASURY MANAGEMENT REPORT - 2017/18

8.1 Sue Palmer, Senior Financial Services Officer, introduced Paper JAC/18/3 and took Members through the key points which included the following:-

- Continuing uncertainty around the UK economy.
- The reasons for both Councils exceeding their daily bank account limit on one occasion each, as referred to in paragraphs 4.6 and 4.7 of the report.
- Short term debt – BDC increased by £6m, MSDC increased by £6.5m.

- Funding Circle returns continue to fall – BDC from 5.58% to 4.54%, MSDC from 5.7% to 4.63% (Appendix C). As previously advised, no further investments will be made in Funding Circle and future investments will prioritise security and liquidity over yield.
- Revised CIPFA Codes 2017 – changes from the 2011 Code will be incorporated into Strategies and monitoring reports with effect from 2019/20 including a widened definition of investments to cover non-financial assets, security and liquidity of investments continue to be prioritised and the introduction of a Capital Strategy alongside the Treasury Management Strategy.
- Correction to paragraph 2.1.1 of Appendix C – as reported in the External Auditor’s report, the Fair Value for Borehamgate Sudbury as an investment property has been reduced by the District Valuer, from £4m to £3.5m.

8.2 In response to questions from Members, the officers advised as follows:-

- Funding Circle – the longest investments are for 5 years – those for 3 years are coming to an end. The position is monitored and has no effect on the Councils’ borrowing ability.
- Borehamgate – it was confirmed that the District Valuer’s correction to his earlier valuation was affected by the rental income level (ie not the capital valuation).
- Regarding the Councils’ assessment of risk and the need for the Significant Risk Register to be up-to-date in advance of the Budget process, the new CIPFA guidance will be in place for next year and any adjustments to the Register will be reported to the Committee and the Cabinet.

8.3 At this point, the Chairman referred to the voting arrangements for the Recommendations in paragraph 3 of the report, with 3.2 and 3.3 to be voted on separately by Babergh Members and Mid Suffolk Members respectively.

It was RECOMMENDED TO BOTH COUNCILS

That the Treasury Management activity for 2017/18 as set out in Paper JAC/18/3 and Appendices be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2017/18.

It was RECOMMENDED TO BABERGH COUNCIL

That it be noted that Babergh District Council Treasury Management activity for 2017/18 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds by £120k, as mentioned in Paragraph 4.6 of Paper JAC/18/3, the Council has complied with all the Treasury Management Indicators for this period.

Note – only the four Babergh Members voting, all in favour

It was RECOMMENDED TO MID SUFFOLK COUNCIL

That it be noted that Mid Suffolk District Council Treasury Management activity for 2017/18 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds by £79k, as mentioned in Paragraph 4.7 of Paper JAC/18/3, the Council has complied with all the Treasury Management Indicators for this period.

Note – only the seven Mid Suffolk Members voting, all in favour

9 JAC/18/4 NON-SALARY EXPENSES 2017/18

9.1 Members were asked to review the information in Paper JAC/18/4 with a view to identifying whether any further information or explanation was required. The Corporate Manager – Finance confirmed that 50% of Professional Subscriptions is payable by the Council.

9.2 Councillor Stringer referred to the increase in Councillors' expenses (which was included in the Statement of Accounts). Katherine Steel, Assistant Director, Corporate Resources, will respond outside the meeting.

It was RESOLVED

That, having reviewed the contents of Paper JAC/18/4, no further explanation or information is required and the information contained in the report be noted.

10 JAC/18/5 CODE OF CONDUCT COMPLAINTS MONITORING REPORT

10.1 John Snell, Deputy Monitoring Officer, introduced Paper JAC/18/5 and drew Members' attention to the information in paragraph 4 of the report, which set out the volume and nature of complaints received.

It was RESOLVED

That the Code of Conduct Complaints monitoring information contained in Paper JAC/18/5 be noted.

11 JAC/18/6 FORWARD PLAN

It was RESOLVED

That the Committee Forward Plan set out in Paper JAC/18/6 be noted.

The business of the meeting was concluded at 10.45 a.m.

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Chair

Agenda Item 7

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: Joint Audit and Standards Committee	REPORT NUMBER: JAC/18/8
FROM: Katherine Steel, Assistant Director, Corporate Resources	DATE OF MEETING: 12 November 2018
OFFICER: Melissa Evans, Corporate Manager Finance; Sue Palmer, Senior Financial Services Officer	KEY DECISION REF NO. N/A

HALF YEAR REPORT ON TREASURY MANAGEMENT 2018/19

1. PURPOSE OF REPORT

- 1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the first six months of the financial year 2018/19.
- 1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, and the transactions executed during the first six months of 2018/19 and any circumstances of non-compliance with the Councils' treasury management policy statement and treasury management practices.

2. OPTIONS CONSIDERED

- 2.1 This report fulfils the Councils' legal obligations to have regard to the Code and there are no options to consider.

3. RECOMMENDATION TO BOTH COUNCILS

- 3.1 That the Treasury Management activity for the first six months of 2018/19 as set out in Paper JAC/18/8 and Appendices be noted.

RECOMMENDATION TO BABERGH COUNCIL

- 3.2 That it be noted that Babergh District Council Treasury Management activity for the first six months of 2018/19 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

RECOMMENDATION TO MID SUFFOLK COUNCIL

- 3.3 That it be noted that Mid Suffolk District Council Treasury Management activity for the first six months of 2018/19 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

REASON FOR DECISION

It is a requirement of the Code of Practice on Treasury Management that full Council notes the Mid Year position.

4. KEY INFORMATION

- 4.1 The 2018/19 Treasury Management Strategy for both Councils was approved in February 2018.
- 4.2 The Strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the first six months of 2018/19.
- 4.3 The Joint Treasury Management outturn report for 2017/18 was presented to Members at the Joint Audit and Standards Committee on 30 July 2018.
- 4.4 The Section 151 Officer is pleased to report that all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.
- 4.5 The Treasury Management Indicators aim to ensure that the capital investments of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.
- 4.6 Appendix D shows the position on key Treasury Management Indicators for the first six months of 2018/19.
- 4.7 The following key points relating to activity for the first half of the year are set out below:
- UK labour market data for July 2018 showed unemployment rate at 4%, its lowest since 1975. However real wages (adjusted for inflation) grew only by 0.2%.
 - GDP growth in Q2 of 0.4% appeared to overturn the weakness in Q1 but details show this growth was attributed to an increase in inventories.
 - The Bank of England raised the official Bank Rate by 0.25% to 0.75% in August 2018.
 - Investment of surplus funds - As market conditions, credit ratings and Bank ring fencing have changed during the year, institutions that the Councils invest with and the period of the investments have been reviewed.
 - Credit risk scores were within the benchmark A- credit ratings.
 - Babergh's debt reduced by £3.25m due to income exceeding expenditure, which is the normal cash flow profile.
 - Mid Suffolk's overall debt increased by £12.85m mainly due to the £16m investment in non-treasury investments (Gateway 14 Ltd). This was offset by the repayment of £3m short term borrowing.

- 4.8 In terms of the investment of surplus funds Appendix A sets out the issues that are impacting on current and future activity.
- 4.9 Money market funds, short-term deposits and call accounts are used to make short term investments on a daily basis
- 4.10 Babergh District Council and Mid Suffolk District Council have maintained strategic investments in Pooled funds whilst reducing their investment in Funding Circle.

5. LINKS TO JOINT STRATEGIC PLAN

- 5.1 Ensuring that the Councils have the resources available underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

6. FINANCIAL IMPLICATIONS

- 6.1 As outlined in this report and appendices.

7. LEGAL IMPLICATIONS

- 7.1 There are no legal implications arising from this report.

8. RISK MANAGEMENT

- 8.1 This report is most closely linked with the Councils’ Significant Business Risk no 5e. “If we do not understand our financial position and respond in a timely and effective way, then we will be unable to deliver the entirety of the Joint Strategic Plan”.
- 8.2 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Councils lose the investments this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.
If the Councils achieve a poor return on investments, there will be fewer resources available to deliver services.	Highly Probable (4)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.

Risk Description	Likelihood	Impact	Mitigation Measures
If the Councils incur higher than expected borrowing costs, there will be fewer resources available to deliver services.	Unlikely (2)	Noticeable (2)	Benchmark is to borrow from the Public Works Loan Board (PWLB), whose rates are very low and can be on a fixed or variable basis. Research lowest rates available within borrowing boundaries and use other sources of funding and internal surplus funds temporarily.

9. CONSULTATIONS

9.1 Regular meetings have taken place with the Councils' Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

10. EQUALITY ANALYSIS

10.1 There are no equality and diversity implications, as the contents and recommendations of this report do not impact on those with protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications related to this report.

12. APPENDICES

Title	Location
(a) Background, Economy and Outlook	Attached
(b) Borrowing Strategy	Attached
(c) Investment Activity	Attached
(d) Treasury Management indicators	Attached
(e) Glossary of Terms	Attached

13. BACKGROUND DOCUMENTS

13.1 CIPFA's Code of Practice on Treasury Management ("the Code").

13.2 Joint Treasury Management Strategy 2018/19 (Paper JAC17/15).

Background, Economy and Outlook

1. Introduction

- 1.1 In February 2012 both Councils adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Councils to approve treasury management midyear and annual reports.
- 1.2 The Joint Treasury Management Strategy for 2018/19 was approved at both full Councils in February 2018. Babergh District Council and Mid Suffolk District Council have borrowed and invested substantial sums of money and both are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Councils' Treasury Management Strategy.
- 1.3 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. The Ministry of Housing, Communities & Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.
- 1.4 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. Babergh District Council and Mid Suffolk District Council will be producing its Capital Strategy later in 2018/19 for approval by full Council.

2. External Context

2.1 Economic background:

- 2.1.1 Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year on year, above the consensus forecast and that of the Bank of England in its August Inflation Report, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.
- 2.1.2 The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year on year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking the Bank Rate to 0.75%.

- 2.1.3 Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.
- 2.1.4 The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.
- 2.1.5 The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29 March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

2.2 **Financial markets:**

- 2.2.1 Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the net change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

2.3 **Credit background:**

- 2.3.1 Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.
- 2.3.2 The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

2.3.3 There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

2.3.4 The Councils' treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and Certificates of Deposits (CDs) but not senior unsecured bonds issued by commercial banks.

3 Outlook for the remainder of 2018/19:

3.1 Having raised interest rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

3.2 The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

3.3 Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 of 2018, but the annual growth rate of 1.2% remains well below the long-term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca:	0.75	0.75	1.00	1.00	1.25								
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

3.4 The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

4 Local Context

- 4.1 On 31 March 2018, Babergh District Council had net borrowing of £93.520m and Mid Suffolk District Council had net borrowing of £107.563m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.
- 4.2 The Councils' current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

4.3 Table 1: Balance Sheet Summary

Balance Sheet Summary	31.3.18 Babergh £m	31.3.18 Mid Suffolk £m
General Fund CFR	31.170	35.818
HRA CFR	86.848	86.759
Total CFR	118.018	122.577
(Less): Usable reserves	(27.081)	(30.736)
(Less) / Add: Working capital	2.583	15.722
Net borrowing	93.520	107.563

- 4.4 The treasury management position at 30 September 2018 and the change during the half year is show in Table 2 below.

4.5 Table 2: Treasury Management Summary

Babergh	31.3.18 Balance £m	Movement £m	30.9.18 Balance £m	30.9.18 Rate %
Long-term borrowing	86.297	(0.250)	86.047	3.29%
Short-term borrowing	12.000	(3.000)	9.000	0.75%
Total borrowing	98.297	(3.250)	95.047	
Long-term investments	9.638	(0.208)	9.430	5.50%
Short-term investments	1.000	(0.250)	0.750	0.51%
Cash and Cash equivalents	1.445	(0.442)	1.003	0.48%
Total Investments	12.083	(0.900)	11.183	
Net borrowing	86.214		83.864	

Appendix A cont'd

Mid Suffolk	31.3.18 Balance £m	Movement £m	30.9.18 Balance £m	30.9.18 Rate %
Long-term borrowing	74.087	15.850	89.937	2.99%
Short-term borrowing	29.000	(3.000)	26.000	0.73%
Total borrowing	103.087	12.850	115.937	
Long-term investments	9.642	(0.219)	9.423	5.46%
Short-term investments	1.500	(1.500)	0.000	0.55%
Cash and Cash equivalents	0.894	0.370	1.264	0.43%
Total Investments	12.036	(1.349)	10.687	
Net borrowing	91.051		105.250	

1 Borrowing Strategy

1.1 At 30 September 2018 Babergh held £95.047m of loans, a decrease of £3.25m, Mid Suffolk held £115.937m of loans, an increase of £12.85m as part of its strategy for funding previous years' capital programmes and investment in the Gateway 14 Ltd project. The borrowing position at 30 September 2018 is shown in Table 3 below.

1.2 Table 3: Borrowing Position

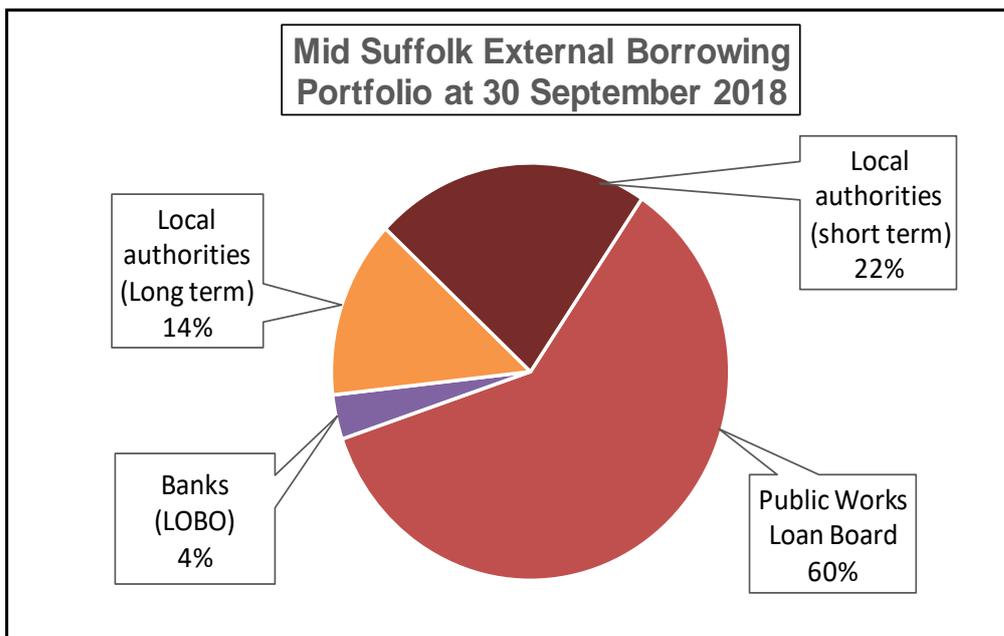
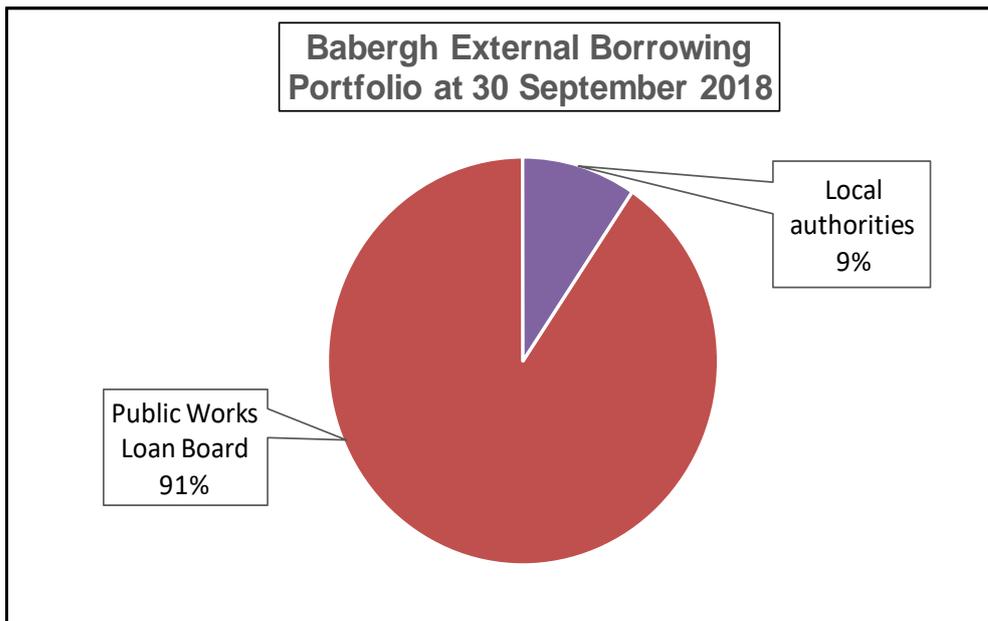
Babergh	31.3.18 Balance	Movement	30.9.18 Balance	30.9.18 Weighted Average Rate
	£m	£m	£m	%
Public Works Loan Board	86.297	(0.250)	86.047	3.29%
Local authorities (short term)	12.000	(3.000)	9.000	0.75%
Total borrowing	98.297	(3.250)	95.047	

Mid Suffolk	31.3.18 Balance	Movement	30.9.18 Balance	30.9.18 Weighted Average Rate
	£m	£m	£m	%
Public Works Loan Board	70.087	(0.150)	69.937	3.56%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (Long term)	0.000	16.000	16.000	1.20%
Local authorities (short term)	29.000	(3.000)	26.000	0.73%
Total borrowing	103.087	12.850	115.937	

- 1.3 The Councils' chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Councils' long-term plans change being a secondary objective.
- 1.4 With short-term interest rates remaining much lower than long-term rates, the Councils considered it more cost effective in the near term to use internal resources or short-term loans instead.
- 1.5 As the Councils have increasing CFR's due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital, Mid Suffolk borrowed £16m medium/longer-term fixed rate loans to provide some longer-term certainty and stability to the debt portfolio and stay within short term borrowing limits.

1.6 LOBO loans: Mid Suffolk continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half year of 2018/19.

1.7 The Councils' Borrowing Portfolios at 30 September 2018 below:



1 Investment Activity

- 1.1 The Councils hold invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2018/19, Babergh's investment balance ranged between £11.183m and £18.926m. Mid Suffolk's investment balance ranged between £10.687m and £32.354m. These movements are due to timing differences between income and expenditure.

The investment position and weighted average rates during the first six months of the year is shown in Table 4 below.

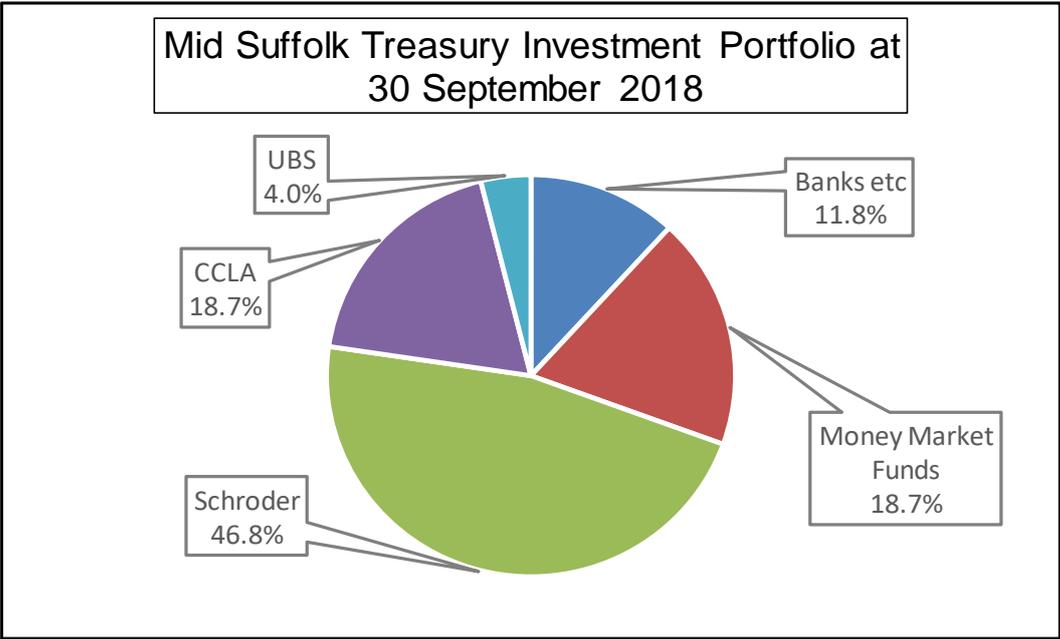
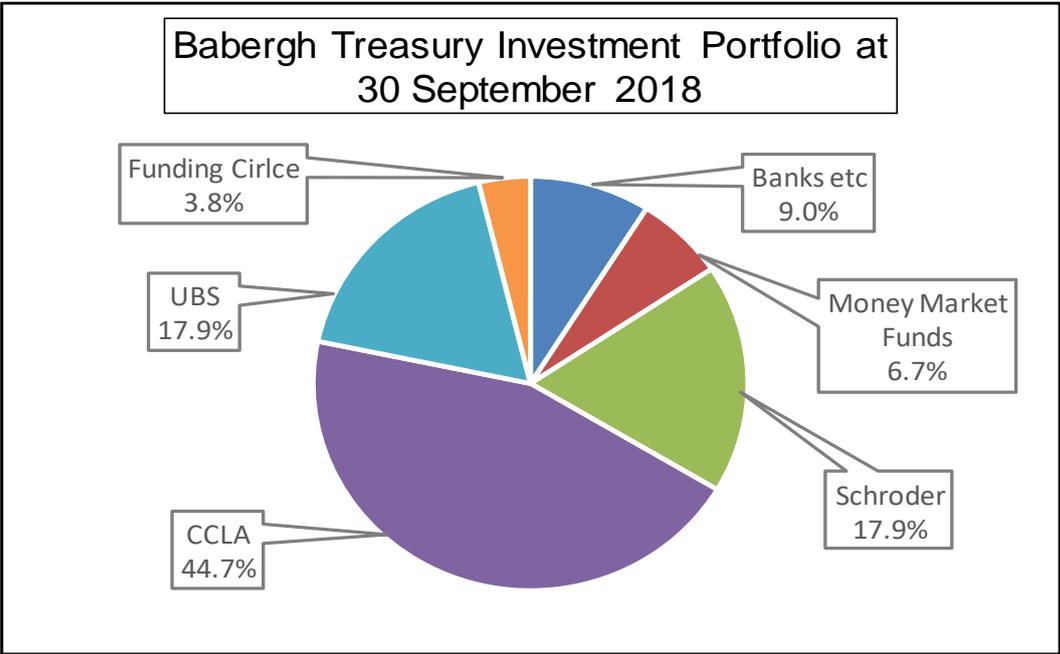
1.2 Table 4: Treasury Investment Position

Babergh	31.3.18 Balance	Movement	30.9.18 Balance	30.9.18 Weighted Average Rate
	£m	£m	£m	%
Banks and Building Societies	1.445	(0.442)	1.003	0.48%
Money Market Funds	1.000	(0.250)	0.750	0.51%
Other Pooled Funds	9.638	(0.208)	9.430	5.50%
Total Investments	12.083	(0.900)	11.183	

Mid Suffolk	31.3.18 Balance	Movement	30.9.18 Balance	30.9.18 Weighted Average Rate
	£m	£m	£m	%
Banks and Building Societies	0.894	0.370	1.264	0.43%
Money Market Funds	1.500	(1.500)	0.000	0.55%
Other Pooled Funds	9.642	(0.219)	9.423	5.46%
Total Investments	12.036	(1.349)	10.687	

- 1.3 Both the CIPFA Code and government guidance require the Councils to invest their funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Councils' objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 1.4 Given the increasing risk and falling returns from short-term unsecured bank investments, the Councils diversified into more higher yielding asset classes; pooled property, multi asset and equity funds. As a result, investment risk was diversified while the average rate of return has increased. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 that follows.

1.5 The Councils' Investment Portfolios at 30 September 2018 below:



1.6 **Table 5: Investment Benchmarking – Treasury investments managed in-house**

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2018	6.21	A	85%	164	5.10%
30.06.2018	5.55	A	91%	119	5.30%
30.09.2018	5.71	A	85%	185	5.23%
Similar LAs	4.28	AA-	56%	88	1.41%
All LAs	4.38	AA-	60%	37	1.25%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2018	5.85	A	85%	158	5.08%
30.06.2018	5.43	A+	93%	95	4.97%
30.09.2018	5.88	A	81%	232	5.43%
Similar LAs	4.28	AA-	56%	88	1.41%
All LAs	4.38	AA-	60%	37	1.25%

- 1.7 Babergh has £9.430m of externally managed pooled equity, property and multi assets funds which generated an average total income return, since the date of the initial investments, of £1.172m (5.10%) which is used to support service provision.
- 1.8 Mid Suffolk has £9.423m of externally managed pooled equity, property and multi assets funds which generated an average total income return, since the date of the initial investments, of £1.031m (5.08%) which is used to support service provision.
- 1.9 These funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Councils' investment objectives are regularly reviewed. In light of their performance and the Councils' latest cash flow forecasts, investment in these funds has been maintained.
- 1.10 During the year the Ministry of Housing, Communities and Local Government (MHCLG) consulted on statutory overrides relating to the IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognised that the requirement in IFRS 9 for certain investments to be accounted for as fair value through profit and loss may introduce "more income statement volatility" which may impact on budget calculations. The consultation proposed a time-limited statutory override and sought views whether it should be applied only to pooled property funds. Both Councils responded to the consultation which closed on 28 September 2018.

2 Long Term investments – Pooled Fund Performance

2.1 Babergh and Mid Suffolk both have investments in pooled funds to generate an income return. Table 6 below is a summary of performance by fund from initial investment date until the most recent return valuation available and details of interest received.

2.2 Table 6: Pooled Fund Performance

Fund	Babergh	Mid Suffolk
	£	£
CCLA		
Amount invested	5,000,000	5,000,000
Value at 30.9.2018	4,953,434	4,876,817
Movement	(46,566)	(123,183)
Net Interest earned to 30.9.2018	689,343	642,198
Average return	4.47%	4.40%
UBS		
Amount invested	2,000,000	2,000,000
Value at 30.9.2018	1,983,483	1,983,483
Movement	(16,517)	(16,517)
Interest earned to 30.6.2018	213,611	117,416
Average return	3.88%	3.91%
Schroders		
Amount invested	2,000,000	2,000,000
Value at 30.9.2018	1,932,337	1,928,922
Movement	(67,663)	(71,078)
Interest earned to 30.5.2018	191,334	191,334
Average return	7.65%	7.65%
Funding Circle		
Amount invested	429,927	422,757
Value at 8.10.2018	415,012	399,523
Movement	(14,914)	(23,234)
Interest earned to 30.6.2018	77,237	80,142
Average return	5.97%	5.83%
Total Pooled Funds		
Amount invested	9,429,927	9,422,757
Values	9,284,266	9,188,745
Movement	(145,661)	(234,012)
Interest earned	1,171,525	1,031,090
Average return	5.10%	5.08%

3 Other Investment Activity

- 3.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Councils as well as other non-financial assets which the Councils hold primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to include all such assets held partially for financial return.
- 3.2 On 5 August 2016 Babergh purchased Borehamgate Shopping centre in Sudbury for £3.56m. This has been classified as an investment property and on 31 March 2018, the District Valuer assessed its Fair Value at £3.5m, generating rental returns of £0.072m to 30 September 2018.
- 3.3 Babergh holds £1.766m of equity in Babergh Holdings Ltd and has £15.898m of loans in Capital Investment Fund Company (CIFCO), a subsidiary of Babergh Holdings Ltd. These loans have generated £0.410m of investment income since the start of trading.
- 3.4 Mid Suffolk holds £1.766m of equity in Mid Suffolk Holdings Ltd and has £15.898m of loans in Capital Investment Fund Company (CIFCO), a subsidiary of Mid Suffolk Holdings Ltd. These loans have generated £0.410m of investment income since the start of trading.
- 3.5 Mid Suffolk also holds £16.178m of investment in another subsidiary of Mid Suffolk Holdings Ltd, Gateway 14 Ltd, which has generated £0.099m of accrued investment income since 13 August 2018.

4 Table 7: Debt Limits

- 4.1 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 7 below.

Borrowing	Actual Maximum	30.9.18 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied
Babergh	£98.297m	£95.047m	£138m	£148m	✓
Mid Suffolk	£118.087m	£115.937m	£156m	£166m	✓

- 4.2 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure

5 Compliance

- 5.1 The Section 151 Officer is pleased to report that all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Table 8 that follows.

5.2 **Table 8: Investment Limits**

Babergh	Actual Maximum	30.9.18 Actual	2018/19 Limit	Complied
Lloyds Bank	£1.848m	£1.003m	£2m	✓
Money market funds	44.91%	6.71%	50%	✓
DMADF	Nil	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.638m	£0.430m	£1m	✓

Mid Suffolk	Actual Maximum	30.9.18 Actual	2018/19 Limit	Complied
Lloyds Bank	£1.927m	£1.264m	£2m	✓
Barclays Bank	£0.500m	Nil	£2m	✓
Svenska Handelsbanken	Nil	Nil	£2m	✓
Money market funds	35.63%	0.00%	50%	✓
DMADF	£15.500m	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.642m	£0.423m	£1m	✓

1 Treasury Management Indicators

1.1 The Councils measure and manage their exposure to treasury management risks using the following indicators.

1.2 **Security:** The Councils have adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolios. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Portfolio Average Credit Score	30.9.18 Actual	2018/19 Target	Complied
Babergh	5.71	7.0	✓
Mid Suffolk	5.88	7.0	✓

1.3 **Interest Rate Exposures:** This indicator is set to control the Councils' exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed was:

Babergh	30.9.18 Actual	2018/19 Target	Complied
Upper limit on fixed interest rate exposure	£86.047m	£136m	✓
Upper limit on Variable interest rate exposure	(£2.183m)	£35m	✓

Mid Suffolk	30.9.18 Actual	2018/19 Target	Complied
Upper limit on fixed interest rate exposure	£89.937m	£154m	✓
Upper limit on Variable interest rate exposure	£15.313m	£40m	✓

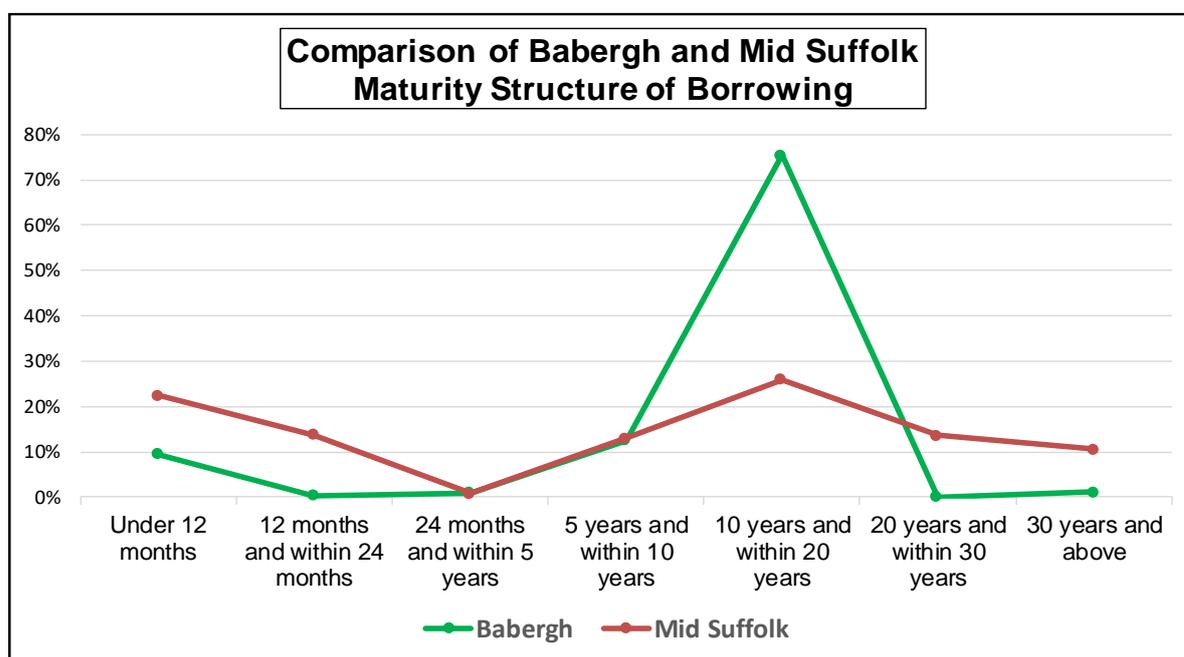
1.4 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

1.5 **Maturity Structure of Borrowing:** This indicator is set to control the Councils' exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Babergh	30.9.18 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	9.47%	0	50%	✓
12 months and within 24 months	0.42%	0	50%	✓
24 months and within 5 years	0.95%	0	50%	✓
5 years and within 10 years	12.63%	0	100%	✓
10 years and within 20 years	75.38%	0	100%	✓
20 years and within 30 years	0.00%	0	100%	✓
30 years and above	1.16%	0	100%	✓

Mid Suffolk	30.9.18 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	22.43%	0	50%	✓
12 months and within 24 months	13.80%	0	50%	✓
24 months and within 5 years	0.78%	0	50%	✓
5 years and within 10 years	12.94%	0	100%	✓
10 years and within 20 years	25.88%	0	100%	✓
20 years and within 30 years	13.55%	0	100%	✓
30 years and above	10.64%	0	100%	✓

1.6 Chart to show the Maturity Structure of Borrowing:



1.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.8 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Councils' exposure to the risk of incurring losses by seeking early repayment of their investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Actual Principal invested beyond year end	2018/19	2019/20	2020/21
Babergh Actual	Nil	Nil	Nil
Mid Suffolk Actual	Nil	Nil	Nil
Limit on principal invested beyond year end	£2m	£2m	£2m
Babergh Complied	✓	✓	✓
Mid Suffolk Complied	✓	✓	✓

Glossary of Terms

BPS	Base Points. A unit of percentage measure equal to 0.01%. Basis points are commonly used when discussing changes to interest rates, equity indices, and fixed-income securities.
CDS	Credit Default Swap. In effect, insurance against non-payment. Through a CDS, the buyer can mitigate the risk of their investment by shifting all or a portion of that risk onto an insurance company or other CDS seller in exchange for a periodic fee. In this way, the buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the debt security.
CFR	Capital Financing Requirement. The underlying need to borrow to finance capital expenditure.
CIPFA	The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services.
CLG	Department for Communities and Local Government. This is a ministerial department.
CPI	Consumer Price Index. This measures changes in the price level of consumer goods and services purchased by households.
CPIH	Consumer Price Index Housing. A measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH).
CCLA	Churches, Charities and Local Authority Property Fund
DMADF	Debt Management Account Deposit Facility.
Funding Circle	Accounts set up to lend money to local and national businesses at competitive rates
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which revenue costs are charged for providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
LIBID	London Interbank Bid Rate. The interest rate at which banks bid to take short-term deposits from other banks in the London interbank market.
LOBO	Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan
LVNAV	Low Volatility Net Asset Value. A new type of Low Volatility Net Asset Value Money Market Fund - a new fund category introduced as part of a new regulatory reform of the sector in Europe.

Appendix E cont'd

MiFiD	The Markets in Financial Instruments Directive (2014/65/EU) (MiFiD II). The EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.
MPC	Monetary Policy Committee. A committee of the Bank of England which decides the Bank of England's Base Rate and other aspects of the Government's Monetary Policy.
MRP	Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing
NAV	Net Asset Value. The NAV is the value of a fund's assets less the value of its liabilities on a per unit basis.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
T Bills	Treasury Bill. A short-term Government Bond.
UBS	UBS Multi Asset Income Fund (UK) – a pooled fund.

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Agenda Item 8

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: Joint Audit and Standards Committee	REPORT NUMBER: JAC/18/9
FROM: Corporate Manager – Internal Audit	DATE OF MEETING: 12 November 2018
OFFICER: Paul Jarvis - Internal Audit and Risk Management Officer	KEY DECISION REF NO. N/A

INTERIM ANNUAL INTERNAL AUDIT REPORT 2018/19

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform Councillors of the work undertaken within the Internal Audit Service for the first half year, 2018/19 and provides Councillors with a review of the variety and scope of projects and corporate activities which are supported through the work of the team.

2. OPTIONS CONSIDERED

- 2.1 This is a regulatory report and there are no options to consider.

3. RECOMMENDATION

- 3.1 That the contents of this Internal Audit report, supported by Appendix A, be noted.

REASON FOR DECISION

For the Committee to note the Internal auditors half year report for 2018/19.

4. KEY INFORMATION

- 4.1 Requirement of Internal Audit - Public Sector Internal Audit Standards (PSIAS)

The PSIAS require the Corporate Manager – Internal Audit to report periodically to senior management and this Committee on Internal Audit's performance relative to its Internal Audit Plan including significant risk exposures and control issues where relevant, fraud risks and governance issues.

- 4.2 As the Councils' Delivery Programme continues and re-shapes and transforms its services the demand on Internal Audit's services to provide assurance, support and guidance on a diverse range of activities continues. The Corporate Manager – Internal Audit monitored requests, with a risk-based approach, for the re-allocation of Internal Audit resources from the approved 2018/19 Internal Audit Plan.

This Plan has been enhanced following the 20% increase in hours of a member of the Internal Audit Team and the transfer on 8th October 2018 of Business Continuity responsibility out of the team. The work has been assumed by a new Corporate Manager along with Health and Safety and Emergency Planning.

- 4.3 There was due consideration in conducting this year's audits to ensure that Internal Audit maintained its objectivity and independence. As further demonstration of organisational independence, the Corporate Manager – Internal Audit can confirm that there has been no inappropriate scope or resource limitations placed upon him.
- 4.4 In line with the Councils' Internal Audit Charter the work was conducted to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the work conducted covered the following activities:
- Governance processes
 - Monitoring
 - Ethics
 - Information and Information technology governance
 - Risk Management
 - Fraud management
- 4.5 Audits conducted (as opposed to Audit investigations) are also split into two types, 'Fundamental' and 'Risk' reviews. Historically, 'Fundamental' reviews had been conducted in the latter half of the financial year to meet with External Audit testing requirements.

5. LINKS TO JOINT STRATEGIC PLAN

- 5.1 The delivery of a comprehensive Internal Audit service supports the Councils' objectives, in particular:

An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons.

- 5.2 However, all Internal Audit work has been associated with the Councils' strategic themes and the attached report, Appendix A, provides a summary of the work undertaken by theme. This work will contribute to the 2018/19 overall Internal Audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit, as required by the Accounts and Audit (England) Regulations 2015.

6. FINANCIAL IMPLICATIONS

- 6.1 **There are no direct financial implications arising from this report. All Internal Audit recommendations must be considered in terms of their cost effectiveness.**

7. LEGAL IMPLICATIONS

- 7.1 There are no direct legal implications arising from this report.

8. RISK MANAGEMENT

- 8.1 This report is not directly linked with any one of the Councils' Significant Risks. The key risk, however, is set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
<p>Internal controls within each Council may not be efficient and effective.</p> <p>As a result each Council may not identify any significant weakness that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency.</p>	Unlikely 2	Bad 3	<p>Councillors receive and approve the internal audit work programme and other reports on internal controls throughout the year.</p> <p>The work programme is based on an assessment of risk for each system or operational area.</p>

9. CONSULTATIONS

- 9.1 The 2018/19 Internal Audit Plan was approved by the Joint Audit and Standards Committee on 12th March 2018 (Paper JAC/17/20), having previously been endorsed by the S151 Officer and the Senior Leadership Team.

As part of the preparation for this Plan, auditors engaged with senior management to identify their view of the coming year's risks linked to the Joint Strategic Plan and Delivery Programme, and to gather and map management assurance across the Councils' functions.

- 9.2 During preparation this report has been shared with both Chairs of the Joint Audit and Standards Committee; Cabinet Lead Members for Organisational Delivery; the Senior Leadership Team, including the Section 151 Officer and the Assistant Director, Law and Governance and Monitoring Officer.

10. EQUALITY ANALYSIS

An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

There are no environmental implications arising from this report.

12. APPENDICES

Title	Location
(a) Appendix A - Overview of Internal Audit Work	Attached

13. BACKGROUND DOCUMENTS

- 13.1 There are no further documents.



Appendix A

Overview of Internal Audit Activity, 6 Months to 30th September 2018

1. Introduction

- 1.1 The work completed by Internal Audit to date for the Financial Year 2018/19 is reported here to the Joint Audit and Standards Committee.
- 1.2 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and have been further revised on 1 April 2017.

The standards require periodic self-assessments and an independent assessment, by an external source, every five years.

The Committee will recall, a review was carried out during February 2018 where the External Assessor identified **no areas of non-compliance** with the standards that would affect the overall scope or operation of the internal audit activity.

The team were commended for their structured and focussed approach. Auditees clearly value their input, requesting reviews, consultancy and their advice.

A few minor areas were identified where the standards have not been followed. The External Assessor made some practical and pragmatic recommendations to address these. Since this was last reported to the Committee the Corporate Manager – Internal Audit has materially completed these actions.

Further enhancements have been made to our reporting and recording in the period. The changes strengthen oversight; simplify communication; and clarify interpretation and understanding. These were discussed with both Chairs and are outlined in the following paragraphs (1.3 to 1.5 below).

- 1.3 Discussions with the recipients of audit reports, and outcomes from interviews conducted during the External Assessment, indicated that a clearer audit opinion should be provided in audit reports. Research and analysis of the offerings of neighbouring local authorities audit teams ensured a solution that was clearer in narrative and appearance, was produced. The outcome now has a clear 'Red Amber Yellow Green' (RAYG) status applied with a narrative clearly indicating the condition of the control environment and potential consequence to the service area objectives. This has been implemented in recent audit reports and is attached in Annexe 1 below.
- 1.4 To comply with the audit standards the full audit report is naturally a comprehensive, and potentially lengthy document. Again, in line with client feedback, we have developed a single page executive summary as the frontispiece to all audit reports to provide 'result on a page'.

1.5 Following the Independent external review of Internal Audit compliance with PSIAS the Councils' Senior Leadership Team determined that all Audit Reports should be sent to Assistant Directors, who would file them on a dedicated folder on the SLT drive, and that the AD would copy the appropriate Cabinet Lead. The Audit Charter has been amended in Section 16 to reflect this.

2. Internal Audit reports with Adverse Opinions

2.1. One audit with an Audit opinion of 'Limited' or 'No Assurance' (Formerly 'Poor' or 'Ineffective') has been issued this period and is detailed below. All Audits conducted this period are listed in Section 6 below.

The reviews that returned an audit opinion on the control environment of "Ineffective" in the last financial year (2017/18) where actions were outstanding have been kept under review by audit and, where appropriate, the management actions have been reassessed with the appropriate manager. These audits, with their present status are outlined below:

2017/18

- 1. General Ledger (Reconciliation processes)
- 2. Receivables / Debtors (Debt Management)
- 3. Payroll (IR 35 processing)

2018/19

- 4. Land Charges (Fee reconciliations)

2.1.1 2017/18 General Ledger: Internal Audit Opinion: "Ineffective"

Key Risk	Issue Raised	Management Response
Control accounts and reconciliations are mismanaged or ineffective and misposting may go unnoticed.	Material arrears in key reconciliations undermine controls.	Staff resources are in place and being trained. These will address the backlog.
<p>Present status at this report date:</p> <p>The reconciliations are up to date as changes in staff have introduced more robust delivery of reconciliations. The Corporate Manager Finance has further tasked the reconciliation team to undertake a comprehensive review of the supporting review and reporting framework and to fully reappraise and document these new processes.</p> <p>A representative of Internal Audit has been aligned to support this exercise as a 'critical friend'. To ensure independence a second member of Internal Audit will conduct a formal audit review of the processes later in this Financial Year.</p>		

2.1.2 2017/18 Receivables / Debtors: Internal Audit Opinion: "Ineffective"

Key Risk	Issue Raised	Management Response
Poor, or lack of, management information on the application of the Debt Recovery policies result in customers with poor credit history ratings continuing to be serviced, and /or accounting report figures that are incorrect.	Debt management has not received as much attention from management and staff over the long term, as is necessary to maintain sound debt recovery and credit management support to Services.	A prolonged period of sickness absence has stalled progress on the planned debt recovery project, however work has now commenced on this project. The findings and recommendations from this audit report will help to inform this, along with support from the audit team and shared legal services. The Corporate Manager Finance is confident that they will be in a more robust position in quarter 2 with the Councils' aged debt and recovery procedures.
<p>Present status at this report date:</p> <p>Internal Audit have supported the finance transaction team, as a 'critical friend', in developing procedures, resulting in:</p> <ol style="list-style-type: none"> 1. devolution of invoice raising into the service areas; 2. improved engagement of shared legal services; 3. major review of historic debt levels; 4. enhanced reporting suite and system support; 5. more finance support and challenge to the service on income management; and 6. refinement of debt reporting and management within core transactions. <p>Internal Audit have agreed with the Corporate Manager Financial Services that a further audit (by an independent auditor) of the new process (once embedded) will take place in early 2019.</p>		

2.1.3 2017/18 Payroll (IR 35 processing) Internal Audit Opinion: "Ineffective"

Key Risk	Issue Raised	Management Response
Penalty or censure arising from incorrect treatment for contractors and temporary employees assessed as inside IR35.	A lack of awareness of the legislation by Corporate Managers. Procedures require clarity on roles and responsibilities.	A new officer (start Nov18) working on the recruitment toolkit. A brief including IR 35 roles and responsibilities stored on Connect, and linked in Working Together IR35 raised at the next ELT with a request to cascade down.

Key Risk	Issue Raised	Management Response
		<p>Recruitment (IR35) added to Business Partner agenda with Corporate Managers.</p> <p>Monthly - list of contractors from Commissioning and Procurement verified against HR records. Implementation Q3 2018.</p>
<p>Present status at this report date:</p> <p>These actions will need time to embed and Internal Audit will therefore follow up on the above early in 2019.</p>		

2.1.4 2018/19 Land Charges (Limited Assurance)

Key Risk	Issue Raised	Management Response
Fee income is not recognised through inadequate process and controls.	<p>Fee levels have not been reviewed recently;</p> <p>nor the two largest self-billing customers' invoices reconciled to searches conducted.</p>	<p>We need to annually review the land charges search fees to ensure that the income covers the cost of delivery of the service, (which is currently the case).</p> <p>Formal annual reviews to be established December 18.</p> <p>Regular reconciliation of searches against income will be established, along with a retrospective reconciliation.</p> <p>Immediate effect Oct 18.</p>
<p>Present status at this report date:</p> <p>These actions will need time to embed and Internal Audit will therefore follow up appropriately, early in 2019.</p>		

2.2 As well as conducting audit reviews Internal Audit had significant involvement within the period in a variety of different Council activities/issues, which included:

Section Reference:

- 3 Council Governance**
- 4 Risk Management**
- 5 Probity**
- 6 Audits conducted**
- 7 Business support activities**

3 Council Governance

3.1 Annual Governance Statement (AGS)

Internal Audit has led on the production of the AGS which was completed again as at the end of the financial year 2017/18, presented to this Committee on 14th May 2018, alongside an Assurance Mapping exercise across the Councils designed to identify gaps in good practice and aid the 2018/19 Internal Audit planning process. The outcome of the planning was reported to this Committee on 12th March 2018 (Paper JAC17/20).

3.2 Health and Safety Board

The Corporate Manager – Internal Audit is called to attend this meeting at appropriate times to provide, and ensure, a robust process exists for risk identification and information gathering.

3.3 Statutory Officers Working Group

The Corporate Manager – Internal Audit attends this meeting when required, should Governance matters arise that require appropriate professional determination. This Group has responsibility for managing Information Governance and compliance with the requirements of the Information Governance General Data Protection Regulation (GDPR) 2018.

3.4 Deputy Monitoring Officer

The Corporate Manager - Internal Audit undertakes the role of Deputy Monitoring Officer for the Councils with the specific duty to ensure that the Councils, their officers, and Elected Councillors, maintain the highest standards of conduct in all they do, pursuant to Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.

3.5 Developing our Values

The Councils have championed a development of values through a natural team approach. The Corporate Manager - Internal Audit believes that a clear set of values and behaviours is a cornerstone to supporting good governance and has provided team resource to support the project.

4 Risk Management

- 4.1 Internal Audit continues to maintain and facilitate development of the Significant Risk register with Councillors and Senior Management. As a living document Internal Audit regularly review the content with management and half yearly to Cabinet (Next report due in November 2018). The End of Year Significant Risks register was reported to this Committee. (14th May 2018). This report also includes areas where we have strengthened the Risk Management process.
- 4.2 Audit have provided support to Corporate Managers in the development of their operational risk registers, which forms part of their service plans.

5 Probity

- 5.1 Full details of the anti-fraud and corruption work undertaken during the year was reported to this Committee in a report entitled 'Managing the Risk of Fraud and Corruption'. The last report was for 2017/18 and presented on 12th March 2018 (Paper JAC17/21).
- 5.2 The data requirements and data specifications for the 2018/19 National Fraud Initiative (NFI) exercise will commence October 2018 using the NFI's secure electronic upload facility. Elections and Single Discounts data will be uploaded in Dec 2018. The release of matches and data investigations by Officers will commence in Jan 2019. Fair Processing Notices are complied with and follows GDPR guidelines.

The release of matches of information across all the contributor's data is managed on a risk-based approach by the system users, supported by Internal Audit. The system users access their data from the NFI and can investigate, in conjunction with the matched partner / contributor, to evaluate the potential fraud indicated by the match.

6 Audits conducted

- 6.1 In line with the 2018/19 Internal Audit Plan reporting of outcomes is associated with all the Councils' strategic themes. Both audits in progress and completed are reported below, with the latter given with their associated audit opinion on the control environment.

6.1.1 Assets and investment

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
1 Receivables (Focus on debt management, analysis and reporting)	Audit have worked with Finance Staff to review and evaluate the revised working practices in the transaction team.	Monies due to the Councils are not recognized, accounted for or collected on a timely basis.	See 2.1.2 above This was consultative and advisory work and does not result in a report with findings. However, this area will be subject to a subsequent review in early 2019.	No formal opinion is currently offered.

6.1.2 Business Growth

2 BMS Invest	Internal audit are to provide services to BMS Invest. At present contracts for service have been agreed and work scheduled.	The actions of the Board, including the development of strategic objectives and legal frameworks, are taken without due consideration of the impact on the organisation.	Outcomes will be reported in the full year Audit report to this Committee.	
3 Procurement	Work is underway on a 3 phase review of the procurement process, from identification of requirements through to management of the contract delivery.	Loss of money through poor and/or inadequate contractual arrangements for supplier services	Outcomes will be reported in the full year Audit report to this Committee.	

6.1.3 Community capacity building and engagement

4 Land charges	The Corporate Manager Information Management requested Audit to assess the effectiveness of the control environment, in the context of the project transitioning from two systems to one.	Fee income is not recognised through inadequate process and controls.	See 2.1.4 Above Whilst statistics on the data migration status and Land Charges performance are regularly reviewed fee levels have not been reviewed recently, nor the invoices for the two largest self-billing customers reconciled.	Limited Assurance
5 Community Infrastructure Levy	This audit has been requested by Assistant Director, Planning & Growth, and the CIL team requested Internal Audits involvement in ensuring that CIL has sound controls and processes.	Funding (Income) is lost or misapplied, with ensuing adverse publicity or Regulatory Intercession	There is clear accountability in fund allocation and the review process follows CIL policy and demonstrates collaborative working.	Substantial assurance

6.1.4 Housing Delivery

6 Disabled Facilities Grants	Work is underway on a review	Funding is not given to the correct people, meeting the correct criteria or reclaimed appropriately.	Outcomes will be reported in the full year Audit report to this Committee.	
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7 BMBS (Not a formal Audit)	Following a request from Housing management Internal Audit were able to provide support as a critical friend to evaluate management proposals.	That decisions would be based on misleading or erroneous information.	A detailed critique was presented to staff engaged in the development and delivery of the document, with suggestions for enhancements and change to clarify the report	No opinion is offered for this work
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6.1.5 An enabled and efficient organisation

8 General Data Protection Regulation compliance	A review of the compliance with the requirements of GDPR and the management of data requests is underway	Fine, Censure or regulatory intercession after errors or omission managing our data in the requirements of the Act.	Outcomes will be reported in the full year Audit report to this Committee.	
9 Ethical Behaviour	Work has started on a review to include Declaration of Interests and Gifts and Hospitality.	Undeclared gifts or interests may lead to challenges of independence and fair, lawful actions.	Outcomes will be reported in the full year Audit report to this Committee.	

6.1.6 Environment (Waste & Leisure)

10 Waste – Brown Bin (Garden Waste) Service delivery	This audit was conducted to support the Corporate Manager Waste Services in identifying potential enhancements to service delivery.	Weak or ineffectual process mean that Brown bin income and customer service management is not optimised.	Whilst the audit identified some procedural issues, service income is effectively reconciled, and performance is reported regularly.	(Sufficient Reasonable Assurance)
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6.2 In undertaking this work there was due consideration to ensure that Internal Audit maintained its objectivity and independence. The prioritisation of special work took account of the requirements of the approved audit plan.

Objectivity was maintained in that the auditors had no personal or professional involvement with or allegiance to the area audited. The determination of appropriate parties to which the details of an impairment to independence or objectivity is disclosed was dependent upon the expectations of the activity and was expressed during the planning of each audit.

Annual declarations of interest were signed by each auditor.

7 Business support activities

7.1 Internal Audit aim to retain close working relationships with colleagues and have provided support and advice on proposed system and control developments, enhancements and changes. The material of which have been described above.

In addition, Internal Audit will undertake specific investigations and reviews at the request of management. These are often not in the original audit plan and, if not appropriate to an existing piece of work, are conducted at the discretion of the Corporate Manager, Internal Audit.

7.2 Business Continuity

Internal Audit have commenced a series of exercises to test individual services' Business Continuity Plans in practise. The Plans are "corporate" documents which give guidance to senior managers tasked with leading recovery activities and prioritising resources in the event of an incident/ emergency. The first exercise, 25 July 2018, tested Customer Services, Stowmarket. Several scenarios were acted out and learning points were noted. The exercise was positively received and learning points are being actively actioned. The second exercise planned will be at Creting Road depot. The exercise date is not yet confirmed, but is envisaged for later in the year, and undertaken by the new Corporate Manager; Health & Safety, Business Continuity and Emergency Planning.

8. Resources

As reported to this Committee in 'Key Information' above (pp4.2) one part-time member of staff has increased hours and the section has passed oversight of the Business Continuity activity from 8th October 2018. This has provided an increase over the original audit plan of 70 days. Whilst the Corporate Manager – Internal Audit continuously reviews the delivery of the plan to ensure that coverage and the consequent annual audit opinion are not compromised this opportunity to undertake further work has seen additional audits added to the original plan.

Consequently, reviews of: Ethical Values, Culture & Behaviour; New public access arrangements; and Fixed and Flexible Tenancies have been added to the plan for the second half year. These were included in the original 2018/19 plan as 'Bank of work'.

8.1 In outline these proposed audits will cover:

Ethical Values, Culture & Behaviour ('An enabled and efficient organisation')

An ethics audit is a comparison between actual employee behaviour and the guidance for employee behaviour provided in policies and procedures. Evaluate the tangible ethics measures that are in place and consider the ethical treatment associated with known violations.

New public access arrangements ('An enabled and efficient organisation')

Audit to work with Management to consider the efficiency of all forms of public access to information, documents, officers and members and physical sites, and compliance with appropriate regulations and legislation.

Fixed and Flexible Tenancies ('Housing Delivery')

Review of the provision of flexible housing tenancy agreements within the Councils, ensuring that it is correctly applied and managed to assist the Councils to prioritise housing need and respond to tenancy types and changes.

9 Professional Practice

9.1 Membership of audit bodies

It is important to keep abreast of best professional practice. Internal Audit has strong links with audit colleagues both within Suffolk and nationally and are members of the Suffolk Working Audit Partnership (SWAPs) and the Midland Audit Group.

9.2 Public Sector Internal Audit Standards (PSIAS)

The team have fully reviewed their working practices to ensure that our Internal Audit documents and processes comply with, and can be evidenced to, the PSIAS. This has resulted in a refining of the Internal Audit Charter Strategy; Internal Audit Services Manual; Internal Audit Risk Log; Quality Assurance and Improvement Programme; procedure notes; and working papers. These documents are published on the Councils' intranet, 'Connect', and remain subject to regular review. Subsequent to this exercise the actions arising from the review are materially implemented.

9.3 Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.

The Corporate Manager – Internal Audit (and Deputy Monitoring Officer) is also responsible (up to 30th September 2018) for overseeing the Risk Management and Business Continuity* arrangements across both Councils.

Separate Audit Leads are assigned to these two disciplines which allows a degree of independence to be monitored through the Corporate Manager – Internal Audit (and Deputy Monitoring Officer). Each of these roles has an independent sponsor to champion reports and proposals. These are vested in the Assistant Director, Law & Governance and Monitoring Officer, for Risk; and in the Strategic Director, for Business Continuity*.

* As mentioned in paragraph 4.2 of the 'Key Information', of the covering report above Business Continuity has moved from the remit of the Corporate Manager – Internal Audit (and Deputy Monitoring Officer) from 8th October 2018.

10 Conclusions

The Corporate Manager – Internal Audit considers that there are no additional audit related issues that currently need to be brought to the attention of this committee.

Annexe 1

Changes to the Audit Assurance terminology

Current Wording:	Proposed Wording:	Unchanged:
<p style="text-align: center;">High standard</p> <p>Systems described offer all necessary controls. Audit tests showed controls examined operating very effectively and where appropriate, in line with best practice.</p>	<p style="text-align: center;">Substantial assurance</p> <p>The system, process or activity should achieve its objectives safely and effectively and key controls are in place and operating satisfactorily.</p>	<p style="text-align: center;">Action required</p> <p>Further improvement may not be cost effective.</p>
<p style="text-align: center;">Effective</p> <p>Systems described offer most necessary controls. Audit tests showed controls examined operating effectively, with some improvements required.</p>	<p style="text-align: center;">(Sufficient) Reasonable assurance</p> <p>The system, process or activity should achieve its objectives safely and effectively. However, whilst there are some control weaknesses most key controls are in place and operating effectively.</p>	<p>Implementation of recommendations will further improve systems in line with best practice.</p>
<p style="text-align: center;">Ineffective</p> <p>Systems described do not offer necessary controls. Audit tests showed key controls examined were operating ineffectively, with a number of improvements required.</p>	<p style="text-align: center;">Limited assurance</p> <p>The system, process or activity is at risk to achieving its objectives safely and effectively as key controls are in place but operating poorly, or are inadequate.</p>	<p>Remedial action is required immediately to implement the recommendations made.</p>
<p style="text-align: center;">Poor</p> <p>Systems described are largely uncontrolled, with complete absence of important controls. Most controls examined operate ineffectively with a large number of non-compliances and key improvements required.</p>	<p style="text-align: center;">No assurance</p> <p>No assurance can be given that the system, process or activity will achieve its objectives safely and effectively as key controls are not in place or are failing</p>	<p>A total review is urgently required.</p>



Executive Summary

June 2018

Progress towards General Data Protection Regulation (GDPR) compliance

Overall Assurance Assessment	Overall Conclusion						
	<p>Comprehensive training provided to all designated champions and members, and online training for all staff. Site established on Connect to retain all documents and records. Training records for all staff not complete at time of report.</p> <p>Shared Legal Services are working closely with the Transformation Project Manager GDPR and the Service champions to identify and review contracts. Key documents have been reviewed / created and approved by SLT.</p> <p>The data cleanse is incomplete and will continue. This is especially true with some systems that require field corrections to securely manage auto cleansing. Audit identified lack of ownership in Housing, which was referred to the AD Housing.</p> <p>Legal team continue to determine contracts, and 3rd party communications are linked to GDPR champions for ownership.</p>						
Rationale and Scope	Action Points						
<p>This audit follows from the Audit review undertaken in January 2018 to evaluate the Council's readiness for the start of the GDPR regulatory framework in May 2018. The GDPR came into force in the UK on 25 May 2018 and replaced the Data Protection Act 1988. The new regulations are an evolution of existing UK data protection law and aim to harmonise data protection laws across the European Union and put individuals in control of their data. They will remain in force until the UK leaves the European Union and amends or repeals the legislation.</p> <p>It is planned that a subsequent post implementation review will occur after the 25th May launch.</p>	<table border="1"> <thead> <tr> <th data-bbox="1160 1066 1384 1107">High</th> <th data-bbox="1384 1066 1615 1107">Medium</th> <th data-bbox="1615 1066 1868 1107">Verbal</th> </tr> </thead> <tbody> <tr> <td data-bbox="1160 1107 1384 1149">4</td> <td data-bbox="1384 1107 1615 1149">0</td> <td data-bbox="1615 1107 1868 1149">0</td> </tr> </tbody> </table>	High	Medium	Verbal	4	0	0
High	Medium	Verbal					
4	0	0					

Draft Circulation:

Dave Muller Chair of the Joint Audit and Standards Committee – Mid Suffolk

Jenny Jenkins Chair of the Joint Audit and Standards Committee – Babergh

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Suzie Morley (Cabinet lead for Organisational Delivery – Mid Suffolk)

Katherine Steel Assistant Director, Corporate Resources

Emily Yule Assistant Director, Law & Governance and Monitoring Officer

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Agenda Item 9

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: Joint Audit and Standards Committee	REPORT NUMBER: JAC/18/10
FROM: Monitoring Officer	DATE OF MEETING: 12 November 2018
OFFICER: Emily Yule – Assistant Director for Law and Governance and Monitoring Officer	KEY DECISION REF NO. N/A

CODE OF CONDUCT COMPLAINTS MONITORING REPORT

1. PURPOSE OF REPORT

- 1.1 To report on Code of Conduct complaints received or determined since the last time that such complaints were reported to the Committee.

2. OPTIONS CONSIDERED

- 2.1 The Monitoring Officer is required by the constitution to regularly report complaints to the Joint Audit and Standards Committee. Therefore, no other options are applicable.

3. RECOMMENDATION

- 3.1 That the Code of Conduct Complaints monitoring information contained in Paper JAC/18/10 be noted.

4. KEY INFORMATION

- 4.1 This report covers complaints received in the 4 months from 1 July 2018 – 30 October 2018. The complaints are listed in the table below:

Table 1: Summary of complaints

	BDC	MSDC	TOTAL
Number of complaints received since last meeting	10	2	12
Number of complaints against District Councillors	5	0	5
Number of complaints against Parish Councillors	5	2	7
Number of complaints upheld & action taken	1	0	1
Number of findings of no breach of the Code & no action taken	5	1	6
Number of complaints under consideration/ pending decision	4	1	5

- 4.2 The volume of complaints received has increased slightly but this should be considered in conjunction with this report including four month's statistics rather than the usual period of three months. However, there were more complaints received about Parish Councillors than District Councillors in the past four months.
- 4.3 One of the complaints was determined to be a breach of the code of conduct. In this case the Councillor was asked to issue an apology and attend training. Two of the complaints were not found to be within the jurisdiction of the Monitoring Officer and as such the complainants were advised to contact the Police.
- 4.4 The Monitoring Officer and Deputies continue to receive a high number of enquiries for pre-complaint advice and from Town and Parish councils requesting procedural and governance advice. Queries regarding informal advice are now being recorded to monitor the volume and nature of the enquiries and to ensure that all respondents are providing consistent advice.

5. LINKS TO JOINT STRATEGIC PLAN

- 5.1 Good governance underpins the delivery of all priorities within the Joint Strategic Plan. The Suffolk Local Code of Conduct is an integral part of that governance framework.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no direct financial implications arising from this report.

7. LEGAL IMPLICATIONS

- 7.1 Under the Localism Act 2011, the Monitoring Officer is required to establish a local code of conduct for councillors and to investigate complaints made relating to breaches of that code.

8. RISK MANAGEMENT

- 8.1 Key Risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Complaints are not handled promptly	2 - Unlikely	1 - Minimal	Monitoring of complaints
Decisions are not sound	2 - Unlikely	3 - Bad	Apply adopted procedures

9. CONSULTATIONS

- 9.1 Where appropriate the Monitoring Officer is required to consult the

10. EQUALITY ANALYSIS

- 10.1 Equality Impact Assessment (EIA) not required.

11. ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications associated with this report.

12. BACKGROUND DOCUMENTS

12.1 None.

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Agenda Item 10

BABERGH AND MID SUFFOLK DISTRICT COUNCILS

COMMITTEE: Joint Audit and Standards Committee	REPORT NUMBER: JAC/18/11
FROM: Corporate Manager – Democratic Services	DATE OF MEETING: 12 November 2018
OFFICER: Karen Sayer - Governance Support Officer	KEY DECISION REF NO. N/A

JOINT AUDIT AND STANDARDS COMMITTEE FORWARD PLAN

Date of Committee – 14 January 2019

Topic	Purpose	Lead Officer
Joint Treasury Management Strategy	To note and make Recommendations to both full Councils	Cabinet Members - Finance
Joint Annual Audit Letter for 2017/18	For comment and agreement	Corporate Manager – Financial Services
Certification of Claims and Returns Annual Report 2016/17	To note	Ernst and Young
Joint Audit Plan 2018/19	To note	Ernst and Young
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer

Date of Committee – 11 March 2019

Topic	Purpose	Lead Officer
Managing the Risk of Fraud and Corruption - Annual Report	For comment and agreement	Corporate Manager – Internal Audit
Internal Audit Plan 2019/20	For comment and agreement	Corporate Manager – Internal Audit
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 29 July 2019

Topic	Purpose	Lead Officer
Joint Annual Governance Statement 2018/19	For comment and agreement	Corporate Manager – Internal Audit
Internal Audit Report 2018/19	For comment and agreement	Corporate Manager – Internal Audit
End of Year Significant Risks	For comment and agreement	Corporate Manager – Internal Audit
Statement of Accounts and Auditors Report 2018/19	To approve the final audited Statements of Accounts and the joint external auditor's report for 2018/19	Corporate Manager – Financial Services
Non-salary Expenses 2018/19	To provide information in relation to non-salary expenses	Corporate Manager – Financial Services
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer

Date of Committee – 30 September 2019

Topic	Purpose	Lead Officer
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer
2018/19 Treasury Management Outturn	For comment and agreement	Corporate Manager – Financial Services