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COMMITTEE: **JOINT AUDIT AND STANDARDS COMMITTEE**

VENUE: **Council Chamber, High Street, Needham Market**

DATE/TIME: **Monday, 14 November 2016 at 10.00 a.m.**

Members

Babergh

Michael Creffield
Alastair McCraw
David Rose
William Shropshire

Fenella Swan
John Ward
Stephen Williams
(1 vacancy)

Mid Suffolk

John Field
Lavinia Hadingham
John Matthissen
Lesley Mayes

Suzie Morley
Dave Muller
Kevin Welsby
Jill Wilshaw

PLEASE NOTE TIME AND VENUE OF MEETING

AGENDA

ITEM

BUSINESS

The Council, members of the public and the press may record/film/photograph or broadcast this meeting when the public and the press are not lawfully excluded.

Any member of the public who attends a meeting and objects to being filmed should advise the Committee Clerk who will instruct that they are not included in the filming.

PART I

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 **MINUTES**

To confirm and sign the Minutes of the meeting held on 12 September 2016 (attached).

4 **PETITIONS**

The Interim Head of Democratic Services to report, in accordance with Council's Rules of Procedure, the receipt of any petitions submitted to the Chief Executive.

ITEM	BUSINESS
5	<p data-bbox="381 264 831 293"><u>QUESTIONS FROM THE PUBLIC</u></p> <p data-bbox="381 331 1449 427">The Chairmen of Committees to answer any questions from the public of which notice has been given no later than midday two clear working days before the day of the meeting in accordance with Council's Rules of Procedure.</p>
6	<p data-bbox="381 472 807 501"><u>QUESTIONS FROM MEMBERS</u></p> <p data-bbox="381 539 1449 667">The Chairman to answer any questions on matters in relation to which the Council has powers or duties or which affect the District and which fall within the terms of reference of the Committee of which due notice has been given in accordance with Council's Rules of Procedure.</p>
7	<p data-bbox="381 712 1214 741"><u>MID YEAR REPORT ON TREASURY MANAGEMENT 2016/17</u></p> <p data-bbox="381 779 1238 804">Report by the Assistant Director – Corporate Resources attached.</p>
Paper JAC90	
8	<p data-bbox="381 882 999 911"><u>INTERIM INTERNAL AUDIT REPORT 2016/17</u></p> <p data-bbox="381 949 1158 974">Report by the Corporate Manager – Internal Audit attached.</p>
Paper JAC91	
9	<p data-bbox="381 1052 735 1081"><u>FORWARD PLAN 2016/17</u></p> <p data-bbox="381 1124 1174 1144">Report by the Interim Head of Democratic Services attached.</p>
Paper JAC92	

Note: The date of the next meeting is Monday 23 January 2017 (at Hadleigh).

For further information on any of the Part 1 items listed above, please contact Linda Sheppard on (01473) 826610 or via email at committees@baberghmidsuffolk.gov.uk

MINUTES OF THE JOINT AUDIT AND STANDARDS COMMITTEE MEETING HELD IN
THE COUNCIL CHAMBER, COUNCIL OFFICES, CORKS LANE HADLEIGH ON
MONDAY 12 SEPTEMBER 2016

PRESENT: **BABERGH**

Michael Creffield
Alastair McCraw
David Rose
William Shropshire (Chairman)
Fenella Swan
John Ward
Stephen Williams

MID SUFFOLK

John Field
Lavinia Hadingham
John Matthissen
Suzie Morley
Dave Muller
Kevin Welsby
Jill Wilshaw

Councillors Tony Bavington and Lesley Mayes were unable to be present.

14 SUBSTITUTES

It was noted that in accordance with Council Procedure Rule No 5, a substitute was in attendance as follows:-

Alastair McCraw (substituting for Tony Bavington)

15 DECLARATION OF INTERESTS

There were no declarations of interest.

16 MINUTES

RESOLVED

That the Minutes of the meeting held on 20 June 2016 be confirmed and signed as a correct record.

17 PETITIONS

None received.

18 QUESTIONS FROM THE PUBLIC

None received

19 QUESTIONS FROM MEMBERS

None received.

20 CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

Katherine Steel, Assistant Director – Corporate Resources introduced Paper JAC85 summarising changes to the appointment process for the Councils’ External Auditors and responded to Members’ questions regarding criteria for appointments and the operation of the new process. Members were asked to make recommendations to both Councils regarding future arrangements.

RECOMMENDED TO COUNCIL

- (1) That the arrangements for appointing External Auditors at the end of the 2017/18 Audit, as set out in paragraphs 10.1 and 10.2 of Paper JAC85 be noted.**
- (2) That the Council opts-in to the Local Government Association Sector Led Body (Public Sector Audit Appointments Ltd for the independent appointment of the Councils’ External Auditor, beginning with responsibilities for the financial year 2018/19.**

21 IMPACT OF BREXIT ON OUR TREASURY MANAGEMENT STRATEGY

Melissa Evans, Corporate Manager – Financial Services introduced Paper JAC86 setting out some of the implications to date of the UK’s Referendum decision to leave the European Union. Members noted that the Council’s Treasury Management Advisers are providing daily updates on the situation and see no cause for concern at present.

In response to questions from Members, Officers confirmed that the CCLA is UK based and that the Councils’ Treasury Management Strategy did not make provision for use of any foreign currency funds. Members were advised that although the revaluation of the CCLA had seen a fall of 4%, there would be no effect unless we were to sell, so the expected return on investment was still in the region of 4-5% and these returns would mitigate the reduction in the base rate. Katherine Steel agreed to advise Members outside the meeting as to whether the UBS Multi Asset Fund is UK based only.

RESOLVED

That the contents of Paper JAC86 be noted.

22 COMPLAINTS MONITORING REPORT

Caroline Whatling, Senior Solicitor and Deputy Monitoring Officer introduced Paper JAC87 updating Members on Code of Conduct Complaints. Members noted the correct Totals of ‘9’ and ‘2’ for lines 1 and 5 respectively of the Table in paragraph 8 of the report.

In response to a question about any Member training issues which might have been identified as a result of the complaints received, the Deputy Monitoring Officer reported that there was no common thread other than the need to address an ambiguous wording in the Register of Interest Forms (based on the Suffolk Code of Conduct) regarding electoral expenses.

RESOLVED

That the contents of Paper JAC87 be noted.

23 UPDATE ON COMPLIANCE WITH PART 7 OF THE LOCALISM ACT 2011

Caroline Whatling, Senior Solicitor and Deputy Monitoring Officer introduced Paper JAC88 updating Members on the current position. She confirmed that the Monitoring Officer is considering appropriate action which might be taken with regard to the completion and return of outstanding forms.

RESOLVED

That the measures taken to comply with the requirements within Part 1, Chapter 7 of the Localism Act 2011 be noted.

24 FORWARD PLAN 2016/17

Linda Sheppard, Senior Governance Support Officer referred to the on-going work to align the Forward Plan (Paper JAC89) with the Joint Strategic Plan. Following a query on the Risk Register Annual update, this would continue to come to the June meeting with six monthly updates to Executive and Strategy Committees.

That the content of Paper JAC89 be noted.

The business of the meeting was concluded at 10.35 a.m.

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Chairman

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Agenda Item 7

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Assistant Director – Corporate Resources	Report Number: JAC90
To: Joint Audit and Standards Committee	Date of meeting: 14 November 2016

MID YEAR REPORT ON TREASURY MANAGEMENT 2016/17

1. Purpose of Report

- 1.1. The Code of Practice on Treasury Management requires local authorities to present a mid-year report on treasury management activity to those Members charged with scrutinising this area of activity. This report fulfils that requirement and sets out treasury management activity for the first half of 2016/17.

2. Recommendation

- 2.1 That it be noted that Treasury Management activity for the first six months of 2016/17 was in accordance with the approved Treasury Management Strategy, and that both Councils have complied with all Prudential Indicator for this period.

The Committee is asked to make a recommendation to both Councils on the above matter.

3. Financial implications

- 3.1 As outlined in this report.

4. Legal implications

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

5. Risk Management

- 5.1 This report is not directly linked with any of the Councils' Corporate / Significant Business Risks, but it should be noted that changes in funding requirements, interest rates and other external factors can impact on the medium term financial strategy and future budgets (Risk 5f – failure of the Councils to become financially sustainable in response to funding changes). Key risks around treasury management, however, are set out below:

Risk description	Likelihood	Impact	Mitigation measures
Changes to the Bank of England base rate affecting borrowing / lending rates. The bank base rate is predicted to remain low throughout the year. Increased rates will result in higher interest costs and have an adverse impact on the budget	Unlikely	Noticeable	Borrowing at fixed rates when rates are low. Regular review of long term versus short term rates
Banks / building societies interest rate levels. These change to reflect economic conditions and affect lending rates. Lower rates result in lower interest and have an adverse impact on the budget	Unlikely	Noticeable	Daily treasury management activity includes looking at rates when investing surplus funds
Liquidity risk: access to cash. Lack of funds required for high level urgent payments resulting in exceeding overdraft or the bank's daylight exposure limit leading to additional costs incurred	Unlikely	Noticeable	Investments in money market funds and call accounts can be accessed at short notice

6. Consultations

- 6.1 Regular meetings have taken place with our Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

7. Equality Analysis

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

8. Shared Service / Partnership Implications

- 8.1 This is a joint report on activity. Both Councils' treasury management strategy and operations are handled by the integrated in-house finance team.

9. Links to Joint Strategic Plan

- 9.1 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

10. Key Information

- 10.1 The Treasury Management Strategies for each Council for 2016/17 were approved at Full Councils in February 2016.

- 10.2 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 year.
- 10.3 The Joint Treasury Management outturn report for 2015/16 was presented to Members at the Joint Audit and Standards Committee on 20 June 2016.
- 10.4 The Prudential 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.
- 10.5 Appendix D shows the position on key Prudential Indicators for the first six months of 2016/17. Both Councils can confirm that they have complied with all Prudential Indicators for 2016/17 to date.
- 10.6 The following key points relating to activity for the first half of the year are set out below:
- The UK economy has continued to grow in the first six months of 2016/17 with output growing by 0.4% in Q1, 0.7% quarter on quarter and by 2.2% year on year.
 - The result of the EU referendum has resulted in growth forecasts being downgraded as 2016 has progressed
 - The MPC (Monetary Policy Committee) reduced the Bank Rate to 0.25% in August 2016
 - Investment of surplus funds - as market conditions and credit ratings 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
 - Mid Suffolk's short-term debt reduced by £1m due to income exceeding expenditure in the first half of the year, which is the normal cash flow profile
 - No new long-term external borrowing
 - Both Councils have invested over £400k each in small businesses via the Funding Circle; the majority with the national accounts and £2k each in the local accounts.
- 10.7 In relation to borrowing, Babergh expects to borrow up to £10m and Mid Suffolk up to £25m by 31 March 2017 to finance the capital programmes and to put in place any potential long term cash investments.
- 10.8 In terms of the investment of surplus funds, section 1.9 of Appendix C sets out the issues that are impacting on current and future activity:

- Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

10.9 Money market funds, short-term deposits and call accounts are used to make short term investments on a daily basis.

11. Appendices

Title	Location
(a) Background, Economy and Outlook	Attached
(b) Debt Management	Attached
(c) Investment Activity	Attached
(d) Prudential Indicators	Attached
(e) Glossary	Attached

12. Background Documents

None.

Authorship:

Name: Katherine Steel
Position: Assistant Director –
Corporate Resources

Tel: (01473) 826649 / (01449) 724806
E-mail:
katherine.steel@babberghmidsuffolk.gov.uk

Name: Melissa Evans
Position: Corporate Manager –
Financial Services

Tel: (01473) 825819
E-mail:
melissa.evans@babberghmidsuffolk.gov.uk

Name: Sue Palmer
Position: Senior Financial Services
Officer

Tel: (01473) 825816
E-mail:
sue.palmer@babberghmidsuffolk.gov.uk

Appendix A: Background, Economy and Outlook

1. Background

- 1.1 Both Councils' Treasury Management Strategies for 2016/17 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
- 1.2 The Code also recommends that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures the Councils are embracing best practice in accordance with CIPFA's recommendations.
- 1.3 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.4 In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Councils to report on any financial instruments entered into to manage treasury risks.
- 1.5 The instruments and the limits with individual counterparties approved in the 2016/17 Treasury Management Strategy of each Council are as follows:

Type of instrument	BDC limit	MSDC limit
Deposits with banks and building societies	£2m	£1m
AAA rated money market funds	£2m	£2m
Deposits with other local authorities	£1m	£1m
Treasury bills	No limit	No limit
Debt Management Account Deposit Facility	No limit	No limit
Pooled Funds	£5m	£5m
Registered Providers	£5m	£5m
Corporates	£1m	£1m

- 1.6 The total limits for non-specified investments are shown in the table below:

Non – Specified Investment Limits	BDC and MSDC limit
Total investments without credit ratings	£10m
Total non – specified investments	£10m
Total loans to unrated corporates	£1m

- 1.7 In terms of which banks and building societies are included on the Councils' counterparty list, the advice of our treasury management advisors Arlingclose is used. As market conditions and credit ratings change during the year, institutions are either taken off or put on the list of counterparties that we are happy to lend money to.
- 1.8 In practice, the Councils do not have the size of deposit that interests the major banks and building societies, so on a daily basis it is usually money market funds, short-term deposits and call accounts that are used to make short term investments.

2. Economic Commentary and Outlook

- 2.1 The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.
- 2.2 The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.
- 2.3 In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.
- 2.4 The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.
- 2.5 Whilst the economic growth consequences of Brexit remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

- 2.6 Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly Inflation Report from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.
- 2.7 The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

3. Market Reaction

- 3.1 Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively.
- 3.2 On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from Brexit as investors counted on QE-generated liquidity to drive risk assets.
- 3.3 The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%

4. Outlook for the remainder of 2016/17

The economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.

The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in in December 2016 but only if economic conditions warrant.

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Council's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

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Appendix B: Debt Management

1.1 The table below shows the level of activity on short and long term borrowing between 1st April and 30th September 2016:

Babergh District Council	Balance on 01/04/2016 £000	Maturing Debt £000	New Borrowing £000	Balance on 30/09/2016 £000	Average Rate %
Sort term Borrowing	-	-	-	-	
Long Term Borrowing					
PWLB	87,297	250		87,047	3.001%
Total Borrowing	87,297			87,047	
Total External Debt	87,297			87,047	
Increase/(Decrease) in Borrowing				(250)	

Mid Suffolk District Council	Balance on 01/04/2016 £000	Maturing Debt £000	New Borrowing £000	Balance on 30/09/2016 £000	Average Rate %
Sort term Borrowing	11,000	19,000	18,000	10,000	0.338%
Long Term Borrowing					
PWLB	71,687	150	-	71,537	5.153%
Commercial Lenders	4,000	-	-	4,000	4.210%
Total Borrowing	86,687			85,537	
Total External Debt	86,687			85,537	
Increase/(Decrease) in Borrowing				(1,150)	

1.2 The tables above show that all new borrowing for Mid Suffolk for the first six months of 2016/17 has continued to be short term in order to take advantage of the relatively low rates. The level of short-term borrowing has reduced though, as it normally does in the first 6 months of the year, due to Council Tax and other income exceeding expenditure.

1.3 Babergh did not borrow any monies short term between April and September 2016. Mid Suffolk borrowed short term monies from other local authorities between April and September 2016 at interest rates between 0.33% and 0.5%. The total of short term loans held by Mid Suffolk at 30 September 2016 was £10m.

1.4 **LOBOs:** Mid Suffolk 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. Mid Suffolk acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options

- 1.5 **PWLB Certainty Rates:** The Councils have qualified for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) since 1st November 2014. In April both Councils submitted applications to the CLG along with the 2016/17 Capital Estimates Return to access this reduced rate for a further 12 month period from 1st April 2016.
- 1.6 Where possible both Councils make use of internal resources (surplus funds) instead of external borrowing to fund their capital expenditure as this lowers the overall treasury risk by reducing both external debt and temporary investments.
- 1.7 Babergh expects to borrow up to £10m and Mid Suffolk up to £25m by 31 March 2017 to finance the capital programmes and to put in place any potential long term cash investments.
- 1.8 The Councils' chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. As short term interest rates have remained, and are likely to remain lower than long-term rates at least over the next two years, it is likely to be more cost effective for Mid Suffolk to borrow short term loans.

Appendix C: Investment Activity

- 1.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Councils' aim is to achieve a yield in line with these principles.
- 1.2 The table below shows the activity on investments between 1 April 2016 and 30 September 2016. During this period both Councils have made both short and long term investments.

The Councils hold invested funds, representing income received in advance of expenditure plus balances and reserves held.

Babergh District Council Investments	Balance on 01/04/2016 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 30/09/2016 £000	Average Rate %
Uk Government					
DMADF	0	3,500	(3,500)	0	0.15%
Unsecured Investments	2,000	1,000	(1,000)	2,000	0.46%
Money Market Funds	2,700	31,550	(32,550)	1,700	0.48%
Pooled Property funds (CCLA)	5,000	0	0	5,000	4.78%
Pooled Multi Assets Income funds	2,000	0	0	2,000	3.39%
Loans to small businesses via Funding Circle	100	363	(25)	438	3.64%
Total Investments	11,800			11,138	
Increase/(Decrease) in Investments				(662)	

Mid Suffolk District Council Investments	Balance on 01/04/2016 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 30/09/2016 £000	Average Rate %
Uk Government					
DMADF	0	20,100	(19,100)	1,000	0.19%
Unsecured Investments	0	3,000	(2,000)	1,000	0.20%
Money Market Funds	1,300	21,250	(20,450)	2,100	0.47%
Pooled Property funds (CCLA)	5,000	0	0	5,000	4.78%
Loans to small businesses via Funding Circle	100	367	(25)	442	3.88%
Total Investments	6,400			9,542	
Increase/(Decrease) in Investments				3,142	

1.3 Budgeted Income and Outturn

The UK Bank Rate was reduced to 0.25% in August 2016. It is now forecast to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels (see tables above). Following the reduction in Bank Rate, rates for very short-dated periods (overnight – 1 month) fell to between 0.1% and 0.2%. Debt Management Account Deposit Facility (DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 – 6 month deposits.

The anticipated interest receivable for 2016/17 is as follows:

	BDC £000	MSDC £000
Original Budget 2016/17	317	201
Forecast Outturn 2016/17	315	237

1.4 Security: This remains the Councils main investment objective. This has been maintained by following the Councils counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.

	Each Council's Target	BDC Actual 30/09/16	MSDC Actual 30/09/16
Portfolio average credit rating	7.00	5.17	4.97

1.5 New investments can be made with the following institutions and instruments for both councils unless specified otherwise:

- Deposits with the Debt Management Office (DMO)
- Deposits with other Local Authorities (Babergh only).
- Investments in AAA-rated Constant Net Asset Value Money Market Funds
- Call accounts and deposits with UK Banks and Building Societies which are systemically important to the country's banking system.
- Treasury Bills and UBS Multi Asset Fund (Babergh only).
- Churches, Charities and Local Authorities Property Fund (CCLA)
- Funding Circle

1.6 Credit Risk: Counterparty credit quality is assessed and monitored with reference to:

- Credit ratings, the Councils minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, Standard and Poor's and Moody's;
- credit default swaps;
- financial statements
- GDP of the country in which the institution operates;
- the country's net debt as a percentage of GDP;
- sovereign support mechanisms /potential support from a well-resourced parent institution;
- Share price.

1.7 The tables below show counterparty credit quality as measured by credit ratings and the percentage of the investment portfolio exposed to bail-in risk.

Babergh District Council	Value Weighted Average Credit Rating Score	Value Weighted Average Credit Rating Rating	Time Weighted Average Credit Rating Score	Time Weighted Average Credit Rating Rating	Investments exposed to bail-in risk
31/03/2016	5.06	A+	8.06	BBB+	100%
30/06/2016	4.85	A+	5.3	A+	100%
30/09/2016	5.17	A+	10.69	BB+	91%

Mid Suffolk District Council	Value Weighted Average Credit Rating Score	Value Weighted Average Credit Rating Score	Value Weighted Average Credit Rating Score	Value Weighted Average Credit Rating Score	Investments exposed to bail-in risk
31/03/2016	4.64	A+	9.97	BBB-	99%
30/06/2016	4.16	AA-	4.16	AA-	100%
30/09/2016	4.97	A+	10.68	BB+	73%

Scoring:

- Value weighted average reflects the credit quality of investments according to the size of the deposit.
- Time weighted average reflects the credit quality of investments according to the maturity of the deposit.
- AAA = highest credit quality = 1
- D = lowest credit quality = 26
- Aim = A- or higher credit rating, with a score of 7 or lower, to reflect the current investment approach with the main focus being on security of the investment.

1.8 Long Term Investment returns

In July 2015 changes were made to the Treasury Management Strategy and as a result both Councils invested £5m each in the Churches, Charities and Local Authorities Property Fund (CCLA) and since then has invested over £400k each in Funding Circle.

Babergh also invested £2m in the UBS Multi Asset Fund on 1 October 2015. The Fund invests in various types of assets including cash, bonds, property and equity across various economic areas such as the US, EU and emerging markets.

The amount of interest received noted in paragraph 1.3 above reflects the increased interest generated by these long term investments.

The table below shows the investments and returns for both Councils to 30 September 2016 for CCLA.

CCLA	Babergh District Council	Mid Suffolk District Council
	£	£
Amount Invested	5,000,000	5,000,000
Interest received	(279,968)	(232,660)
Management Expenses paid	32,405	27,140
Net Income	(247,562)	(205,520)

The table below shows the performance to 30 September 2016 for both councils for Funding Circle.

Funding Circle National	Babergh District Council	Mid Suffolk District Council
	£	£
5 years and Over	171,007	171,770
3 years and Over	96,403	94,026
Under 3 years	147,958	155,698
Unallocated Funds	2,404	348
Investments total	417,772	421,842
Interest received	(6,252)	(6,636)
Promotional Cashback received	(20)	(20)
Total Income received	(6,272)	(6,656)
Expenses - fees paid	719	762
Net Income	(5,553)	(5,894)

Funding Circle Local	Babergh District Council	Mid Suffolk District Council
	£	£
Under 3 years	2,000	2,000
Unallocated Funds	23,000	23,000
Investments total	25,000	25,000
Interest received	(13)	(13)
Total Income received	(13)	(13)
Expenses - fees paid	2	2
Net Income	(11)	(11)

Babergh's UBS Multi Asset Fund performance dividends are received every quarter. The amount of interest received for the period 1 October 2015 to 30 September 2016 was £40,598.

1.9 Investment / Counterparty Update

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests.

The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

Fitch also upgraded Svenska Handelsbanken's long-term rating from AA- to AA reflecting the agency's view that the bank's earnings and profitability will remain strong, driven by robust income generation, good cost efficiency and low loan impairments.

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Appendix D: Prudential Indicators

1.1 Prudential Indicators 2016/17

The Local Government Act 2003 requires Councils to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, 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. To demonstrate that the Councils have fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

The Councils confirm compliance with their Prudential Indicators for 2016/17, which were set in February 2016 as part of the Councils' Treasury Management Strategy Statements.

1.2 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators are set to control the Council's exposure to interest rate risk.

The upper limits on fixed and variable rate exposures expressed as the amount of net principal borrowed (loans borrowed less amounts invested) are shown in the table below.

Limits for 2016/17	BDC £m	MSDC £m
Upper limit on fixed interest rate exposure	104	112
Actual 30/09/16	87	76
Compliance with limits	Yes	Yes
Upper limit on variable interest rate exposure	35	40
Actual 30/09/16	(12)	(0.2)
Compliance with limits	Yes	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

1.3 Maturity Structure of Fixed Rate Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Babergh District Council Maturity structure of fixed rate borrowing	Upper Limit for 2016/17	Lower Limit for 2016/17	Actual at 30/09/16
Under 12 months	50%	0	0.6%
12 months and within 24 months	50%	0	0.6%
24 months and within 5 years	50%	0	1.5%
5 years and within 10 years	100%	0	13.8%
10 years and within 20 years	100%	0	28.7%
20 years and within 30 years	100%	0	53.6%
30 years and above	100%	0	1.2%

Mid Suffolk District Council Maturity structure of fixed rate borrowing	Upper Limit for 2016/17	Lower Limit for 2016/17	Actual at 30/09/16
Under 12 months	50%	0	13.2%
12 months and within 24 months	50%	0	0.7%
24 months and within 5 years	50%	0	0.7%
5 years and within 10 years	100%	0	17.5%
10 years and within 20 years	100%	0	31.8%
20 years and within 30 years	100%	0	17.6%
30 years and above	100%	0	18.5%

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.

1.4 Total Principal Sums Invested for Periods Longer than 364 Days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end are:

Babergh and Mid Suffolk District Councils	2015/16 £m
Limit on principal invested beyond year end	2
Actual	0

Glossary of Terms

Annuity	Annuity or Equal Repayments. Fixed rate loans repayable by fixed half-yearly instalments to include principal and interest.
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.
CCLA	Churches, Charities and Local Authority Property Fund
DMADF	Debt Management Account Deposit Facility.
EIP	Equal Instalments of Principal. Fixed rate loans repayable by equal half-yearly instalments of principal together with interest on the balance outstanding at the time.
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 are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
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.
MPC	Monetary Policy Committee – A committee of the Bank of England which meets each month to decide the official interest in the UK. It is also responsible for other aspects of the Government's monetary policy framework such as quantitative easing and forward guidance.
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.

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Agenda Item 8

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Corporate Manager – Internal Audit	Report Number: JAC91
To: Joint Audit and Standards Committee	Date of meeting: 14 November 2016

INTERIM INTERNAL AUDIT REPORT 2016/17

1. Purpose of Report

- 1.1 The purpose of this report is to inform Councillors of the work undertaken within Internal Audit for the first part of 2016/17 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. Recommendation

- 2.1 That the content of this report, supported by Appendix A, be noted.

3. Financial Implications

- 3.1 There are no direct financial implications arising from this report. All internal audit recommendations must be considered in terms of their cost effectiveness.

4. Legal Implications

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

5. Risk Management

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

Risk Description	Likelihood	Impact	Mitigation Measures
Internal controls within each Council may not be efficient and effective. 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.	Unlikely	Bad	Councillors receive and approve the internal audit work programme and other reports on internal controls throughout the year. The work programme is based on an assessment of risk for each system or operational area. External Audit reviews the work of the Internal Audit section and the internal control arrangements.

6. Consultations

- 6.1 The 2016/17 Audit Plan was approved by the Joint Audit and Standards Committee on 18 April 2016 (Paper JAC76), having previously been endorsed by the S151 Officer and the Senior Leadership Team.

7. Equality Analysis

- 7.1 There are no equality implications with this report.

8. Shared Service / Partnership Implications

- 8.1 The overall approach has been to develop a single shared model for internal audit delivery and management for both Councils.

- 8.2 The Internal Audit delivery builds on past joint working facilitating the integration of the service with the aim of reducing costs and increasing capacity and resilience. It enables both Councils to be in a position to improve service delivery through advocating, supporting and reviewing system processes and outcomes.

9. Links to Joint Strategic Plan

- 9.1 The delivery of a comprehensive internal audit service supports the Council 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.

However, the internal audit coverage is designed to support all five of the Councils' strategic themes.

10. Key Information

- 10.1 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 Audit Plan including significant risk exposures and control issues where relevant, fraud risks and governance issues.

As part of the preparation for the 2016/17 Audit 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. (Details are contained in the 2016/17 Audit Plan (JASC 18 April 2016 Paper JAC76)).

- 10.2 As the Councils' Delivery Programme continues and re-shapes and transform 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 monitors requests, with a risk based approach, for the re-allocation of Internal Audit resources from the approved 2016/17 Audit Plan.

- 10.3 Full audits conducted are split into two types, Fundamental and non-Fundamental (Risk Audit) reviews. Historically Fundamental reviews had been conducted in the latter half of the financial year to meet with External Audit testing requirements.

Following on from the successful engagement with the Corporate Manager – Financial Services during last Financial Year, these audits are planned to be materially completed by the end of December 2016. This is primarily to assist the Finance team in their preparation for punctual closing of the 2016/17 Accounts.

- 10.4 Appendix A provides a summary of the work undertaken to date. This work will contribute to the 2016/17 overall audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit, as required by the Accounts and Audit (England) Regulations 2015.

11. Appendices

Title	Location
Appendix A - Overview of Internal Audit Work	Attached

12. Background Documents

- 12.1 There are no further documents.

Authorship:

John Snell
Corporate Manager – Internal Audit

01473 825822 / 01449 724567
john.snell@babberghmidsuffolk.gov.uk

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Appendix A

Overview of Internal Audit Work 2016/17

1 Introduction

The work completed by Internal Audit for the first six months of the Financial Year 2016/17 (up to September 2016), and progress made towards achieving the Audit Plan for the year, is reported here to the Joint Audit and Standards Committee.

2 Audit Activity

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**
 - 6.1 Fundamental Audits (Core Financial Systems Audits)**
 - 6.2 Risk Audit Reviews**
- 7 Business support activities**
- 8 Complaints**

3 Council Governance

- 3.1 The Corporate Manager – Internal Audit continues as a lead in the Information Governance project across the Councils and has authored the Information Governance Policy. The aim of this Policy is to outline an information governance framework that ensures both Councils treat information as a valuable asset, maintain compliance with relevant UK and European Union legislation, for example the Data Protection Act 1998 and meet other governance requirements.
- 3.2 In addition Internal Audit has collated the Information Governance risk log which captures the risks that the Councils are exposed to within the framework of law and best practice that regulates the manner in which information (including information relating to and identifying individuals) is managed, i.e. obtained, handled, used and disclosed.
- 3.3 Internal Audit has led on the production of the Annual Governance Statement (AGS) which is completed again as at the end of the financial year 2015/16, presented to the Committee on 20 June 2016 (Paper JAC80), alongside an Assurance Mapping exercise across the Councils designed to identify gaps in good practice and aid the 2016/17 audit planning process. The outcome of the planning was reported to this Committee on 18 April 2016 (Paper JAC76).

- 3.4 The Corporate Manager – Internal Audit continues on the Governance Working Group tasked with looking at ‘Business Planning’ across the Councils and ensuring that working practices and supporting governance arrangements are robust. As a result the Corporate Manager – Internal Audit has helped to draft a governance ‘health check’ for discussion which provides staff with key pointers that should be addressed/considered to demonstrate good governance in the working environment.

4 Risk Management

- 4.1 Audit continues to maintain and facilitate development of the Significant Risk register with Councillors and Senior Management. As a living document Audit regularly review the content with management. Whilst the present register was reported to the April meeting of the JASC. (18 April 2016 Paper JAC79) this has been subject to further review and refinement during the present period.
- 4.2 The Risk Management Strategy and Register was presented to the Executive and Strategy Committees for approval on 6 June 2016 (X/33/16) and 9 June 2016 (Paper S9) respectively.
- 4.3 Audit has continued to provide guidance and challenge to the development programme across the Councils through risk workshops and continuing support to project leads, assisting the drafting of new project risk registers aligned to the Significant Business Risk register. Further support is planned to be provided through the financial year and in ensuring a continuous and robust challenge to the project management resources.

5 Probity

- 5.1 The data requirements and data specifications for the 2015/16 National Fraud Initiative (NFI) exercise have now been completed and successfully uploaded using the NFI’s secure electronic upload facility.

The release of matches of information across all the contributors 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.

- 5.2 EU Elections expense payments - Internal Audit was asked to carry out an audit by the Interim Democratic and Electoral Services Manager of the process undertaken and that all other expenses relating to the EU Referendum were correctly paid, as due to an error in processing no PAYE deductions were made. (See Annex for detail).
- 5.3 Full details of the anti-fraud and corruption work undertaken during the year is reported annually to this Committee in a report entitled ‘Managing the Risk of Fraud and Corruption. The last report was for 2015/16 and presented on 18 April 2016 (Paper JAC77).

6 Audits conducted

The audits conducted are split into two: Fundamental / Core Financial Systems Audit and Risk Audit reviews. The audits that have been completed, and the Final Report issued, are summarised in the Annex below.

6.1 Fundamental Audits / Core Financial Systems Audits

As mentioned in the covering Committee report these audits are planned to be undertaken during the third quarter and materially completed by the end of December 2016. This is primarily to assist the Finance team in their preparation for punctual closing of the 2016/17 Accounts. To date the briefs have been passed to the Corporate Manager – Financial Services and the audits for Treasury and Local Taxation (covering Council Tax & NDR) have been started.

As is customary, initial observations emanating from the testing have been discussed with the Corporate Manager – Financial Services.

Ipswich Borough Council Audit Team undertake review of SRP Revenues and Benefits, which provides the Corporate Manager – Internal Audit with assurance on the controls exercised over income processing. They have issued their Draft report for 2015/16, which has an overall opinion of 'Good'. *(All controls are being applied consistently and effectively. This means that all the control areas in the audit are being properly managed and the associated risks are being mitigated.)*

6.2 Risk Audits

6.2.1 This planned audit work is determined by a number of considerations including: Management concerns; perceived risk and controls environment; strategic importance; and past experience.

The audit work is classified into non-Fundamental reviews and Delivery Programme reviews.

6.2.2 Non-Fundamental reviews

Building Control procedural review - the key building control processes, including the application procedure, allocation of fees, payment receipt, and performance monitoring. The report is currently in Draft for discussion.

Procurement – contract management – This review commenced in the previous financial year and was concluded subsequent to Management restructure of the Asset Management and Capital Project service area within Housing.

Procurement – Housing. This work is under way as review of how Housing uses Works Orders from Open Housing, linking into the new joint system and common procedures to reflect best purchase to pay practise. Audit have mapped processes and are continuing to work with Procurement to identify opportunities and provide guidance on compliance and best practice.

Grants – This audit is nearing completion of fieldwork and on target to be complete to plan.

6.2.3 Delivery programme

The 2016/17 audit plan included provision for audit to support and advise on changes and developments planned and proposed for the year, which included:

JOSIE - The JOSIE project has been established across Babergh and Mid-Suffolk District Councils (BMSDC) to support the introduction of a single, operational IT system for a number of the Councils' services. The approach adopted for this governance review was to establish the current arrangements and comment/evaluate the robustness of these arrangements and make recommendations where necessary.

The date of the second part of this audit (the actual process of receiving and distributing funds and the management thereof) is planned for November 2016 when the data testing will commence.

Building Control - Audit provided templates to aid management in financial review and continue working with the Corporate Manager, Building Control, to explore the financial viability and potential to develop shared partnership ventures for the building control service. Internal Audit is also working with colleagues on the Local Authority Building Control review and assessment.

Community Infrastructure Levy (CIL) - The approach adopted for this governance review was, in outline, to establish the current arrangements and comment / evaluate the robustness of these arrangements and make recommendations where necessary.

The date of the second part of this audit (i.e. collecting and monitoring of allocated funds) is to be agreed with the Assistant Director (Planning for Growth) as it is subject to CIL funds collected. Research by the Infrastructure Team shows that other Councils have not collected significant income until year 3 of implementing CIL.

7 Business support activities

- 7.1 Audit retain a close working relationship with Finance staff, and have provided support and advice on proposed system and control developments, enhancements and changes, including Fixed Assets, Risks, Budgetary Control and Systems Administration.
- 7.2 Business Continuity – Internal Audit has worked with business managers to develop and evolve both the Councils and individual departmental business continuity plans. 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.

A business continuity table top exercise ‘Armageddon’ has been developed by the Business Continuity Working Group with a view to it taking place on 17 November 2016.

8 Complaints

To date, this year, Internal Audit has not received any request from management to investigate complaints.

9 Resources

The Internal Audit team has remained constant during the period which has enabled consolidation and development of the skills mix, aims and objectives required to deliver the Councils' Plans, reflected in the 2016/17 Audit Plan.

10 Professional Practice

10.1 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.

11 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.

ANNEX

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Non – Fundamental Audits				
EU Election	The Interim Democratic and Electoral Services Manager asked Internal Audit to review the process undertaken, and that all expenses, relating to the EU Referendum were correctly paid.	<ul style="list-style-type: none"> • Poor reputation and or fines • Further errors leading to overpayments by the Councils and ensuing loss • Ineffective working practices 	<ul style="list-style-type: none"> • One employee (representing a 2% error rate) was overpaid by £40.00. This has now been addressed by HR. • With the exception of the tax issue all other payments were found to be correct. • HR has now written to all internal staff affected and an adjustment of tax will be made in their September’s pay. • Non-staff’s adjustment of tax is being rectified by issuing invoices in September. 	In line with this type of report no opinion is given.
Procurement – contract management	Review the Councils’ contract activities to assure compliance with procurement requirements and ensure accountability for goods and services provided.	<p>Risk exposure from control failures would include:</p> <ul style="list-style-type: none"> • Overspend on Budgets, and cash flows are impaired, through sub-optimal purchasing decisions; • Sub-standard work means that service levels delivered do not meet the VFM needs of the Council; • Legal and reputational damage arise, without recourse, from inappropriate supplier actions or negligence; • Supplier or Council management (in) action gives rise to loss of Council assets; • Ineffective working relationships with the contractor. 	<p>The identified control breakdowns are primarily attributed to failure of governance in the contract management and performance monitoring process within the Councils.</p> <p>It was recognised by the Auditees that Senior Leadership Team action would be required to support the associated cultural changes and key improvements now underway include:</p> <ul style="list-style-type: none"> • evolution of the existing commissioning and procurement process; • development of the budgetary control process; and • structural changes to the functional delivery of the previous asset management services; 	Ineffective

ANNEX

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Delivery programme Audits				
Community Levy Charge (CIL) (Phase 1)	A Governance review to establish the current arrangements and comment / evaluate the robustness of these arrangements.	<ul style="list-style-type: none"> • Council will not be able to secure the correct level of contributions towards infrastructure from major schemes. • Quality of evidence challenged and needing further external work or viability/valuation work undertaken. • Inappropriate mechanisms put in place to oversee the collection and distribution of CIL monies. 	<p>Despite CIL being a new process and a newly formed team for MSDC and BDC, all areas tested had very strong controls.</p> <p>The team is demonstrating their pro-active 'Open for Business' approach by following other cases to ensure our organisations meet customer needs and expectations to a very high standard.</p>	High Standard
JOSIE project (Phase1)	A Governance review to establish the current arrangements and comment / evaluate the robustness of these arrangements.	<ul style="list-style-type: none"> • Historical data will be lost due to different data management processes in MSDC vs BDC. • Stakeholders are not engaged, actions are not owned and outcomes are not fit for purpose/accepted by the organisation/s. • Business as Usual procedures and Supplier management expertise are not in place or not fit for purpose at go live date. • roles & responsibilities for ongoing management of IT systems is not established. 	<p>Audit opinion primarily based upon the lack of a formal project role structure and formalised accountability of all stakeholders, including the Project Manager.</p> <p>As the project progresses it is Internal Audit's view that this can pose a risk to the project as role expectations are not clear.</p> <p>Management have accepted all the findings and recommendations from the review and are implementing changes to improve the position.</p>	Ineffective

Draft Circulation:

Suzie Morley Chair of the Joint Audit and Standards Committee – Mid Suffolk

William Shropshire Chair of the Joint Audit and Standards Committee – Babergh

Lee Parker (Member with Special Responsibility)

Glen Horn (Portfolio Holder)

Peter Patrick (Portfolio Holder)

Katherine Steel Assistant Director, Corporate Resources

Suki Binjal Interim Assistant Director, Law and Governance

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Agenda Item 9

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Interim Head of Democratic Services	Report Number: JAC92
To: Joint Audit and Standards Committee	Date of Meeting: 14 November 2016

FORWARD PLAN

Date of Committee – 23 January 2017

Topic	Purpose	Portfolio Holder / Lead Officer
Treasury Management Strategy 2017/18	To agree the approach for 2017/18 that will complement the allocation of resources in the budget	Assets and Investment / Finance / Corporate Manager – Financial Services
Update on Compliance with the Localism Act 2011	To update Councillors on the measures taken to comply with Chapter 7 of the Localism Act and to consider any actions required	Enabled and Efficient Organisation / Monitoring Officer
Complaints Monitoring Report	To report on code of Code of Conduct complaints in the previous period	Enabled and Efficient Organisation / Monitoring Officer

Date of Committee – 13 March 2017

Topic	Purpose	Portfolio Holder / Lead Officer
Anti-Fraud and Corruption Annual Report 2016/17	To review and note the activity for the prevention of fraud and corruption in 2016/17	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit
Internal Audit Plan 2017/18	To review and approve the Internal Audit Plan for 2017/18	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit

Date of Committee – 15 May 2017 (provisional date)

Topic	Purpose	Portfolio Holder / Lead Officer
Annual Significant Risk Register Report 2016/17	Review the Significant Risk Register and note the management and mitigation actions being taken	Enabled and Efficient Organisation / Internal Audit and Risk Management Officer
Annual Audit Report 2016/17	To note the outcome of the Internal Audit Work in 2016/17	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit
Annual Governance Statement 2016/17	To consider and review the Joint Annual Governance Statement	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit

Karen Sayer
Governance Support Officer

01473 826610
karen.sayer@baberghmidsuffolk.gov.uk

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