Gloucester City Council

Audit and Governance Committee

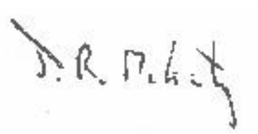
Meeting: Monday, 14th March 2016 at 6.30 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP

Membership:	Cllrs. Llewellyn, Gravells, McLellan, Hobbs, Taylor, Patel and Hampson
Contact:	Atika Tarajiya Democratic and Electoral Services Officer 01452 396127 Atika.tarajiya@gloucester.gov.uk

AGENDA

1.	**APOLOGIES** To receive any apologies for absence.
2.	**DECLARATIONS OF INTEREST** To receive from Members, declarations of the existence of any disclosable pecuniary, or non-pecuniary, interests and the nature of those interests in relation to any agenda item. Please see Agenda Notes.
3.	**MINUTES** (Pages 5 - 10) To approve as a correct record the minutes of the meeting held on 18th January 2016.
4.	**PUBLIC QUESTION TIME (15 MINUTES)** To receive any questions from members of the public provided that a question does not relate to: • Matters which are the subject of current or pending legal proceedings, or • Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers
5.	**PETITIONS AND DEPUTATIONS (15 MINUTES)** To receive any petitions and deputations provided that no such petition or deputation is in relation to: • Matters relating to individual Council Officers, or • Matters relating to current or pending legal proceedings
6.	**AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN** (Pages 11 - 12) To consider the Action Plan.
7.	**BENEFIT AUDIT UPDATE ON ACCURACY RATE**

	To receive a verbal update from the Business Improvement Officer updating Members on the accuracy rate following the completed Benefit Audit.
8.	**KPMG - EXTERNAL AUDIT PLAN 2015/16** (Pages 13 - 28) To consider the report of KPMG relating to the External Audit Plan 2015/16.
9.	**KPMG - EXTERNAL AUDIT TECHNICAL UPDATE** (Pages 29 - 50) To consider the report of KPMG relating to the External Audit technical Update.
10.	**INTERNAL AUDIT PLAN 2015/16 - MONITORING REPORT** (Pages 51 - 60) To consider a report from the Audit, Risk and Assurance Manager which informs Members of the audits completed as part of the agreed Internal Audit Plan 2015/16.
11.	**INTERNAL AUDIT PLAN 2016/17** (Pages 61 - 84) To consider the report of the Head of the Internal Audit & Risk Management Shared Service which informs Members of the Internal Audit Plan 2016/17.
12.	**INTERNAL AUDIT CHARTER** (Pages 85 - 108) To receive the report of the Head of Audit and Risk Assurance.
13.	**ANNUAL RISK MANAGEMENT REPORT** (Pages 109 - 114) To consider the report of the Audit, Risk and Assurance Manager updating Members on the City Council's annual risk management report.
14.	**TREASURY MANAGEMENT STRATEGY** (Pages 115 - 144) To consider the report of the Head of Finance which seeks approval for the Treasury Management Strategy 2016/17 prior to its submission to Council on 24 March 2016 by the Cabinet Member for Performance and Resources.
15.	**AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME** (Pages 145 - 146) To consider the Work Programme.
16.	**DATE OF NEXT MEETING** Monday 20th June 2016 at 6:30pm.



Jon McGinty
Managing Director

Date of Publication: Friday, 4 March 2016

NOTES

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

<u>Interest</u>	<u>Prescribed description</u>
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area. For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and (b) either – i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with

whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, "securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

Access to Information

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For further details and enquiries about this meeting please contact Atika Tarajiya, 01452 396127, atika.tarajiya@gloucester.gov.uk.

For general enquiries about Gloucester City Council's meetings please contact Democratic Services, 01452 396126, democratic.services@gloucester.gov.uk.

If you, or someone you know cannot understand English and need help with this information, or if you would like a large print, Braille, or audio version of this information please call 01452 396396.

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If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by council staff. It is vital that you follow their instructions:

- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.

AUDIT AND GOVERNANCE COMMITTEE

MEETING : Monday, 18th January 2016

PRESENT : Cllrs. Llewellyn, Hobbs, Taylor, Patel and Hampson

Others in Attendance
Jon Topping, Head of Finance
Terry Rodway, Audit, Risk and Assurance Manager
Sadie Neal, Head of Business Improvement
Atika Tarajiya, Democratic and Electoral Services Officer

APOLOGIES : Cllrs. Gravells and McLellan

49. DECLARATIONS OF INTEREST

There were no declarations of interest.

50. MINUTES

RESOLVED:

That the minutes of the meeting held on 23 November be approved and signed by the Chair as a correct record.

The Chair referred to item 46 (Strategic Risk Register) in the minutes of the last meeting querying whether Councillor Norman (Cabinet Member for Performance and Resources) had discussed the resilience of the senior management structure with Officers.

Councillor Norman confirmed that he had discussed the issue with the Managing Director, who has assured him that the Risk Register was regularly reviewed by the senior management team, noting that it was likely that a review of the current structure would take place following the formal resignation of the Corporate Director. The Audit, Risk and Assurance Manager commented that this item was scheduled for discussion at the senior management team meeting on the 19 January 2016.

51. PUBLIC QUESTION TIME (15 MINUTES)

There were no public questions.

52. PETITIONS AND DEPUTATIONS (15 MINUTES)

There were no petitions or deputations.

53. CHANGE TO ORDER OF PROCEEDINGS

The Chair agreed to amend the order of proceedings to consider agenda item 14: Council IT: Lessons Learned ahead of agenda item 6.

RESOLVED:
That the order of proceedings be amended to allow agenda item 14 to be considered ahead of agenda item 6.

54. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED that the press and public be excluded from the meeting during the following item of business on the grounds that it is likely, in view of the nature of business to be transacted or the nature of the proceedings, that if members of the press and public are present during consideration of this items there will be disclosure to them of exempt information as defined in Schedule 12A of the Local Government Act 1972 as amended.

55. COUNCIL IT- LESSONS LEARNED

The Head of Business Improvement highlighted key areas of the report acknowledging that since the security breach in July 2014, there has been major improvements in the Council's IT infrastructure. She noted that the Council were working with the PSNA and Civica to achieve PSN accreditation commenting that there were no outstanding actions identified from the breach.

In response to the Chair's query of whether a communication channel had been established with the ICT Working Group, Councillor Taylor, a member of the group, confirmed that the group were regularly updated and consulted on IT developments and proposals.

RESOLVED:

That the report be noted.

56. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN

RESOLVED: That the exclusion of the press and public be discontinued to allow members of the public and press to be present during consideration of the remainder of the agenda.

The Committee considered the Action Plan

The Audit, Risk and Assurance Manger explained that the Minute 17 was still on track for implementation in March 2016 commenting that the Minute 28 and 31 were now complete and would be deleted from the action plan.

In response to the Chair's query regarding the proposed EPOS system for the Guildhall, the Head of Finance reported that the contract for the new system was due to be signed this week and the implementation date remained on course for March 16.

57. KPMG ANNUAL REPORT ON GRANTS AND RETURNS WORK 2014/15

Darren Gilbert, KPMG reported that the return of the Housing Benefit Subsidy Audit was unqualified but had required adjustments to the final figures. He advised the Committee that the Pooling of the Housing Capital Receipts Audit return was qualified as some historical records had not been able to be located, noting that this was an issue that had been identified in numerous authorities and was predominantly due to the age of the records required. He acknowledged that the City Council had a good track record of handling housing benefit claims, commenting that he was unsure if the City Council would be requested to provide additional information to evidence the qualified audit.

RESOLVED:

That the report be noted

58. INTERNAL AUDIT PLAN 2015/16 - MONITORING REPORT

The Audit, Risk and Assurance Manager highlighted key areas of the report acknowledging that the non-achievement of the target number of completed Audits was predominantly due to a vacancy in the Audit and Assurance Team. He reported that arrangements had now been made to utilise contract staff who were now on- site, working on completing the outstanding audits.

The Chair questioned what action could be taken, should the high priority recommendations outlined in appendix 2 of the report not be implemented at the Guildhall. The Audit Risk and Assurance Manager advised that a further follow-up audit would be carried out approximately three months after the agreed date of implementation to test if the recommendations had been implemented. If the recommendations have not been implemented then this would be reported to Audit & Governance Committee. The Head of Finance reported that each Service area had monthly meetings scheduled with Finance Officers to ensure that outstanding commitments were reviewed.

In response to a query from Councillor Patel regarding the term "nominal value invoices" used in the commentary of the Commercial Rents Audit in appendix 1 of the report, the Audit, Risk and Assurance Manager explained that this referred to outstanding wayleaves and easements debts which were typically of a value of less than £5 , noting that the recommendation was to focus on debts of a more significant value.

In response to Councillor Patel's query of the largest debt owed to the Council, the Audit, Risk and Assurance Manager advised that this information would be obtained from Civica and reported back to the Committee.

RESOLVED:

That the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems be endorsed.

59. BUSINESS RATES POOLING ANNUAL REPORT

The Head of Finance highlighted the key areas of the report advising that a new pool had been set up to exclude Tewkesbury Borough Council to prevent the pool for sustaining further losses as a result of successful appeals from Virgin Media.

The Chair noted that the forecast for the forthcoming year was positive acknowledging that the Council had been aware of the risks when initially forming a combined pool.

RESOLVED:

That the 2014/15 outturn position and performance of the Gloucestershire Business Rates Pool be noted.

60. ANNUAL STANDARDS REPORT

The Audit, Risk and Assurance Manager summarised the key areas of the report advising Members that it was the recommendation of the Monitoring Officer to consider altering the timing of the report in future years to coincide with LGO Annual report on Local Government Complaints and thereby combine the two reports.

RESOLVED:

(1) That the contents of the report be noted and

(2) The Annual Standards Report of the Monitoring Officer be presented together with LGO Annual report on Local Government Complaints in future years.

61. LOCAL GOVERNMENT OMBUDSMAN DECISIONS

The Audit, Risk and Assurance Manager summarised the key areas of the report advising the Committee that in both cases referenced in the report action had been taken to address the findings in each case.

The Chair commented that in both cases there was a theme of lack of timely communication which would need to be addressed.

With reference to the second case referred to in the report, Councillor Hobbs commented that Officers should utilise standard wording within template letters to inform chargepayers of the appeals procedure. He queried whether this had been implemented as part of the lessons learnt. The Audit, Risk and Assurance Manager confirmed that he would go back and enquire whether this had been done.

RESOLVED:

(1) The contents of the report be noted;

(2) It is satisfied that appropriate steps have been taken to address the findings in each case and that no further action needs to be taken by the Council.

62. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

The Committee considered the Work Programme.

The Audit, Risk and Assurance Manager advised the Committee that the next meeting on the 14th March 2016 would be his last, and that the report on the Internal Audit Plan 2016/17 would be presented by the new Head of the Internal Audit & Risk Management Shared Service.

RESOLVED that the work Programme be noted.

63. DATE OF NEXT MEETING

Monday 14th March 2016 at 6:30pm.

Time of commencement: 6.30 pm hours
Time of conclusion: 7.06 pm hours

Chair

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AUDIT AND GOVERNANCE COMMITTEE – 14 MARCH 2016

ACTION PLAN

MINUTE NO.	MATTER	CURRENT STATUS	RAG	TARGET DATE	OWNER
Actions arising from meeting held on 24 September 2012:					
17	Purchase of software with a modern stock control facility at The Guildhall.	A review of the Guildhall operations, including IT requirements, has been undertaken by Consultants and a cross party working group of Members. A decision on whether to purchase new EPOS software with stock control functionality has been made and a new system will be implemented in March 2016.	A	~~31.03.14~~ ~~30.11.14 (revised date)~~ ~~June 2015 (revised date)~~ Implementation date March 2016	~~SG~~ ~~MS~~ ~~MS~~ JT
Actions arising from meeting held on 18 January 2016:					
58	Report to Committee on the largest debt owed to the Council	Audit, Risk and Assurance Manager to liaise with Civica and report back to Committee on 14 March 2016	A	14 March 2016	TR
61	Report to Committee on the process of reviewing letter templates using when writing to claim payer	Audit, Risk and Assurance Manager to review the process and report back to Committee on 14 March 2016	A	14 March 2016	TR

PLEASE NOTE: Rolling agenda items requested by the Committee have not been included above but have been included on the Audit and Governance Work Programme.

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External Audit Plan 2015/2016

Gloucester City Council

22 February 2016

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority needs to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£1.75 million.**

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£85,000**.

Significant risks

No significant risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified other than the standard risks set out on page 4.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Fair value of property; and
- Business rates pooling

See pages 3 to 5 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our initial risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Achievement of the savings plan.

See pages 6 to 9 for more details.

Logistics

Our team is:

- Darren Gilbert – Director
- Matthew Arthur – Manager
- Tanya Van Niekerk– Assistant manager

More details are on **page 12.**

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11.**

Our fee for the audit is £63,450 (£84,600 2014/2015) see **page 10**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the findings of our initial VFM risk assessment.

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during January 2016 to February 2016. This involves the following key aspects:

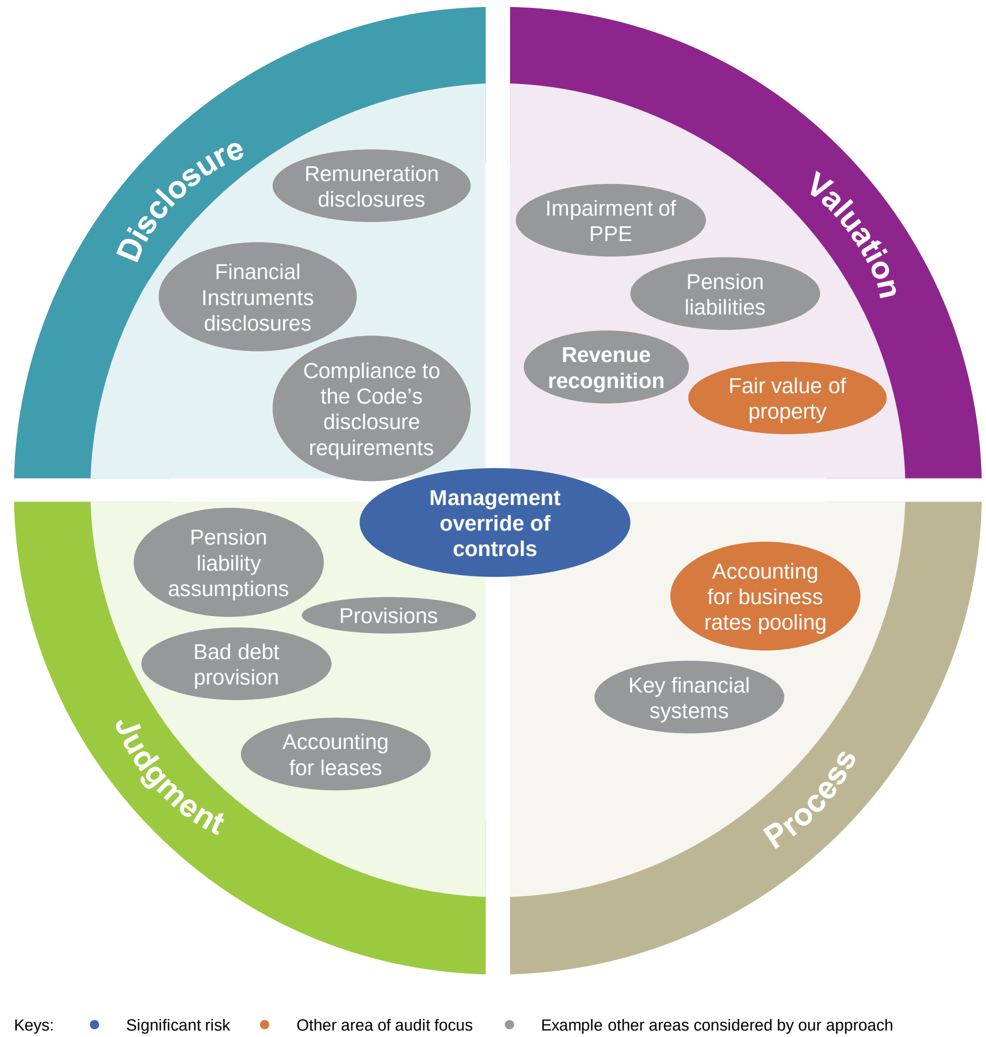
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Fair value of property

- The Council holds a significant property portfolio and needs to consider whether the carrying value of property assets are materially stated as at the balance sheet date.
- We will review the appropriateness of the valuation methodology and consider the expertise of the valuers performing the exercise, and in addition review the Council's consideration of the accuracy of the year-end carrying value of properties not revalued at the balance sheet date. We will perform testing of a sample of revaluations and discuss with management and changes in use / surplus properties and how this has been considered in the valuations.

Business rates pooling

- The Council is a member of the Gloucestershire business rates pool whereby it pools its business rates collected with other Councils in Gloucestershire. The scheme has experienced a deficit in 2014/15, mainly as a result of successful appeals made by Virgin Media in Tewkesbury which caused Tewkesbury Borough Council to miss its income target and pool losses being met by revenue reserves of the member authorities. This has led to Tewkesbury withdrawing from the scheme from 2016/17 onwards, but it will still be a member for 2015/16.
- The complexities of the scheme including the deficit situation mean that the process to account for the scheme is very complex and therefore subject to increased risk of error. In addition, the deficit situation puts increased pressure on the Council reserves.
- We will understand the pool position at year-end including the impact of Tewkesbury's withdrawal and the Council's plans for funding any continuing deficit position. In addition, we will review the Council's accounting for the pool within its accounts and the Collection Fund disclosure account to consider accuracy of the pool transactions.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

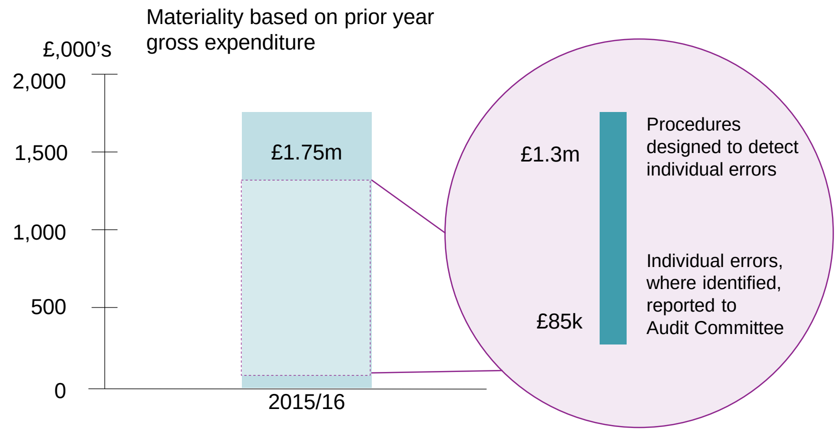
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £1.7 million for the Authority's standalone accounts, and at £1.75 million for the group accounts, which in both cases equates to approximately 1.4 percent of gross expenditure adjusted for non-recurring transactions (e.g. disposal of housing stock).

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.



Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £85,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Group audit

The Council is planning to review the need for group accounts following the stock transfer and exit of Gloucester City Homes from the group in 2014/15. Subject to any change, this may lead to the need to prepare group accounts in relation to the joint venture in Gloucestershire Airport Ltd (GAL).

We will work with the Council in its consideration of the need for group accounts. If the Council continues to prepare group accounts, we will corroborate relevant information in GAL to the company's separate accounts and accounting records as necessary.

Value for money arrangements work

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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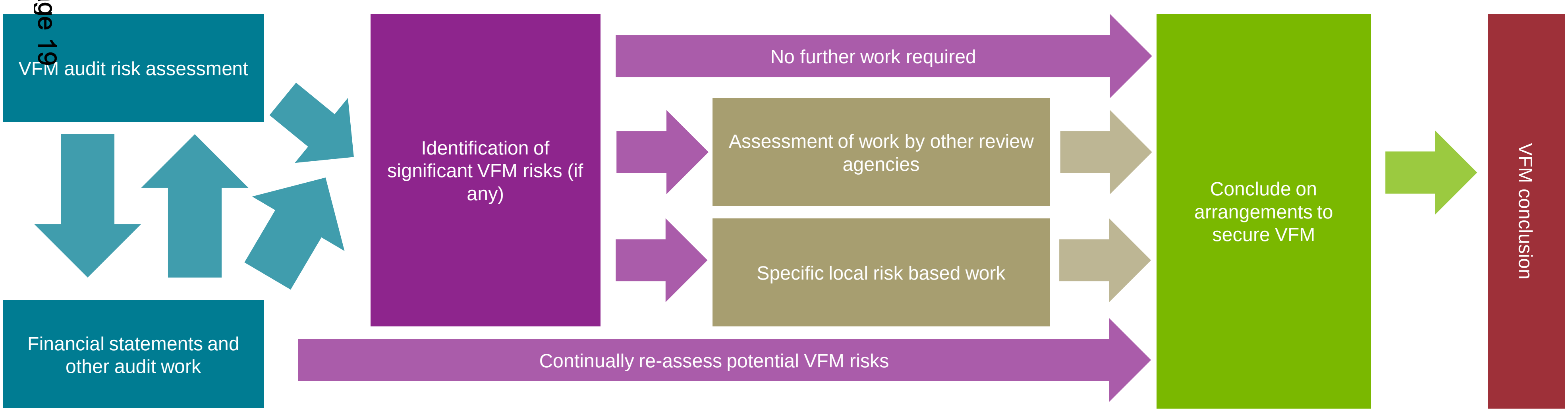

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will perform further risk assessment during our interim audit visit and report any further risks identified to a further Audit Committee if required. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work Planning

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Achievement of the savings plan

- In line with all authorities, Gloucester needs to seek continuing savings in the forthcoming years as its central government funding continues to fall. This is likely to become increasingly difficult in future years as small incremental savings become harder to identify, and more transformative solutions may be needed.
- As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, in particular the Medium Term Financial Plan, which we will review to understand whether it has duly taken into consideration:
  - funding reductions;
  - salary inflation;
  - general inflation;
  - demand pressures;
  - restructuring costs; and
  - sensitivity analysis given the degree of variability in the above factors.

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Other areas of audit focus

Those risks with less likelihood that proper arrangements are not in place to delivery value for money but which are nevertheless worthy of audit understanding.

Senior management capacity

- The Council's senior management team is currently not at full capacity and it is therefore needing to consider and implement temporary arrangements to provide cover while it addresses this.
- We will keep a watching brief on this situation during our audit to understand how the Council is progressing to fill vacant positions, and how they have adapted structures and arrangements to ensure business as usual is maintained without impacting on services or performance.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Darren Gilbert. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit and Governance Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £63,450. This is a reduction in audit fee of 25%, compared to our 2014/2015 audit fee of £84,600.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority’s financial statements.

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team

- Audit strategy and plan (Feb)
- Interim report (if required) (May)
- ISA 260 (UK&I) Report (Sep)
- Annual Audit Letter (Oct)

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

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Audit workflow

- Initial planning meetings and risk assessment (Jan)
- Interim audit (Mar)
- Year end audit of financial statements and annual report (Jul)
- Sign audit opinion (Sep)

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

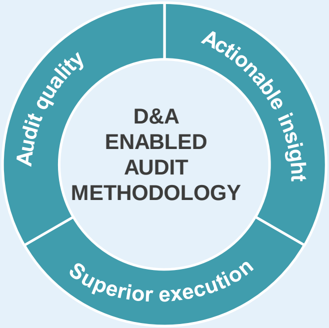
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Gloucester audit last year other than Tanya who joins the team as assistant manager.

Darren Gilbert

Director

Name	Darren Gilbert
Position	Director
Tel:	029 2046 8205
Email:	darren.gilbert@kpmg.co.uk
	‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Managing Director.’

Matthew Arthur

Manager

Name	Matthew Arthur
Position	Manager
Tel:	029 2046 8006
Email:	matthew.arthur@kpmg.co.uk
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Darren to ensure we add value. I will liaise with the Head of Finance and other Executive Directors.’

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Tanya Van Niekerk

Assistant Manager

Name	Tanya Van Niekerk
Position	Assistant Manager
Tel:	0117 9054168
Email:	Tanya.VanNiekerk@KPMG.co.uk
	‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of February 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact […], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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KPMG

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External audit progress report and technical update

January 2016

External audit progress report and technical update – January 2016

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- 🔴 **High impact**
- 🟡 **Medium impact**
- 🟢 **Low impact**
- ⚪ **For info**

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KPMG resources

Area	Comments
Governance arrangements work over the Better Care Fund. Page 32	The £3.8 billion Better Care Fund (BCF) (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 Spending Round, to ensure a transformation in integrated health and social care. The BCF is a single pooled budget to support health and social care services to work more closely together in local areas. The BCF not only brings together NHS and Local Government resources, but also provides a real opportunity to improve services and value for money, protecting and improving social care services by shifting resources from acute services into community and preventative settings. The governance arrangements for the BCF will therefore have to meet the requirements of all partners to achieve economy, efficiency and effectiveness in their use of resources. Each partner will also need to satisfy itself that the pooled budget complies with the requirements of its appropriate code of governance and annual governance reporting guidance. Each partner must also satisfy itself that all other regulatory requirements are met – for example, that discrete funding streams are only spent appropriately at a local level. Partners therefore need to make arrangements to ensure that that is happening. Additionally, there will be a requirement for an audit certificate on this expenditure and arrangements need to be in place to ensure appropriate records are kept to provide sufficient audit assurance. With this in mind, CCG governing bodies and Local Authority Executives are now considering whether governance arrangements and structures are fit for purpose and will ensure the effective management of the BCF and the pace of development and implementation. We are currently carrying out reviews of these governance arrangements and structures using the following Key Lines of Enquiry: - Governance arrangements. - Engagement and communication. - Hosting arrangements. - Signed agreement. - Performance management. - Financial management. For more information, please contact your audit manager, Matthew Arthur (matthew.arthur@kpmg.co.uk).

KPMG resources

Area	Comments
KPMG/Shelter report: Fix the housing shortage or see house prices quadruple in 20 years	Without a radical programme of house building, average house prices in England could double in just ten years to £446,000 at current prices, according to research. In twenty years they could quadruple, with the average house price estimated to rise to over £900,000 at current prices by 2034 if current trends continue. The research from KPMG and Shelter also reveals that more than half of all 20-34 year olds could be living with their parents by 2040, as soaring housing costs caused by the shortage of affordable homes leave more and more people priced out of a home of their own. The warning comes in a landmark report from KPMG and Shelter outlining how the 2015 government can turn the tide on the nation's housing shortage within a single parliament. With recent government figures showing that homeownership in England has been falling for over a decade, the consequences of our housing shortage are already being felt. The report sets out a blueprint for the essential reforms that will increase the supply of affordable homes and stabilise England's rollercoaster housing market. It calls on politicians to commit to an integrated range of key measures, including: ■ giving planning authorities the power to create 'New Homes Zones' that would drive forward the development of new homes. Combined with infrastructure, this would be led by local authorities, the private sector and local communities, and self-financed by sharing in the rising value of the land; ■ unlocking stalled sites to speed up development and stop land being left dormant, by charging council tax on the homes that should have been built after a reasonable period for construction has passed; ■ introducing a new National Housing Investment Bank to provide low cost, long term loans for housing providers, as part of a programme of innovative ways to finance affordable house building; ■ helping small builders to get back into the house building market by using government guarantees to improve access to finance; and ■ fully integrating new homes with local infrastructure and putting housing at the very centre of City Deals, to make sure towns and cities have the power to build the homes their communities need. To read the report, visit www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/building-the-homes-we-need–programme-2015.aspx For more information, please contact your audit manager, Matthew Arthur (matthew.arthur@kpmg.co.uk).

Area	Comments
Better Care Fund Support Programme	The Better Care Fund Support Programme aims to help areas to overcome the barriers to the successful implementation of the Better Care Fund plans across England in 2015/16. KPMG is one of the partners that successfully bid to deliver the programme, on behalf of NHS England, alongside the Social Care Institute for Excellence ('SCIE'), PPL Consulting and the Berkeley Partnership. The focus has been on practical implementation support to deliver better care for the local population. Support has included: ■ Conferences, webinars and regional clinics – to explore the barriers to change and develop local plans to overcome them; ■ The Better Care Exchange – an online interactive space for knowledge sharing and collaboration (currently in development); ■ Virtual clinics – telephone support for BCF leads to discuss individual site issues with integration experts; and ■ Coaching and support – to enable good practice and insight gathering from within the BCF programme to support Better Care Learning Partners. A number of 'How to guides' have been developed on how to: ■ lead and manage Better Care implementation: www.scie.org.uk/about/files/nhs-england-bcf-leadership-how-to-guide.pdf ■ bring budgets together and use them to develop coordinated care provision: www.scie.org.uk/about/files/nhs-england-bcf-budgets-how-to-guide.pdf ■ work together across health, care and beyond: www.scie.org.uk/about/files/how-to-work-together-across-health-care-and-beyond.pdf The support programme also includes webinars. Further webinars are scheduled, but at present they cover the following topics: ■ Joint working; ■ Section 75 Arrangements – Pooled and unpooled budgets; and ■ Data sharing: More details on the programme, and a link to the webinar recordings, can be found on the SCIE website at www.scie.org.uk/about/partnerships-better-care.asp For more information, please contact your audit manager, Matthew Arthur (matthew.arthur@kpmg.co.uk).

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KPMG resources

Area	Comments
Local Government Technical Update – February 2016	We are pleased to confirm that we will once again be running a series of local government accounts workshops for key members of your finance team. The workshops are focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2015/16 close down and statement of accounts. The workshops will be led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh. The agenda will include: ■ Review of 2014/15; ■ Key Issues and developments for 2015/16; ■ Longer term developments; and ■ Tax and Pensions specialists. The events are due to take place as follows: ■ Leeds – 4 February 2016 ■ Leicester – 5 February 2016 ■ Preston – 8 February 2016 ■ Birmingham – 12 February 2016 ■ London (Canary Wharf) – 22 February 2016 ■ Bristol – 24 February 2016 For more information, please contact your audit manager, Matthew Arthur (matthew.arthur@kpmg.co.uk).

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KPMG resources

Area	Comments
KPMG publication titled: Value of Audit – Perspectives for Government Page 36	**What does this report address?** This report builds on the *Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting* – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed. Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future. **What are the key issues?** ■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ■ The importance of trust and independence of government across different markets. ■ How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making. ■ The importance of technology integration and the issues that need to be addressed for successful implementation ■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits The *Value of Audit: Perspectives for Government* report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html The *Value of Audit: Shaping the Future of Corporate Reporting* can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx

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Technical update

Area	Level of impact	Comments	KPMG perspective
New local audit framework	Medium	The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20. DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies. CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established. NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.	***Members may wish to review the CIPFA guidance and begin initial discussions with colleagues about the approach the Authority may wish to adopt.***

Area	Level of impact	Comments	KPMG perspective
Reporting developments – Infrastructure assets	**Medium**	CIPFA/LASAAC, the group that produce the *Code of Practice for Local Authority Accounting*, have confirmed that transport infrastructure assets owned by local authorities will be required to be included in the accounts from 2016/17. This would require prior period adjustments for 2015/16, including the opening position at 1 April 2015. The changes require local authorities to recognise the value of all transport infrastructure assets using the depreciated replacement cost method, i.e. the cost required to replace the asset with a new replacement depreciated over the life of the existing asset. Transport infrastructure assets include: ▪ roads, bridges, roundabouts and traffic calming measures; ▪ footways, footpaths and cycle tracks; ▪ tunnels and underpasses; and ▪ water supplies and drainage systems, as they support the assets identified above. Even non-highway authorities will be affected to the extent that footways etc are material to their accounts. Railway assets are not currently included in the proposals, although it is possible that these may be included in subsequent periods. CIPFA have issued a *Code of Practice on Transport Infrastructure Assets* which contains the requirements to be included in the Local Authority Code. This is available to purchase from the CIPFA website. Local authorities should have developed a project plan to identify all of the relevant transport infrastructure they own and a timetable for valuing these. CIPFA expects authorities to have undertaken the 1 April 2015 valuations by 31 December 2015. The Whole of Government Accounts submission includes unaudited data on transport infrastructure assets. 2013/14 data indicates assets of over £400 billion will be accounted for on local authority balance sheets. However, only 93% of authorities provided this information, and of these less than 70% used actual inventory data to complete the return. This indicates that the sector faces a significant challenge in accurately identifying the assets it owns and will have to account for.	***The Committee may wish to enquire of officers whether a project plan has been developed to address the requirements and review progress against this on a regular basis.***

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Area	Level of Impact	Comments	KPMG perspective
The Local Government Association's 2015 Spending Review submission Page 40	Medium	In June 2015, the Local Government Association (LGA) set out proposals for the Government to consider as part of the Spending Review, aimed at streamlining public services, growth generating investment and social care and health – all while saving the public purse almost £2 billion a year by the end of the Parliament. The submission focusses on five core issues originally highlighted in *A Shared Commitment* (www.local.gov.uk/documents/10180/6869714/L15-252+Spending+Review_WEB_new.pdf/3101e509-1e22-4c26-91ac-8fd8a953aba5), published in early 2015. The LGA hopes that local government can work with central government to balance the nation's books while improving public services and the local economic environment by delivering new, transformed and high-quality local services while at the same time reducing costs to the public sector. The LGA believes the Spending Review should: ■ enable wider integration of social care and health services to deliver savings and improve outcomes This requires the annual £700 million funding gap in social care services to be closed and a transformation fund worth £2 billion in each year of the Spending Review period be created to allow new ways of working to become commonplace. The Spending Review should also implement a single place-based budget for delivering all local services through a Local Public Services Fund as part of at least five devolution deals; ■ promote growth and productivity by accepting the case for further devolution of powers and funding that stretches beyond 25 November. The LGA is calling for devolution of, or local influence over, more than £60 billion of growth, skills and infrastructure funding over the Spending Review period, including: – the components for an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21 – a central-local partnership to deliver effective and targeted skills and employment initiatives – unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes built over the lifetime of the Parliament. ■ help councils adequately resource and deliver high quality public services by transforming the business rate mechanism and providing a four year local government finance settlement; and ■ help councils focus on driving efficiency and value for money through an assessment of the impact of unfunded cost burdens that core council budgets are going to face over the Spending Review period.	***The Committee may wish to seek assurances that the impact for their Authority is understood.***

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Narrative statements	Low	Authorities will need to be aware that the *Accounts and Audit Regulations 2015* require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states: *Narrative statements* *1) A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.* *2) A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.* Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge. The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's *Code of Practice on Local Authority Accounting* (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.	***The Committee may wish to seek assurances that their authorities have arrangements in place to meet the new requirements***

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Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Exercise of public rights	Low	Authorities will be aware that the Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015/16 onwards. Paragraph 9(1) of the Regulations requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.	***The Committee may wish to seek assurances that the necessary arrangements are in in place for their Authority.***

Area	Level of Impact	Comments	KPMG perspective
Consultation on 2016/17 audit work programme and scales of fees	● Low	Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/17 proposed work programme and scales of fees. The consultation sets out the work that auditors will undertake at principal audited bodies for 2016/17, with the associated scales of fees. The consultation documents, and list of individual proposed scale fees, are available on the PSAA website at www.psaa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/ There are no planned changes to the overall work programme for 2016/17. It is proposed that scale fees are set at the same level as the scale fees applicable for 2015/16, set by the Audit Commission before it closed in March 2015. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13. Following completion of the Audit Commission's 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established shortly. The work that auditors will carry out on the 2016/17 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office. The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.	***The Committee may wish to seek assurances on how their Authority have responded to the consultation.***

Area	Level of Impact	Comments	KPMG perspective
NAO report – Devolving responsibilities to cities in England: Wave 1 City Deals Page 44	Low	Wave 1 City Deals encouraged cities to develop capacity to manage devolved funding and increased responsibility. The report finds it is too early to tell whether the deals will have any overall impact on growth, and that the government and the cities could have worked together in a more structured way to agree a consistent approach to evaluating the deals' impact. There have been early impacts from some of the individual programmes agreed in the deals. It has, however, taken longer for cities and departments to implement some of the programmes that required more innovative funding or assurance mechanisms. The government has set out its ambition to continue devolving responsibility for local growth to cities and other local places. The report highlights that both the government and local places can learn from the experience of Wave 1 City Deals to manage devolution to local places effectively. The report is available on the NAO website www.nao.org.uk/report/devolving-responsibilities-to-cities-in-england-wave-1-city-deals/	***The Committee may wish to seek assurances how their Authority fit into the emerging City Deals.***

Area	Level of Impact	Comments
Greater Manchester Combined Authority	For Information	Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. 'Devo Manc" encompasses a broad range of proposals to address the challenges and opportunities GM is facing: **Health and Social Care** Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care. As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested. **GM proposals** In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region: ■ Investment in transport infrastructure ■ New funding mechanisms to support site remediation and infrastructure provision ■ Making better use of Social Housing Assets to support growth ■ Locally led low carbon ■ A scaled-up GM Reform Investment Fund ■ Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance ■ Fundamental review of the way services to children are delivered ■ Research and innovation funding ■ Investment in integrated business support to drive growth and productivity ■ Reform of the New Homes Bonus ■ Further employment and skills reform ■ GM approach to data sharing across public agencies ■ Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.

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Area	Level of Impact	Comments
Care Act first-phase reforms – local experience of implementation	**For Information**	This report has been published by the National Audit Office and complements its earlier report on central government's approach to the Care Act first-phase reforms. This further report provides examples from local case study areas which show how different authorities are addressing risks arising from uncertainty in demand from carers and self-funders. The report was published on 3 August and is available from the NAO website at www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/

Area	Level of Impact	Comments
Public Sector Audit Appointments Ltd (PSAA) – VFM profiles update Page 47	For Information	Public Sector Audit Appointments Ltd (PSAA) maintain the Value for Money profiles tool (VFM profiles) initially developed by the Audit Commission. The profiles were updated on 1 October 2015. The VFM profiles planned budget section now contains the 2015/16 data sourced from the Department for Communities and Local Government – General Fund Revenue Account Budget (RA). The values are adjusted with gross domestic product (GDP) deflators from the HM Treasury's publication in June 2015. The profiles can be accessed through the PSAA's homepage at http://www.psaa.co.uk/ Other sections of the VFM profiles have also been updated with the latest data values for the following data sources: ▪ Inequality gap (2012/13) ▪ Fuel poverty (2013) ▪ Climate change (2013) ▪ Alcohol related admissions (2013/14) ▪ Mid-year population estimates (2014) ▪ Chlamydia testing (2014) ▪ Participation in education or work-based learning (2014) ▪ Housing benefit speed of processing (2014/15) ▪ CT and NNDR collection rates (2014/15) ▪ NHS health checks (2014/15) ▪ Planning applications (Quarter 4 2014/15) ▪ Delayed transfers of care (Quarter 1 2015) ▪ Under 5 provision (2015)

Area	Level of Impact	Comments
Proposed changes to business rates and core grant	For Information	The Chancellor of the Exchequer has proposed some radical reforms of local government finance. The proposals are that by the end of the decade, councils will retain all locally raised business rates but will cease to receive core grant from Whitehall. The Chancellor set out the landmark changes in a speech to the Conservative party conference in Manchester, saying it was time to face up to the fact that "the way this country is run is broken". Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses, meaning that power over £26 billion of revenue from business rates will be devolved, he said The uniform national business rate will be abolished, although only to allow all authorities the power to cut rates. Cities that choose to move to systems of combined authorities with directly elected city wide mayors will be able to increase rates for specific major infrastructure projects, up to a cap, likely to be set at £0.02 on the rate. The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state.

cutting through complexity

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Meeting:	**Audit & Governance Committee** **Date: 14th March 2016**
Subject:	**Internal Audit Plan 2015/16 – Monitoring Report**
Report Of:	**Audit, Risk & Assurance Manager**
Wards Affected:	**Not applicable**
Key Decision:	**No** **Budget/Policy Framework: No**
Contact Officer:	**Terry Rodway, Audit, Risk & Assurance Manager**
	Email: Terry.Rodway@gloucester.gov.uk **Tel: 396430**
Appendices:	**1. Appendix A: - List of the audits completed as part of the 2015/16 Internal Audit Plan: January 2016 – February 2016.**

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To inform Members of the audits completed as part of the agreed Internal Audit Plan 2015/16.

2.0 Recommendations

2.1 Audit & Governance Committee is asked to **RESOLVE** that the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited be endorsed.

3.0 Background and Key Issues

3.1 At the Audit & Governance Committee meeting held on 16th March 2015, Members approved the Internal Audit Plan 2015/16. In accordance with the Public Sector Internal Audit Standards, this report details the outcomes of internal audit work carried out in accordance with the approved Plan.

3.2 This report includes details of the audits completed during the period January 2016 to February 2016. The performance monitoring information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the 11 month period April 2015 to February 2016 is 61% (17 out of 28 planned audits completed) compared to a target of 90% (25 out of 28 planned audits completed).

3.3 The above figures do not include 4 audits that were at draft report stage as at 29th February 2016.

3.4 The main reason for the non-achievement of the target number of completed audits is due to a vacancy in the Audit & Assurance team. Arrangements have been made to use contract staff during the 4th quarter of the financial year (January – March 2016) to help achieve the 90% target by the end of the financial year.

3.5 Details of the audits completed, together with the overall conclusion reached on each audit, have been provided in **Appendix A**. This should provide Members with a view on the adequacy of the controls operating within each area audited.

4.0 Results from Follow-Up Audits

4.1 It has previously been agreed that Members would be notified of all 'Rank 1 Fundamental' recommendations that have not been fully implemented within the agreed timescale. There were none identified during the period covered by this report.

5.0 Other Audit Work Undertaken

5.1 Internal audit were requested to investigate an alleged theft of cash income from one of the Council outstations. In order to substantiate whether the alleged theft was limited to the original amount identified, and also to assess the effectiveness of controls for the handling and banking of income, Internal Audit performed reconciliations upon banking records, income receipts, and income records which revealed that a larger sum than the original amount identified had been receipted but could not be verified as having been banked. The IA review concluded that the findings were a direct result of a series of control weaknesses for which eight recommendations were made to improve controls and two recommendations made to look at alternatives to current practices.

5.2 All the recommendations have been agreed to be implemented by the appropriate manager by the end of February 2016.

6.0 Asset Based Community Development (ABCD) Considerations

6.1 There are no ABCD implications as a result of the recommendation made in this report.

7.0 Alternative Options Considered

7.1 No other options have been considered as the purpose of the report is to inform the Committee of the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

8.0 Reasons for Recommendations

8.1 The Public Sector Internal Audit Standards state that the Audit, Risk & Assurance Manager should report on the outcomes of internal audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.

8.2 The Standards also require the Audit, Risk & Assurance Manager to communicate the impact of resource limitations on the Internal Audit Plan to senior management and the Audit & Governance Committee.

9.0 Future Work and Conclusions

9.1 The role of the Audit & Assurance service is to examine, evaluate and report upon the adequacy of internal controls. Where weaknesses have been identified, recommendations have been made to improve the level of control.

10.0 Financial Implications

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

(Financial Services have been consulted in the preparation this report.)

11.0 Legal Implications

11.1 None specific arising from the report recommendations.

(One Legal have been consulted in the preparation this report.)

12.0 Risk & Opportunity Management Implications

12.1 Delays in response to acceptance/implementation of audit recommendations lead to weaknesses continuing to exist in systems, which has the potential for fraud and error to occur.

12.0 People Impact Assessment (PIA):

12.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

13.0 Other Corporate Implications

Community Safety

13.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

Sustainability

13.2 There are no 'Sustainability' implications arising out of the recommendations in this report.

Staffing & Trade Union

13.3 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents: Internal Audit Plan 2015/16
Public Sector Internal Audit Standards

Appendix A

List of the audits completed as part of the 2015/16 Internal Audit Plan - January 2016 – February 2016.

Audit	**Comments**	**Level of Assurance**
Budgetary Control	Audit Objective The objective of the audit was to ensure the following controls were in place and operating effectively:- • Budget monitoring procedures and responsibilities are appropriately defined and communicated; • Delegated cost-centre managers are clearly identified; • Budget reports are produced and issued to cost-centre managers on a regular basis; • High-level financial monitoring reports are produced and circulated periodically to senior management and Members for review; • Controls are in place to ensure all significant budget variances are identified and explained. Period of Audit The period of the audit covered the 2015/16 financial year up to the point of audit. The audit work was completed in February 2016. Audit Opinion On the basis of the work carried out during this audit review, and the number and classification of recommendations identified through audit testing the audit opinion is that there is a **Good** level of assurance on the adequacy and operating effectiveness of controls in place for all areas covered by the audit.	Good
Treasury Management	Audit Objective The objective of the audit was to ensure the following controls were in place and operating effectively:- • A treasury management policy and investment strategy has been established, approved and communicated effectively • Cash flow and treasury management procedures are clearly defined and communicated • The cash flow model incorporates expected significant components • Short term and long term cash flow forecasts are produced and reviewed • Treasury management decisions/transactions have appropriate audit trail and are properly authorised	Good/ Satisfactory

<table>
<tr><th>Audit</th><th>Comments</th><th>Level of Assurance</th></tr>
<tr><td></td><td>

Regular reconciliation of investment & borrowing records to the general ledger is completed and subject to management review
Treasury management monitoring is completed by Members in line with the Treasury Management Policy and the CIPFA Treasury Management Code.

<u>Period of Audit</u>
The period of the audit covered the period April 2015 to November 2015.

<u>Audit Opinion</u>
On the basis of the work carried out during this audit review, and the number and classification of recommendations identified through audit testing the audit opinion is that there is a Good level of assurance on the adequacy and operating effectiveness of controls in place for all areas covered by the audit, except for the adequacy and operating effectiveness of controls in place for Treasury Management policy (Council Constitution content) and Treasury Management monitoring’ for which a Satisfactory level of assurance has been provided.

The main area of weakness identified, for which one Rank 1 ‘High Priority’ recommendation and one Rank 2 ‘Medium Priority’ recommendation has been made, relates to:-

Non-compliance with the Council’s Constitution and CIPFA Treasury Management Code re annual reporting.
The Council’s Constitution does not reflect the current Treasury Management approach and CIPFA Treasury Management Code requirements.

The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being March 2017.
</td><td></td></tr>
<tr><td>Information Governance</td><td>
<u>Audit Objective</u>
The objective of the internal audit was to review the Information Governance processes and controls in place at the Council against the following criteria:

Data transparency:
- Local Government Transparency Code 2015
Freedom of Information (FOI):
- FOI Act 2000

</td><td>Limited</td></tr>
</table>

Audit	Comments	Level of Assurance

	- Information Commissioners Office (ICO) benchmark statistics
	- Environmental Information Regulations (EIR) 2004
	• Data Protection (DP):
	  - Data Protection Act 1998
	  - ICO and Local Government Association (LGA) local authority information sharing and data protection checklist
	  - Gloucestershire Information Sharing Partnership Agreement (GISPA)
	
	<u>Audit Opinion</u>
	On the basis of the work carried out during this audit review, and the number and classification of recommendations identified through audit testing the audit opinion is that there is a **Limited** level of assurance on the adequacy and operating effectiveness of controls in place for controls in relation to all areas covered by this review.
	
	The main areas of weakness identified, for which five Rank 1 'High Priority' recommendations and eight Rank 2 'Medium Priority' recommendations have been made, relate to:-
	• Lack of full compliance with the Local Government Transparency Code 2015;
	• The FOI/EIR policy requires updating and then circulated to staff and Members for awareness and implementation;
	• The Council's Information Governance web pages require updating and should be reviewed on a regular basis to ensure they remain up to date;
	• Lack of independent formal monitoring of FOI requests to ensure compliance with the FOI Act;
	• The Council's Document Retention Policy requires updating and then circulated to staff for awareness and implementation;
	• The DP policy requires updating and then circulated to staff and Members for awareness and implementation;
	• Lack of full compliance with the formally agreed GISPA criteria.
	
	The recommendations made as a result of this audit have been agreed by management with the latest implementation date for the recommendations being September 2016. It should be noted that the recommendations relating to updating the FOI/EIR policy and the DP policy, and the independent formal	

Audit	Comments	Level of Assurance
	monitoring of FOI requests, have already been implemented.	

The report includes an audit opinion on the adequacy of controls in the area that has been audited, classified in accordance with the following descriptions:-

CONTROL LEVEL	DESCRIPTION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority).
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one or two Rank 2 (Medium Priority).
Limited	Some lapses in framework of controls – provides limited level of assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations.
Unsatisfactory	Significant breakdown in framework of controls – provides an unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

Ranking of Recommendations:-

RANK		DESCRIPTION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit key control.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.
3	Low Priority	Current procedure is not best practice and could lead to minor in-efficiencies.

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Gloucester City Council

Meeting:	**Audit & Governance Committee**	**Date:**	**14th March 2016**
Subject:	**Internal Audit Plan 2016/17**		
Report Of:	**Joint report of Head of Audit, Risk & Assurance & Head of Audit Risk Assurance**		
Wards Affected:	**N/A**		
Key Decision:	**No**	**Budget/Policy Framework:**	**No**
Contact Officer:	**Terry Rodway, Head of Audit, Risk & Assurance**		
	Email: terry.rodway@gloucester.gov.uk	**Tel: 396430**	
Appendices:	**1. Draft Internal Audit Plan 2016/17**		

1.0 Purpose of Report

1.1 To present to Members, for their consideration and approval, the Internal Audit Plan 2016/17.

2.0 Recommendations

2.1 Audit & Governance Committee is asked to **RESOLVE** that Members approve the Internal Audit Plan 2016/17 as detailed in **Appendix A**.

3.0 Background and Key Issues

3.1 The work of Internal Audit is carried out in accordance with, and is assessed against, the Public Sector Internal Audit Standards 2013 (PSIAS). These Standards require the Chief Internal Auditor to produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the organisation's priorities and objectives and taking into account the organisation's risk management framework, including risk appetite levels set by management and internal audit's own judgement of risks.

3.2 To ensure that an effective plan was developed, a consultation process took place with the Senior Management Team to establish priorities. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.

3.3 The audit plan is stated in terms of estimated days input to the Council of 550 audit days, this compares to 515 days in 2014/2015. By continuing to apply risk based internal audit planning principles; this level of input, with the ability to commission internal audit resources from current audit framework agreements as required, is considered acceptable to provide the assurance the Council needs. The Head of Audit Risk Assurance will however, continue to reassess internal audit resources required against the Council's priorities and risks and will amend the plan throughout the year as required, reporting any key changes to the Audit and Governance Committee.

3.4 The PSIAS also require the Annual Risk Based Internal Audit Plan to be reviewed and approved by the appropriate body which in the case of the City Council, is the Audit & Governance Committee.

4.0 Asset Based Community Development (ABCD) Considerations

4.1 There are no ABCD implications as a result of the recommendation made in this report.

5.0 Alternative Options Considered

5.1 None

6.0 Reasons for Recommendations

6.1 A requirement of the Public Sector Internal Audit Standards 2013(PSIAS) is for the Chief Internal Auditor to produce an Annual Risk Based Internal Audit Plan and for this Plan to be approved by the appropriate body. In the case of the City Council, this is the Audit & Governance Committee.

7.0 Future Work and Conclusions

7.1 Regular reports on achievement against the Plan, and any significant control issues identified, will be presented to the Audit & Governance Committee.

8.0 Financial Implications

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

(Financial Services have been consulted in the preparation this report.)

9.0 Legal Implications

9.1 None specific arising from the report recommendations.

(One Legal have been consulted in the preparation this report.)

10.0 Risk & Opportunity Management Implications

10.1 The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit, through the delivery of the annual audit plan, plays a vital part in advising the organisation that these arrangements are in place and operating properly.

11.0 People Impact Assessment (PIA):

11.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact there a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

12.1 There are no specific Community Safety implications identified.

Sustainability

12.2 There are no specific Sustainability implications identified.

Staffing & Trade Union

12.3 There are no specific Staffing and Trade Union implications identified.

Background Documents: None

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INTERNAL AUDIT PLAN 2016/2017

Gloucester City Council
Transforming Your City

ARA
Audit Risk Assurance
Gloucester City Council
Stroud District Council
www.stroud.gov.uk
Gloucestershire County Council

Background

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities must ““undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

The guidance accompanying the Regulations recognises both the Public Sector Internal Audit Standards (PSIAS) 2013 and the CIPFA Local Government Application Note for the UK PSIAS as representing “public sector internal audit standards”. The standards define the way in which the Internal Audit Service should be established and undertakes its functions.

The standards also requires that an opinion is given on the overall adequacy and effectiveness of the Council’s control environment comprising risk management, control and governance, which is informed by the work undertaken by the Service.

What is Internal Auditing?

The role of the internal auditor is to provide *independent, objective assurance* to management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance frameworks, across all parts of an organisation, and to provide an opinion on the effectiveness of these arrangements. As well as providing assurance, an internal auditor’s knowledge of the management of risk enables them to act as a consultant and provide support for improvement in an organisation's procedures. For example, at the development stage of a major new system where the internal auditor can help management to ensure that risks are clearly identified and appropriate controls put in place to manage them.

Why is assurance important?

By reporting to senior management that important risks have been evaluated, and highlighting where improvements are necessary, the internal auditor helps senior management to demonstrate that they are managing the organisation effectively on behalf of their stakeholders. Hence, internal auditors, along with senior management and the external auditors are a critical part of the governance arrangements of our organisation, our work significantly contributing to the statutory Annual Governance Statement (AGS).

Development of the 2016/2017 Internal Audit Plan

To enable the above, the Chief Internal Auditor is required to produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the organisation’s priorities and objectives and taking into account the organisation’s risk management framework, including risk appetite levels set by management and internal audit’s own judgement of risks.

How did we develop the plan - Risk Based Internal Audit Planning (RBIAP)

To ensure our internal audit resources continue to be focussed accordingly, particularly during periods of radical change, it is essential that we understand our clients’ needs, which means building relationships with our key stakeholders, including other assurance/challenge providers, in order to gain crucial insight and ongoing ‘intelligence’ into the strategic and operational change agendas within our organisation.

This insight is not only identified at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the internal audit service to adapt more closely to meet the assurance needs of the Council, particularly during periods of significant change. Our plan therefore needs to be dynamic and should be flexible to meet these needs.

How did we achieve the above?

To ensure that an effective plan is developed, a consultation process took place with the Senior Management Team to establish priorities. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.

A flexible audit plan - (Risk and Control Assurance Programme)

The audit plan is stated in terms of estimated days input to the Council of **550** audit days, this compares to **515** days in 2015/2016. By continuing to apply risk based internal audit planning principles; this level of input, with the ability to commission internal audit resources from current audit framework agreements as required, is considered acceptable to provide the assurance the Council needs. We will however, continue to reassess our resources required against the Council's priorities and risks and will amend the plan throughout the year as required, reporting any key changes to the Audit and Governance Committee.

Please note that a detailed terms of reference is agreed with each client prior to the commencement of every audit to ensure audit activity is continually focused on the key risks and is undertaken within agreed time periods, to ensure our service adds value to the Council.

Authority Wide/Work in support of the AGS

Audit	Reason for Audit	Outline Scope	Priority
Shared Services	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Council has a number of shared service arrangements in place, particularly with Glos County Council. These arrangements with the County Council are covered under a Memorandum of Understanding. The 2016/17 gross budgeted expenditure for shared services is approx. £1.1m. It is important to ensure that these shared service arrangements are managed effectively to ensure that quality, service and cost outcomes are met or exceeded. This audit will seek to determine the effectiveness and consistency of the management arrangements to ensure agreed outcomes are delivered.	Priority 1
Partnership governance arrangements	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Council has a number of partnership arrangements in place, particularly in the delivery of front-line services e.g. Streetcare contract £5.5m per annum; Revenues & Benefits contract £1.7m per annum; IT contract £600k per annum. It is important to ensure that these partnership arrangements are managed effectively to ensure that quality, service and cost outcomes are met or exceeded. This audit will seek to determine the effectiveness and consistency of contract management arrangements to ensure agreed outcomes are delivered.	Priority 1

Audit	Reason for Audit	Outline Scope	Priority
Delivery of Savings Targets	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Draft Money Plan forecasts indicate the need for a continued delivery of savings in each year of the Plan. The Local Government Finance Settlement 2016/17 has highlighted that the Council will be required to make significant additional savings, particularly in the years 2017/18 and 2018/19. 2016/17 2017/18 2018/19 Savings required in year £547K £1095K £692K This audit will review the level of achievement of savings and the arrangements in place to achieve the required savings for 2017/18.	Priority 1
Grant Income	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Council's Forecast Capital Programme and Financing 2016-2021 identified the following grant sources:- 2016/17 2017/18 Lottery Grants £240K £240K External Grants (Other) £7676K £1579K This audit will review the management arrangements in place to ensure expected grant income is received and that all grant conditions are complied with.	Priority 1
Employee Code of Conduct	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The purpose of this Code is to give all employees guidance on how the City Council and the public in general expect them to behave. If the Code is followed then staff should not find themselves in a situation where their conduct could create an impression of conflict of interest or corruption in the minds of the public. Compliance with the Code is essential particularly during periods of significant change. This audit will review the adequacy of the guidance and frameworks in place, related methodologies to manage and monitor ethical performance and review the effectiveness of compliance.	Priority 1

Internal Audit Plan 2016/17

Audit	Reason for Audit	Outline Scope	Priority
Staff Appraisal System	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Performance management systems are employed "to manage and align" all of an organisation's resources in order to achieve highest possible performance. A performance appraisal is a systematic and periodic process that assesses an individual employee's job performance and productivity in relation to certain pre-established criteria and organisational objectives. This audit will review the adequacy of the guidance and frameworks in place, related methodologies to manage and monitor appraisals and review the effectiveness of compliance.	**Priority 1**
Procurement (Consultancy)	Identified as part of Risk Based Internal Audit Planning (RBIAP)	This allocation is to enable the internal audit service to support management and provide advice, as requested by appropriate managers, in relation to significant procurement projects.	**Priority 1**
Consultancy Support	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Due to Internal Audit's knowledge of the Council's systems and processes, Internal Audit is well placed to provide risk and control advice and support to managers on potential implications of transformational change programmes/projects, changes to policy, processes and/or systems. The provision of such advice does not prejudice Internal Audit's right to evaluate the established systems and controls at a later date. This allocation is to enable the internal audit service to support management and provide advice, as requested by SMT, which is designed to improve the effectiveness of risk management, control and governance processes.	**Priority 1**
Fraud Investigation / Detection	To support the AGS	To continue to develop and implement the Council's Anti-Fraud and Corruption arrangements based on latest best practice. This also includes an allocation for increasing the profile and awareness of anti–fraud, conducting pro-active anti-fraud reviews and undertaking investigations.	**Priority 1**
Fraud Risk Management	To support the AGS	The National Fraud Authority (NFA) has issued guidance on actions to be taken to 'Manage the Risk of Fraud' within an organisation. This allocation is to continue to self-assess against the criteria set out in the guidance in order to direct/prioritise our counter fraud audit resources/activity accordingly.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
National Fraud Initiative (NFI)	To support the AGS	To continue to co-ordinate activity as part of the NFI (a national data matching exercise that compares data/records (i.e. benefits, payroll, pensions, insurance, creditors etc for a wide range of public services), including ensuring that matches are investigated promptly and thoroughly, and reporting of results.	**Priority 1**

Internal Audit Plan 2016/17

Key Financial Systems

Audit	Reason for Audit	Outline Scope	Priority
New Financial Management system	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The City Council have approved to a change of the Council's financial system from Advanced Business Solutions (ABS) Financials to Civica Financials. This will be through the implementation of CIVICA financials in a shared working arrangement with Malvern Hills District Council (MHDC). The Finance team are implementing this new Financial Management System during 2016/17. Internal Audit will review the effectiveness of the new systems and processes put in place e.g. system set up and access controls; data transfer onto the new system; set up of system interfaces.	**Priority 1**
Procurement Cards	Identified as part of Risk Based Internal Audit Planning (RBIAP)	There are a number of procurement cards in use by City Council staff as an alternative method for paying for low value goods and services. The total average monthly spend on these cards for the past 12 months is just under £7,000 a month, giving an annual spend of just under £84,000. The card issuer automatically each month debits the Council's bank account with the balance on each cardholder's account. These transactions are posted by Finance to the Procurement Cards general ledger control account. The cardholder's are each month required to verify the transactions on the card statement, and send supporting receipts to Finance to code the expenditure to the appropriate financial code. The audit will include a review of the Procurement Card control general ledger account to ensure it is regularly reconciled and subject to management review and approval.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Payroll – Starters & Leavers	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The key objective of any payroll system is to pay employees correctly, on time and to account for personal data and payments completely and accurately. It is management's role to ensure that there are adequate controls within the system to ensure that this happens. The audit will include a review of systems and controls to be undertaken that include a check on the following: • That a documented procedure is in place for processing starters, leavers and changes; • That the standing payroll data on the payroll system is correct (tax rates, NI, Superannuation, pay scales); and • That budget holders are checking the payroll costs that are charged to their cost centres.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
KPMG Joint Working	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Internal audit team have a Joint Working Protocol with the Council's External Auditor KPMG. As part of the delivery of a managed audit, KPMG seek to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. KPMG has a number of in-scope processes which are set out below. These processes are: ▪ Property, Plant and Equipment ▪ Cash ▪ Payroll ▪ General non-pay Expenditure ▪ Housing benefits expenditure ▪ Business rates income ▪ Council tax income The audit will test the key controls relating to reconciliations; exception reporting; and, access controls for the above systems.	Priority 1

Audit	Reason for Audit	Outline Scope	Priority
Payroll – Zero Hours contracts	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Zero hours contracts can be used to provide a flexible workforce to meet a temporary or changeable need for staff. It is important for employers to actively monitor their need for zero hours contracts as it may turn out that the need is permanent and therefore a permanent member of staff can be recruited. This audit will seek to: • Establish how many zero hour contracts are in place to ensure accurate information is provided to inform future decision making; • Confirm whether employees with a zero hours contract who have not been paid for over one year are removed from the payroll system; • Ensure that recruitment to the bank of 'zero hours' staff has followed the proper recruitment processes; and • Review the staffing print to compare the annual salary that a 'zero hours' member of staff would be paid if they were working full-time on a particular grade, to the actual salary that they were paid to 31/03/16.	**Priority 1**
ICT	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The ICT audits will be identified following the ICT audit needs assessment which will be undertaken by the Council's external ICT auditors.	**Priority 1**

Internal Audit Plan 2016/17

Audit	Reason for Audit	Outline Scope	Priority
Benefits	Identified as part of Risk Based Internal Audit Planning (RBIAP)	GCC expenditure on Housing Benefits and Council Tax Support is in excess of £46m per annum. The rules surrounding entitlement to Housing Benefit & Council Tax support are quite complex and has the potential to lead to a number of under/overpayments. The service is outsourced to Civica Ltd. The audit, over a 3 year cycle, will review the controls in place in relation to Assessment; Payments; Overpayments; Fraud Prevention & Detection. The specific areas for audit review in 2016/17 will be agreed with the Client and the Revenues & Benefits Manager based on in year risk.	**Priority 1**
Council Tax	Identified as part of Risk Based Internal Audit Planning (RBIAP)	GCC collects Council Tax on behalf of local authorities that issue a precept e.g. Gloucestershire County Council and Gloucestershire Police and Crime Commissioner. The total value of Council tax collected is £52.6m (2014/15), with GCC's share being £6.45m (2014/15). The service is outsourced to Civica Ltd. The audit, over a 3 year cycle, will review the controls in place in relation to Valuation; Liability; Billing; Collection & Refunds; Recovery & Enforcement. The specific areas for audit review in 2016/17 will be agreed with the Client and the Revenues & Benefits Manager based on in year risk.	**Priority 1**
Non Domestic Rates	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The total amount of Non-Domestic rating income from the rates retention scheme for 2014/15 was £51.6m, of which GCC's share was £20.7m The service is outsourced to Civica Ltd. The audit, over a 3 year cycle, will review the controls in place in relation to Valuation; Liability; Billing; Collection & Refunds; Recovery & Enforcement. The specific areas for audit review in 2016/17 will be agreed with the Client and the Revenues & Benefits Manager based on in year risk.	**Priority 1**

Internal Audit Plan 2016/17

Service Based

Audit	Reason for Audit	Outline Scope	Priority
Markets & Street Trading	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The City Council has a number of markets which are either managed in-house or operated via an external operator i.e. Hempsted Market & Car Boot, Farmers Market, Cherry & White Market, and the Eastgate Market. The City Council is also responsible for issuing licences in respect of Street Trading. The 2016/17 budgeted income from Markets and Street Trading is approximately £522k. This audit will review the controls in place to ensure that all income due is properly accounted for and banked promptly, and review the management arrangements in place to ensure Street Trading licence conditions are being complied with.	**Priority 1**
Townscape Heritage Initiative	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Townscape Heritage Initiative is a £1.2 million project to improve the Southgate Street area of the City. 75% of the funding comes from the Heritage Lottery Fund and 25% from the City Council. The 'Forecast Capital Programme and Financing 2016-2021' includes an amount of £300k in 2016/17 for grant funded improvements to Southgate Street This review will review the systems in operation for processing applications and monitoring grant expenditure and select a sample of grants to review the application process, to ensure compliance with the guidance, and to establish the level of monitoring undertaken once the grant has been awarded.	**Priority 1**

Internal Audit Plan 2016/17

Audit	Reason for Audit	Outline Scope	Priority
Homelessness	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The homelessness legislation places a general duty on housing authorities to ensure that advice and information about homelessness, and preventing homelessness, is available to everyone in their district free of charge. The legislation also requires authorities to assist individuals and families who are homeless or threatened with homelessness. This review will review the effectiveness of the systems in operation for processing applications and monitoring homelessness cases and select a sample of cases to review the application process, to ensure compliance with the guidance, and to establish the level of monitoring undertaken once the decision to accept a homeless case has been made.	**Priority 1**
New Box Office system	Identified as part of Risk Based Internal Audit Planning (RBIAP)	A replacement Box Office Ticketing system and Electronic Point Of Sales (EPOS) shop and Café-Bar system is being implemented at the Guildhall, Tourist Information Centre (TIC) Museums, and the Crematorium Arbor with effect from 1/4/16. The 2016/17 budgeted income for the Guildhall, TIC, and Museums is £1.04m, with the budgeted income for the Arbor being £136k. Internal Audit will review the effectiveness of the new systems and processes put in place.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Section 106 Agreements	Identified as part of Risk Based Internal Audit Planning (RBIAP)	Section 106 (S106) of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally-binding agreement or planning obligation with a landowner in association with the granting of planning permission. The obligation is termed a Section 106 Agreement. These agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. The legally binding contracts specify the obligations to be delivered, which may be affordable housing, public open spaces, traffic calming measures or other site facilities. Financial contributions can also be a part of the Section 106 Agreement, whereby the Council must spend the monies paid within a specific timeframe on specific facilities. Clarity and transparency is required through the recording of income and expenditure in relation to Section 106 Agreements. If GCC cannot effectively illustrate how the income received has been utilised on the contracted projects, there is the possible risk of forfeiture and loss of reputation. The 'Forecast Capital Programme and Financing 2016-2021' includes an amount of £945k in 2016/17 for a number of S106 Agreement schemes. The audit will review the systems in operation for the agreement and monitoring of S106 Agreements and select a sample of Agreements to review the agreement process, to ensure compliance with the guidance, and to establish the level of monitoring undertaken once the Agreement has been made.	Priority 1

Internal Audit Plan 2016/17

Audit	Reason for Audit	Outline Scope	Priority
Gloucester Supports Business Grants	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The City Council has a number of business grant schemes under the banner of "Gloucester Supports Business. These are:- Business Rates Grants Scheme, Business Rent Grant Scheme, and Business Information & Support Grants. This audit will review the systems in operation for processing applications and monitoring grant expenditure and select a sample of grants to review the application process, to ensure compliance with the guidance, and to establish the level of monitoring undertaken once the grant has been awarded.	**Priority 1**
Community Support Grants	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The 2016/17 budget for Voluntary Sector Grants is £315,700. An internal audit review of voluntary Sector Grants during 2015/16 resulted in a Limited level of assurance on the adequacy and operating effectiveness of controls in place for the assessment and award process for these grants. The audit will test the implementation of the agreed audit recommendations made as a result of the 2015/16 audit.	**Priority 1**
GCH Leaseholder Charges (External Fee Income)	Request from GCH	Gloucester City Homes (GCH) is an independent social landlord providing housing management services to over 5,200 tenants. They own and manage around 4500 rented homes, 501 sheltered housing properties and 270 leasehold properties. Owners of leasehold properties have a responsibility to pay their share of the costs of maintaining and managing the building e.g. communal heating, lighting and cleaning; repairs to stairway lighting. This audit will Test that the Leaseholder recharges requested by GCH have been accurately calculated from the charges incurred.	**Priority 1**

Internal Audit Plan 2016/17

Audit	Reason for Audit	Outline Scope	Priority
Off-street Car Parks	Identified as part of Risk Based Internal Audit Planning (RBIAP)	GCC provides a number of off-street car parks for public use throughout the City. The budgeted total income for 2016/17 from car parks is £2.25m The income from these car parks is via Pay & Display Machines and Pay on Exit Machines. The income from these machines is collected by an external contractor. The audit will review the effectiveness of the controls in place to ensure that all income due is collected and banked.	Priority 1
Electoral Service	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Electoral Service organises and administers all District, County Council, Parliamentary and European elections and Referenda. A new system for the way people register to vote (IER) was introduced during 2015 whereby people applying to register will be asked to provide their national insurance number and their date of birth. This will be 'matched' against information held on the Department of Works and Pension database before they are then added to the register. The audit will review the effectiveness of the information security arrangements relating to the data obtained for the new registration process.	Priority 1
Building Control Shared Service	Identified as part of Risk Based Internal Audit Planning (RBIAP)	The Council agreed to enter into a new shared service arrangement for the Building Control function with Stroud District Council in January 2015. A Section 101 agreement sets out the duties and functions to be delegated from one authority to another. It also incorporates the mechanism for day-to-day management, financial arrangements and dispute resolution The audit will review the effectiveness of the governance arrangements in place.	Priority 1

Management Activity to Support the Audit Opinion

Activity	Reason for Activity	Outline Scope	Priority
Annual Governance Statement	Statutory Requirement	This allocation is to produce the 2015/16 Annual Governance Statement to support the Annual Statement of Accounts.	Priority 1
Audit and Governance Committee / Member and CFO Reporting	Management activity to support the audit opinion	This allocation covers Member reporting procedures, mainly to the Audit and Governance Committee, plan formulation and monitoring, and regular reporting to and meeting with the Chair & Vice Chair of Audit & Governance Committee and the Head of Finance.	Priority 1
Provision of Internal Control / General Advice	To support an effective control environment	This allocation allows auditors to facilitate the provision of risk and control advice which is regularly requested by officers within the authority, including maintained school based staff.	Priority 1
Quality Assurance and Improvement Programme (QAIP) Includes the annual review of the effectiveness of Internal Audit and the external assessment	Statutory Requirement To support the AGS	The Accounts and Audit Regulations 2015 states that Internal Audit should conform to 'proper practices' and it is advised that proper practice for internal audit is currently set out in the Public Sector Internal Audit Standards (PSIAS) 2013. This allocation is to undertake an annual self - assessment and commission and deliver an external quality assessment, against the new standards.	Priority 1
External Working Groups	Activity to support the audit opinion	Attendance / work in relation to the Counties Chief Auditor Network (National Group), Midland Counties/Districts Chief Internal Auditors Group, and the Midland Contract Auditing / Fraud and ICT Groups to enable benchmarking and the sharing of best practice.	Priority 1

Internal Audit Plan 2016/17

Activity	Reason for Activity	Outline Scope	Priority
External Audit Liaison	Management activity to support the audit opinion	The External Auditor and the Chief Internal Auditor regularly meet to discuss plans and audit findings, to ensure that a "managed audit" approach is followed in relation to the provision of internal and external audit services.	**Priority 1**
Carry Forwards	Audit Activity outstanding	This allocation provides for the completion of various 2015/2016 audits which require finalising.	**Priority 1**
Internal Working Groups	Activity to support the audit opinion	Internal Audit is frequently asked to nominate representatives for working groups to advise on risk and control.	**Priority 1**
Recommendation Monitoring	Activity to support the audit opinion	Whilst it is management's responsibility to manage the risks associated with their outcomes/objectives, this allocation enables Internal Audit to monitor management's progress with the implementation of high priority recommendations.	**Priority 1**

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Gloucester City Council

Meeting:	**Audit & Governance Committee**	**Date:**	**14th March 2016**
Subject:	**Internal Audit Charter and Internal Audit Code of Ethics**		
Report Of:	**Head of Audit Risk Assurance**		
Wards Affected:	**N/A**		
Key Decision:	**No**	**Budget/Policy Framework:**	**No**
Contact Officer:	**Theresa Mortimer, Head of Audit Risk Assurance**		
	Email:theresa.mortimer@gloucestershire.gov.uk	**Tel: 328883**	
Appendices:	**1. Internal Audit Charter** **2. Internal Audit Code of Ethics**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 The purpose of this report is to present the Internal Audit (IA) Charter and IA Code of Ethics which sets out the role, responsibility, status and authority of internal audit within Gloucester City Council, and to outline the scope of internal audit activity in line with the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards 2013 (PSIAS).

2.0 Recommendations

2.1 Audit & Governance Committee is asked to **RESOLVE** to review and consider the Internal Audit Charter and IA Code of Ethics, and formally approves their adoption.

3.0 Background and Key Issues

3.1 The City Council agreed to enter into a new internal audit shared service arrangement with Gloucestershire County Council and Stroud District Council with effect from 1st June 2015. This new arrangement was an enhancement to the previous shared service between the City Council and Stroud District Council.

3.2 As a result of the new shared service arrangement, the existing Internal Audit Charter, which was approved by Audit & Governance Committee in September 2013, requires updating.

4.0 Asset Based Community Development (ABCD) Considerations

4.1 There are no ABCD implications as a result of the recommendation made in this report.

5.0 Alternative Options Considered

5.1 The option not to review the existing Internal Audit Charter was considered however this was discounted as the document does not reflect the new shared service arrangements.

6.0 Reasons for Recommendations

6.1 One of the requirements of the Public Sector Internal Audit Standards 2013 is that an Internal Audit Charter should be approved which sets out the role, responsibility, status and authority of internal audit within the City Council. Due to the new internal audit shared service arrangement the existing Internal Audit Charter requires updating.

7.0 Future Work and Conclusions

7.1 The Internal Audit Charter sets out the role, responsibility, status and authority of internal audit. Following approval of the Charter, the Head of Audit Risk Assurance will ensure a consistent role out and approach across all the internal audit shared service partner organisations.

8.0 Financial Implications

8.1 There are no additional financial implications as a result of this report

(Financial Services have been consulted in the preparation this report.)

9.0 Legal Implications

9.1 None specific arising from the report recommendations. The adoption of the Charter and the Code of ethics is intended to meet the statutory requirements and will aid clarity as to how internal audit is delivered within the City Council.

(One Legal have been consulted in the preparation this report.)

10.0 Risk & Opportunity Management Implications

10.1 Non-compliance with legislation/mandatory professional standards Failure to deliver an effective Internal Audit Service will prevent an independent, objective assurance opinion to be provided to those charged with governance, that the key risks associated with the achievement of the Council's objectives are being adequately controlled.

11.0 People Impact Assessment (PIA):

11.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

12.1 There are no ‘Community Safety’ implications arising out of the recommendations made in this report.

Sustainability

12.2 There are no ‘Sustainability’ implications arising out of the recommendations made in this report.

Staffing & Trade Union

12.3 There are no ‘Staffing & Trade Union’ implications arising out of the recommendations made in this report.

Background Documents: Public Sector Internal Audit Standards 2013

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INTERNAL AUDIT CHARTER

2016-2018

Gloucester City Council

ARA
Audit Risk Assurance
Gloucester City Council STROUD DISTRICT COUNCIL www.stroud.gov.uk Gloucestershire COUNTY COUNCIL

Introduction

Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (PSIAS), which took effect from the 1st April 2013, provide a consolidated approach across the whole of the public sector enabling continuity, sound corporate governance and transparency.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Charter is to formally define Internal Audit's statutory role, responsibility, status and authority within Gloucester City Council.

Authority

Accounts and Audit Regulations 2015

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (Section 151) and the Accounts and Audit Regulations 2015. The latter requires authorities to:

"…undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

Public Sector Internal Audit Standards (PSIAS)

The guidance accompanying the Regulations currently recognises both the Public Sector Internal Audit Standards (PSIAS) 2013, and the CIPFA Local Government Application Note for the UK PSIAS, as representing "proper internal audit practices". These standards define the way in which the Internal Audit Service should be established and undertake its functions.

The PSIAS also requires a mandatory Code of Ethics, which promotes an ethical and professional culture. It does not supersede or replace internal auditor's 'own professional bodies' code of ethics or those of employing organisations. In addition, all internal auditors in the public sector must have regard to the Committee on Standards in Public Life's Seven Principles of Public Life. A statement of conformance with the standards is required.

Purpose

The City Council (management) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

It is important to think of the internal auditor as the organisation's critical friend, someone who can challenge current practice, champion best practice and support management in improvement, so that the organisation as a whole achieves its strategic outcomes, priorities and objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. The role of internal audit is best summarised through its mandatory definition within the Standards, as:

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

Assurance

The profession of internal audit is fundamentally concerned with evaluating an organisation's management of risk. The key to an organisation's success is to manage those risks effectively, as stakeholders demand.

The primary role of the internal auditor is to provide independent, objective assurance to Members and management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance processes, across all parts of the Council, (taking into consideration other relevant internal and external assurance providers) and to provide an annual opinion on the effectiveness of these arrangements. This opinion supports the Council's Annual Governance Statement.

Assisting management in the improvement of internal controls

As well as providing assurance, an internal auditor's knowledge of the management of risk enables them to act as a consultant and provide support for improvement in the Council's procedures.

Accountability/Responsibility

The accountability for maintaining an adequate and effective system of internal audit within Gloucester City Council lies with the Head of Finance, as the authority's Chief Financial Officer (Section 151 Officer).

The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

In addition, for the purposes of this Charter, the following definitions shall apply regarding responsibilities in relation to Internal Audit:

Definition	Details	Responsibility in relation to Internal Audit at GCC
The Board	The governance group charged with providing independent assurance on the adequacy of the control environment, comprising risk management, control and governance.	Audit and Governance Committee.
Senior Management	Those responsible for the management of the Council.	Senior Management Team

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Head of Finance (Section 151 Officer).

Right of Access

The Chief Internal Auditor has the right of direct access to the Statutory Officers, i.e. Managing Director, Monitoring Officer and the Chief Financial Officer (s151 Officer).

Where it is considered necessary for the proper discharge of the internal audit function, the Chief Internal Auditor has the right of direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit and Governance Committee).

To provide independent assurances to senior management and the board, internal audit, with strict accountability for confidentiality and safeguarding records and information, is granted full, free and unrestricted access to all personnel, documents, personal records, other records, assets, and premises, belonging to the City Council and/or its key delivery partner organisations, as considered necessary for the purposes of the audit.

In addition, internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

If required, this access should not be subject to prior notice, which extends to partner bodies and external contractors working on behalf of the council. Internal audit's right of access to third parties should be reflected in contracts and service level agreements.

All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

Independence and objectivity

The Internal Audit activity will remain free from interference by any element in the organisation in determining the scope of activity, performing work and communicating results. Internal auditors must:

- be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice;
- exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined; and
- make a balanced assessment of all the relevant circumstances and not be duly influenced by their own interests or by others in forming judgements and opinions.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, effective arrangements are in place within Gloucester City Council, to ensure the internal audit activity:

- operates in a framework that allows unrestricted access to ‘Senior Management’ and ‘the Board’;
- reports functionally to ‘the Board’;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- freedom to determine its priorities;
- completes individual annual declarations confirming compliance with rules on ethics, independence, objectivity, conflicts of interest, the Bribery Act 2010 and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles and/or undertaken consulting activity.

The Chief Internal Auditor will confirm to the board at least annually that the internal audit activity is organisationally independent.

If there has been any real or apparent impairment of independence or objectivity, the details of the impairment will be disclosed to ‘Senior Management’ and ‘the Board’. The nature of the disclosure will depend upon the impairment.

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide ranging internal audit, risk management and management experience.

The City Council will provide the Chief Internal Auditor with the resources necessary to fulfil the City Council’s requirements and to meet statutory obligations. The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities. In addition to in-house internal audit resource, the Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers e.g. IT internal audit provision and counter fraud specialists.

The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the City Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to ‘Senior Management’ and ‘the Board’.

‘Senior Management’ and ‘the Board’ will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the annual internal audit plan, due to limitations on resources.

If ‘Senior Management’, ‘the Board’ or the Chief Internal Auditor, consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Chief Financial Officer, accordingly.

Proficiency and Due Professional Care

Internal auditors will perform work in accordance with the PSIAS and with due professional care, competence and diligence. Internal auditors cannot be expected to identify every risk, control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance that the key risks (including the consideration of fraud and information technology risks) within the scope of their review, are being effectively controlled / managed, taking into consideration the relative complexity, materiality or significance of matters to which assurance procedures are applied. Auditors will take into consideration the cost of assurance, in relation to the potential benefits and risk exposure.

Internal Auditors will be required to undertake a programme of Continuing Professional Development in order to develop and maintain their professional and behavioural skills, competencies and knowledge.

Relationship with External Audit/Other Relevant Assurance Providers/Regulatory Bodies

Internal Audit will liaise, share information and co-ordinate its activities with internal and external providers of assurance to ensure there is adequate coverage and minimise duplication of effort. Where other external and internal assurance providers have undertaken assurance work, Internal Audit will seek to rely on the work of these other providers, if deemed relevant.

Scope of Internal Audit Activities

Assurance

The service is responsible for providing assurance across the Council's entire 'control environment', comprising risk management, control and governance. This means that the scope includes all of the Council's operations, resources, services and responsibilities to enable the Chief Internal Auditor to provide an annual opinion. However, in addition to the core assurance activity, Internal Audit also provides the following services:

Anti-Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. However, whilst Internal Audit does not have responsibility for the detection or prevention of fraud and corruption, Internal Audit fully considers the risk of fraud and corruption when undertaking its activities.

Investigations into potential financial irregularities are undertaken by Internal Audit, whether reported directly to the Chief Internal Auditor, or referred to Internal Audit by officers named in the Council's Anti-Fraud and Corruption Policy Statement and Whistleblowing Policy. The scope and approach taken to the investigation is dependent upon the nature of the allegations, which may also require referral to the police or other enforcement agencies.

In certain circumstances, Internal Audit may delegate the investigation of specific allegations to the service itself following an assessment of risk and financial impact.

On completion, findings are reported to an appropriate level of management, who will then be responsible for determining action to be taken.

Internal Audit also facilitates the City Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Consultancy

The service also undertakes consultancy work designed to improve the effectiveness of risk management, control and governance processes at the request of the Council, subject to there being no material impact on the core assurance activity and the availability of skills and resources.

Due to Internal Audit's knowledge of the Council's systems and processes Internal Audit is well placed to provide risk and control advice and support to managers on potential implications of changes to policy, process and/or systems. The provision of such advice does not prejudice Internal Audit's right to evaluate the established systems and controls at a later date.

In order to help services to develop a greater understanding of audit activity and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provides a specific named contact for each service and regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key changes and developments within services that may impact on its work.

Other Activity

The Chief Internal Auditor, may, at the request of 'the Board' or 'Senior Management', carry out investigations into issues where the Council's strategic, operational and/or financial interests are at stake.

The Chief Internal Auditor shall seek approval from the Board for any significant additional consultancy services/other activity not already included in the Annual Internal Audit Plan, prior to accepting the engagement, if this materially affects the core assurance activity.

Internal Audit Planning

The Chief Internal Auditor will produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity.

These plans are developed in consultation with senior managers across the Council with the proposed activity taking account of the Council's priorities, objectives, risk management framework, including risk appetite levels set by management and internal audits own judgement of risks.

To ensure internal audit resources continue to be focussed accordingly, particularly during periods of radical change, it is essential that Internal Audit understand the Council's' needs, which means building relationships with key stakeholders, which includes the Audit and Governance Committee, in order to gain crucial insight and ongoing 'intelligence' into the strategic and operational change agendas within Council.

This insight is not only at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the internal audit service to adapt more closely to meet the assurance needs of the Council. The plan is therefore dynamic and flexible to meet these needs.

'Senior Management' will be consulted on the Annual Risk Based Internal Audit Plans, which will detail the Internal Audit activities and submitted to 'the Board', for approval. The Chief Internal Auditor will be responsible for delivery of the plan.

Reporting

Reporting to Management

A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each Internal Audit activity and will be distributed as appropriate. The Internal Audit report will include management's response, corrective action taken, or to be taken and target dates in regard to specific findings and recommendations. Internal Audit will follow up all high priority recommendations made.

Reporting to 'the Board' and 'Senior Management'

The Board (at Gloucester City Council the Audit and Governance Committee)

The Chief Internal Auditor shall deliver an annual internal audit opinion and report (and quarterly progress reports on Internal Audit activity) to 'Senior Management' and 'the Board' that helps to inform the Council's Annual Governance Statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control. The annual report will include, as a minimum:

- The opinion;
- A summary of the work that supports the opinion;
- A statement of conformance with the PSIAS; and
- The results of the quality assurance and improvement programme.

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the annual risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- receiving and considering major Internal Audit findings and recommendations;
- monitoring management's response to Internal Audit findings and the implementation of the recommendations;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;
- agreeing the scope and form of the external assessment as part of the quality assurance and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance with professional standards; and

- approving significant consulting services not already included in the audit plan, prior to acceptance of the engagement, if this materially impacts on core assurance activity.

Senior Management

As those responsible for the management of the Council it is imperative that the Senior Management Team is engaged in:

- Reviewing and being consulted on the internal audit charter;
- Reviewing and being consulted on the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

Within Gloucester City Council, the Head of Finance and the Chief Internal Auditor ensure that all of the above are brought to the attention of the Senior Management Team.

Quality Assurance and Improvement Programme (QAIP)

The PSIAS require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments.

The Chief Internal Auditor has developed and implemented a QAIP that covers all aspects of the internal audit activity which enables conformance with all aspects of the PSIAS to be evaluated.

In addition, the Chief Internal Auditor will communicate to the Senior Management and the Board on the internal audit activity's QAIP, including results of annual internal assessments and external assessments conducted at least every five years.

The external assessment will be undertaken by a qualified, independent assessor or assessment team from outside the Council. Progress against any improvement plans agreed following external assessment, will be reported in the Internal Audit Annual Report.

The Chief Internal Auditor will discuss options for the assessment jointly with the 'Board'.

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INTERNAL AUDIT
CODE OF ETHICS

Audit Risk Assurance

Code of Ethics

The *Code of Ethics* is a statement of principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing as mandated by the Public Sector Internal Auditing Standards 2013. The purpose of the Code is to promote an ethical culture in the profession of internal auditing and applies to both individuals and entities that provide internal auditing services. It does not supersede or replace internal auditors' own professional bodies' codes of ethics, or those of employing organisations.

The Code provides principles and rules of conduct under four headings, as summarised below.

Rule	Principle
Integrity	The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
Objectivity	Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
Confidentiality	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
Competency	Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

1. Integrity Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal Auditors:

- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal Auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- Shall not accept anything that may impair or be presumed to impair their professional judgement.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal Auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal Auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Shall continually improve their proficiency and the effectiveness and quality of their services.

The Standards of Public Life

In addition, Gloucester City Council's Internal Auditors also have regard to the Committee on Standards in Public Life's *Seven Principles of Public Life*. The principles of public life apply to anyone who works as a public office-holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the civil service, local government, the police, courts and probation services, and in the health, education, social and care services. All public office-holders are both servants of the public and stewards of public resources. The principles also have application to all those in other sectors delivering public services.

Further details can be found here.

The Seven Principles of Public Life

Selflessness

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

Gloucester City Council

Meeting:	**Audit & Governance Committee** **Date:** **14th March 2016**
Subject:	**Annual Risk Management Report 2015/16**
Report Of:	**Audit, Risk and Assurance Manager**
Wards Affected:	**Not applicable**
Key Decision:	**No** **Budget/Policy Framework:** **No**
Contact Officer:	**Stephanie Payne – Audit, Risk Management and Value for Money Officer**
	Email: stephanie.payne@gloucester.gov.uk **Tel: 396432**
Appendices:	**None**

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 The Audit and Governance Committee's terms of reference includes the function 'to monitor the effective development and operation of risk management in the Council'.

1.2 This report is designed to assist the Committee in the exercise of this function – to provide Members with an update on the Council's risk management activities from 2015/16 and also confirm future planned actions.

2.0 Recommendations

2.1 Audit & Governance Committee is asked to RESOLVE that Members:

(1) Note the risk management arrangements in place for the past year.
(2) Endorse the proposals for future development of risk management.

3.0 Background and Key Issues

3.1 'Risk management is the culture, process and structures that are directed towards effective management of potential opportunities and threats to the Council achieving its priorities and objectives' – ALARM, the public risk management association.

3.2 The Accounts and Audit Regulations 2015 (part 2 paragraph 3) state 'a relevant local authority must ensure that it has a sound system of internal control which…includes effective arrangements for the management of risk'.

3.3 Risk management is a key part of the Council's corporate governance framework and internal control environment. It is one of the six core principles within the Council's Code of Governance – 'taking informed and transparent decisions which are subject to effective scrutiny and managing risk'.

3.4 The Council recognises the importance of effective risk management, that it is essential for good governance & sound internal control within a public body, and its positive contribution to the delivery of successful strategic and service level outcomes.

3.5 The previous annual risk management report was presented to Audit & Governance Committee in November 2014. An agreed action was for future annual risk management reports to be aligned to the Council financial and performance year. The 2015/16 annual risk management report includes coverage of December 2014 to March 2016.

4.0 Risk Management Process and Activity 2015/16

4.1 Risk Management Strategy and framework

The Risk Management Strategy sets out the risk management framework, principles and approach in operation within the Council. The Strategy was last updated and approved by Members in January 2015 (Cabinet approval following recommendation by Audit & Governance Committee).

The Strategy is supported by the Council Constitution 2015/16 and the standardised Committee report template, which requires all Committee reports to include 'risk & opportunity management implications' for consideration as part of the Council's decision making process.

4.2 Strategic risk management

The Risk Management Strategy requires compilation and formal review of a strategic risk register to identify and assess risks associated with the achievement of the Council's priorities and objectives within the Council Plan. This includes both strategic risks and potentially emerging strategic risks.

For 2015/16, the strategic risk register has been formally reviewed by Senior Management Team (SMT) on a monthly basis with risk owners at SMT level. Versions of the strategic risk register have been tracked to ensure audit trail of changes and risk direction of travel.

Member review of the strategic risk register has been completed in March 2015 and November/December 2015 by Audit & Governance Committee and Cabinet. This is in line with the Risk Management Strategy requirement for strategic risk register Member review on a bi-annual basis.

4.3 Service (operational) risk management

Service Managers are responsible for completing a service risk register containing risks relevant to their service objectives (detailed within the service business plan). Risk registers should also be completed for significant partnerships and projects (e.g. the Rugby World Cup 2015 and the Kings Quarter regeneration project).

Operational risk registers should be completed in line with the Council risk register template and Risk Management Strategy (including application of the Council approved risk scoring matrix).

For 2015/16 up to August 2015, service business plans and risk registers were reviewed by SMT and detailed within the annual SMT forward plan. As at August 2015, SMT decision was made for future service business plan and risk register review to be completed directly by the relevant Director in liaison with the Head of Service or Service Manager.

Identified high scoring operational risk themes are considered by SMT within the strategic risk register review process – report section 4.2.

4.4 Promotion, communication and training

4.4.1 Officer training

The service risk management approach was supported by two work shop sessions held in March 2015. The workshops offered co-ordinated advice and guidance on service business plans, risk registers and business continuity documents. The sessions were led by the Business Improvement Team, the Health, Partnerships and Engagement Manager, and the Audit, Risk Management and Value for Money Officer.

Update was also completed at Gloucester Management Team (GMT) to promote general awareness.

Advice and guidance has been provided to services through Council Business Bulletins and 121 development meetings where requested by Managers. Feedback has also been provided through SMT & Director review of service business plans and risk registers.

4.4.2 Member training

The Member Risk Management Champion role is to support and promote the Council's risk management framework and approach. The position is currently held by Councillor Gravells.

The 2015/16 Member induction day included an introduction to risk management for the 4 newly appointed Members.

4.5 Independent review of risk management arrangements

Although a review was planned to be carried out during 2015/16, it has been agreed that this will not be undertaken due to the planned 2016/17 review of risk management arrangements against the latest ISO 31000 risk management standard – see report section 8.1.

The most recent independent internal audit of risk management controls was completed in 2013/14 and reported in May 2014. The internal audit was completed by another local authority internal audit team and reported to the Audit and Governance Committee, concluding that there was a satisfactory level of assurance over the risk management process within the Council.

The 2013/14 internal audit recommended Member Committee review of the strategic risk register. The recommendation was actioned through the January 2015 update of the Risk Management Strategy and the bi-annual Member review of the strategic risk register completed within the last 12 months – report section 4.2.

4.6 Insurance arrangements

The Council's current insurance contract with Zurich Municipal (Zurich) includes an annual allocation for risk management support services. This is effectively a block of consultancy time which the Council can access for risk management specific products. The product type (e.g. plan testing or training provision) is selected by the Council per year of the contract.

SMT agreement was obtained for the 2014/15 risk management allocation to be utilised on a Risk Management Standards Assessment of the Council, including review of combined liability; health and safety; motor; general property; and claims management. The Zurich review was completed in June 2015 and the approach included input from officer group interviews and review of relevant supporting documents.

The Zurich Risk Management Standards Assessment results and Council action plan were reported to Audit & Governance Committee in November 2015.

The 2015/16 risk management support service allocation options are under review by the Section 151 Officer. Decision is required by financial year end for delivery within 2016/17 – report section 8.1.

4.7 Risk management links to internal audit

The Council's Internal Audit service (provided by the Audit, Risk & Assurance shared service between Gloucester City Council, Stroud District Council and Gloucestershire County Council) follows a Risk Based Internal Audit approach. The approach follows the requirements of the Public Sector Internal Audit Standards and is reported to the Audit & Governance Committee, supporting the Committee's function to monitor the operation of risk management.

Relevant reports submitted to Audit & Governance Committee include:

- The Annual Risk Based Internal Audit Plan
- Internal audit monitoring reports - confirming the level of assurance for each completed audit, highlighting weakness/risk areas and confirming where rank 1 fundamental recommendations have not been implemented within agreed timescales
- The Audit, Risk and Assurance Manager's annual opinion on the overall adequacy and effectiveness of the Council's control environment (comprising risk management, internal control and governance), which supports the Annual Governance Statement

5.0 Asset Based Community Development (ABCD) Considerations

5.1 There are no anticipated ABCD implications from this report.

6.0 Alternative Options Considered

6.1 No other options have been considered.

7.0 Reasons for Recommendations

7.1 A risk management annual report is required to support the Audit and Governance Committee function 'to monitor the effective development and operation of risk management in the Council'. The Council's Risk Management Strategy requires review of the report by Audit and Governance Committee.

8.0 Future Work and Conclusions

8.1 The following risk management key developments and actions are planned for the next 12 months:

- Zurich 2015/16 risk management support services allocation to be agreed within 2015/16 and delivered in 2016/17
- Member risk management training is scheduled within the 2016/17 Member Development Programme (Provisional date 16th May 2016).
- Review of the Council's risk management arrangements against the latest ISO 31000 risk management standard – the review findings will inform future risk management development at the Council

9.0 Financial Implications

9.1 There are no direct financial implications arising from the report recommendations. Risk management activity is delivered within existing budgeted resources.

(Financial Services have been consulted in the preparation this report).

10.0 Legal Implications

10.1 None specifically arising from the report recommendations.

10.2 It is fundamental that the Council has an embedded risk management framework (including a Risk Management Strategy) which considers the identification, recording and management of risks to the Council in the delivery of its priorities and objectives.

10.3 The existence and application of an effective Risk Management Strategy (including Member review of the strategic risk register and awareness of strategic risks) assists prudent decision making. Failure to identify and manage strategic risks could lead to inappropriate decision making, unnecessary liability and costly legal challenge.

(Legal Services have been consulted in the preparation this report).

11.0 Risk & Opportunity Management Implications

11.1 The lack of a robust approach to the management of risks and opportunities could result in inappropriately informed decision making and non -achievement of the Council's priorities and objectives at both strategic and service levels.

12.0 People Impact Assessment (PIA):

12.1 A PIA screening assessment has been completed and the impact is neutral. A full PIA is not required.

13.0 Other Corporate Implications

<u>Community Safety</u>

13.1 There are no community safety implications arising out of the recommendation in this report.

<u>Sustainability</u>

13.2 There are no sustainability implications arising out of the recommendation in this report.

<u>Staffing & Trade Union</u>

13.3 There are no staffing and trade union implications arising out of the recommendation in this report.

<u>Press Release drafted/approved</u>

13.4 None.

Background Documents: Council Constitution, Code of Governance and Risk Management Strategy

Gloucester City Council

Meeting:	**Audit & Governance Committee** **Council**	**Date:**	**14 March 2016** **24 March 2016**
Subject:	**Treasury Management Strategy 2016/17**		
Report Of:	**Cabinet Member for Performance and Resources**		
Wards Affected:	**All**		
Key Decision:	**No**	**Budget/Policy Framework:**	**Yes**
Contact Officer:	**Jon Topping, Head of Finance**		
	Email: jon.topping@gloucester.gov.uk	**Tel: 396242**	
Appendices:	**1. Treasury Management Strategy 2016/17**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To formally recommend that full Council approves the attached Treasury Management Strategy, the prudential indicators and note the Treasury activities.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to **RECOMMEND** that the Treasury Management Strategy be approved.

2.2 Council is asked to **RESOLVE** that:

(1) The Treasury Management Strategy at Appendix 1 be approved;

(2) The authorised borrowing limit be approved at:-
  a) 2016/17 £30m
  b) 2017/18 £30m
  c) 2018/19 £30m

(3) The prudential indicators set on in section two of the strategy be approved.

3.0 Background and Key Issues

3.1 The Council's financial profile has changed significantly since the transfer of Housing Stock to Gloucester City Homes in March 2015. At the end of March 2015, the Council was holding market debt from the stock transfer due to uncertainty in the market around debt premia and as a result was in an over-borrowed position. The Council was able to repay the market debt at the start of the 2015/16 financial year, returning the Council to an under borrowed position.

3.2 The 2016/17 treasury management strategy proposes to continue operating within an under-borrowing position. This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.

3.3 There will be short term cashflow balances that will be invested for short periods within the year. Section 4 of the strategy outlines the Annual Investment Strategy; in particular it outlines the creditworthiness policy through the use of credit ratings.

3.4 The borrowing strategy is to utilise investments to reduce short term borrowing. Once investments have been applied it is anticipated that any new debt will be short term as the current market rates are attractive and this also maximises future flexibility.

3.5 The strategy allows for either debt rescheduling or new long term fixed rate borrowing in place of short term borrowing if circumstances were to change during 2016/17.

3.6 The strategy also includes the minimum revenue provision (MRP) policy statement. This policy continues with the practice approved last year. MRP is the revenue charge to reduce debt and is only required by the General Fund. This option provides for a reduction in the borrowing need over the approximate asset life. For clarity the options for reduction are explained and can either be through an annuity calculation (providing a consistent overall annual borrowing charge) or straight line (where the principal repayment is the same each year).

4.0 Alternative Options Considered

4.1 The following option has been considered:

The potential to borrow long term rather than sort term. This remains an option should interest rates change but at the moment short terms rates are only 0.50% whereas long term rates are over 3% (25 years plus).

5.0 Reasons for Recommendations

5.1 As outlined in the legal implications the recommendations require Council approval.

6.0 Future Work and Conclusions

6.1 The Treasury Management Strategy provides a logical basis to fund the Council’s capital financing requirement. The Council will continue to monitor the under borrowed strategy and is prepared to adapt this strategy if there is changes within the markets.

7.0 Financial Implications

7.1 The expenditure and income arising from treasury management activities are included within the Council General Fund budget.

8.0 Asset Based Community Development (ABCD) Considerations

8.1 This report notes the Treasury Strategy of the Council. There are no ABCD implications from this report.

9.0 Legal Implications

9.1 The Council is required to have a Treasury Management Strategy to meet the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

10.0 Risk & Opportunity Management Implications

10.1 There is a risk that short term and long term interest rates could increase and this will be monitored both in-house and by the Council Treasury Management Advisor, Capita Asset Services. In this event the risk will be managed through the opportunities either to reschedule debt or new long term fixed rate borrowing in place of short term borrowing.

10.2 The risk of deposits not being returned by the counterparty is minimised by only investing short term cash flow monies with counterparties on the approved lending list. All counterparties on this list meet minimum credit rating criteria, ensuring the risk is kept extremely low although not eliminated.

11.0 People Impact Assessment (PIA):

11.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

12.0 Other Corporate Implications

<u>Community Safety</u>

12.1 None

<u>Sustainability</u>

12.2 None

<u>Staffing & Trade Union</u>

12.3 None

Background Documents:

Local Government Act 2003
CIPFA Treasury Management Code
CIPFA Prudential Code
CLG MRP Guidance

Appendix 1: Treasury Management Strategy 2016/17

1. INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management 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."*

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury Strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Training for Members was provided in 2014/15, with an update provided in 15/16 for new members. Further training will be arranged as required during 16/17 following full Council elections. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Corporate Director 1	0.699	1.236	0.622	0.557	0.557
Corporate Director 2	0.334	1.802	0.976	0.565	0.420
Regeneration & Economic Development	7.062	5.616	8.774	1.054	0.100
Finance & Business Improvements	0.169	0.256	0.400	0.300	0.00
Total Non-HRA	**8.264**	**8.910**	**10.772**	**2.476**	**1.077**
HRA	**7.126**	**0**	**0**	**0**	**0**
Total	**15.390**	**8.910**	**10.772**	**2.476**	**1.077**

The Council has other long term liabilities which relate to the difference between the Local Government Pension Liabilities and Assets. These do not have any treasury impact on Gloucester City Council as the Pension Fund is managed by Gloucestershire County Council. Therefore, other long term liabilities have been excluded from this strategy.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure	**2014/15 Actual £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Total	16.110	8.910	10.772	2.476	1.077
Financed by:					
Capital receipts	2.142	4.797	2.856	0.657	0
Capital grants	0.906	3.889	7.916	1.819	0.729
HRA Major repairs	2.022	0	0	0	0
HRA Revenue	4.783	0	0	0	0
Net financing need for the year	**6.257**	**0.224**	**0.00**	**0.00**	**0.348**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The Council is asked to approve the CFR projections below:

	2014/15 Actual £m	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Capital Financing Requirement					
Total CFR	**22.837**	**20.928**	**20.422**	**19.952**	**19.805**
Movement in CFR	**(58.038)**	**(1.910)**	**(0.506)**	**(0.470)**	**(0.147)**

Movement in CFR represented by					
Net financing need for the year (above)	6.257	0.224	0.00	0.00	0.348
Less MRP/VRP and other financing movements	(1.545)	(2.134)	(0.506)	(0.470)	(0.495)
Housing Stock Transfer	(62.750)	0	0	0	0
Movement in CFR	**(58.038)**	**(1.910)**	**(0.506)**	**(0.470)**	**(0.147)**

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1); this option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3); This option provide for a reduction in the borrowing need over approximately the asset's life.

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.5 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio	4.73%	5.37%	4.97%	4.83%	5.03%

The estimates of financing costs include current commitments and the proposals in this budget report.

2.6 Incremental impact of capital investment decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D Council Tax

£	2014/15 Actual £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Council Tax - Band D	1.43	2.45	0	0	0.52

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
External Debt					
Debt at 1 April	71.142	43.997	15.000	15.000	15.000
Expected change in Debt	(27.145)	(28.997)	0	0	0.500
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	**43.997**	**15.000**	**15.000**	**15.000**	**15.500**
The Capital Financing Requirement	**22.837**	**20.928**	**20.422**	**19.952**	**19.805**
Under / (over) borrowing	**(21.160)**	**5.928**	**5.422**	**4.952**	**4.305**

At the 31st March 2015 there was an over borrowing of £21.160m compared with the capital financing requirement. The 15/16 estimate is an under borrowed position. The over borrowed position at the 31st March 2015 was the result of the Council holding market debt relating to the stock transfer while uncertainty remained in the market around debt premia. Certainty returned to the markets early in 2015/16, the Council repaid debt and returned to an under borrowed position.

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

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Debt	45	25	25	25
Other long term liabilities	0	0	0	0
Total	45	25	25	25

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit:

Authorised limit	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Debt	50	30	30	30
Other long term liabilities	0	0	0	0
Total	50	30	30	30

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view:

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2016	0.50	2.00	3.40	3.20
Jun 2016	0.50	2.10	3.40	3.20
Sep 2016	0.50	2.20	3.50	3.30
Dec 2016	0.75	2.30	3.60	3.40
Mar 2017	0.75	2.40	3.70	3.50
Jun 2017	1.00	2.50	3.70	3.60
Sep 2017	1.00	2.60	3.80	3.70
Dec 2017	1.25	2.70	3.90	3.80
Mar 2018	1.25	2.80	4.00	3.90
Jun 2018	1.50	2.90	4.00	3.90
Sept 2018	1.50	3.00	4.10	4.00
Dec 2018	1.75	3.10	4.10	4.00
Mar 2019	1.75	3.20	4.10	4.00

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half

2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

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

3.5 Treasury management limits on activity

The purpose of treasury management limits are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/ improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2016/17	2017/18	2018/19
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	100%	100%	100%
Maturity structure of fixed and variable interest rate borrowing 2016/17			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%

3.6 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

3.7 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Cabinet, at the earliest meeting following its action.

3.8 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

4. ANNUAL INVESTMENT STRATEGY

4.1 Introduction: changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of ….. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

4.2 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

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

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in appendix 5.3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.3 Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

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

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used
-

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks	**yellow**	**£5m**	**5yrs**
Banks	**purple**	**£5m**	**2 yrs**
Banks	**orange**	**£5m**	**1 yr**
Banks – part nationalised	**blue**	**£5m**	**1 yr**
Banks	**red**	**£5m**	**6 mths**
Banks	**green**	**£5m**	**100 days**
Banks	**No colour**	**Not to be used**	
Limit 3 category – Council's banker (not meeting Banks 1)	**Barclays Bank**	**100 %**	**1 day**
DMADF	**AAA**	**unlimited**	**6 months**
Local authorities	**n/a**	**100 %**	**1yrs**
	Fund rating	**Money and/or % Limit**	**Time Limit**
Money market funds	**AAA**	**100 %**	**liquid**
Enhanced money market funds with a credit score of 1.25	**Dark pink / AAA**	**100 %**	**liquid**
Enhanced money market funds with a credit score of 1.5	**Light pink / AAA**	**100 %**	**liquid**

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

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

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

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

- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

4.4 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.5 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

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

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

2016/17 0.60%
2017/18 1.25%
2018/19 1.75%
2019/20 2.25%
2020/21 2.50%
2021/22 3.00%
2022/23 3.00%
Later years 3.00%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
	2016/17	2017/18	2018/19
Principal sums invested > 364 days	£m Nil	£m Nil	£m Nil

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5. APPENDICES

1. Interest rate forecasts
2. Economic background
3. Treasury management practice 1 – credit and counterparty risk management
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer

5.1 APPENDIX: Interest Rate Forecasts 2016 – 2019

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View													
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%
6 Month LIBID	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.30%	1.50%	1.60%	1.70%	1.80%	2.00%	2.20%
12 Month LIBID	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.80%	1.90%	2.00%	2.10%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB Rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB Rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
Capital Economics	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

5.2 APPENDIX: Economic Background

UK. UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.2%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, more recent, round of falls in fuel prices which will now delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.1% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong; this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this more recent lacklustre progress, combined with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2%. The ECB will also aim to help boost the rate of growth in the EZ.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its ‘arrows’ of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

This change in investors’ strategy, and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US, has helped to cause the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

5.3 APPENDIX: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 50% ** will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	**100%**	**6 months**
UK Government gilts	UK sovereign rating	50%	5 years
UK Government Treasury blls	UK sovereign rating	50%	5 years
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	50%	6 months
Money market funds	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	1 years
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5M £5M £5M 0	1 year 1 year 6 Months 100 days Not for use

CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	0 0 0 0	1 year 1 year 6 Months 100 days Not for use
Gilt funds	UK sovereign rating	Nil	
Property funds		Nil	

5.4 APPENDIX: Approved countries for investments

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium

5.5 APPENDIX: Treasury management scheme of delegation

(i) Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Committees/Council

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.6 APPENDIX: The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Gloucester City Council
Audit and Governance Work Programme 2016
(Updated 29 February 2016)

Item	Format	Lead Officer	Comments
20 June 2016:			
1. Audit and Governance Committee Action Plan	Timetable	--------------	Standing agenda item
2. Position Statement on Statement of Accounts	Verbal report	Head of Finance	Part of the Committee's annual work programme
3. Benefits Audit Update on Accuracy Rate	Written Report	Head of Business Improvement	Part of the Committee's annual work programme
4. Internal Audit Plan 2015/16 Final Monitoring Report	Written Report	Head of IA&RM Shared Service	Part of the Committee's annual work programme
5. Internal Audit Annual Report 2015-2016	Written Report	Head of IA&RM Shared Service	Part of the Committee's annual work programme
6. Treasury Management Performance	Written Report	Head of Finance/ Management Accountant	Part of the Committee's annual work programme
7. Draft Annual Governance Statement 2015/16	Written Report	Head of Finance	Part of the Committee's annual work programme
8. Annual Complaints Monitoring Report	Written Report	Monitoring Officer	Part of the Committee's annual work programme
9. Annual Standards Report	Written Report	Monitoring Officer	Part of the Committee's annual work programme
10. Local Government Ombudsman Decisions	Written Report	Monitoring Officer	Part of the Committee's annual work programme

11. Annual Report of the Audit Committee 2015/16	Written Report	Head of IA&RM Shared Service	Part of the Committee's annual work programme
12. Audit and Governance Committee Work Programme	Timetable	-----------------	Standing Agenda Item
19 September 2016:			
1. Audit and Governance Committee Action Plan	Timetable	--------------	Standing agenda item
2. ISA 260 Report to those Charged with Governance	Written report	KPMG	Standing agenda item requested by the Committee
3. Statement of Accounts 2015/16	Written Report	Head of Finance	Part of the Committee's annual work programme
4. Strategic Risk Register Update	Written Report	Head of IA&RM Shared Service	Part of the Committee's annual work programme
5. Annual Governance Statement 2015/16	Written Report	Head of Finance	Part of the Committee's annual work programme
6. Treasury Management Performance 2016/17 – Quarter 1	Written Report	Head of Finance	Part of the Committee's annual work programme
7. Business Rates Pooling Annual Report	Written Report	Head of Finance	Part of the Committee's annual work programme
8. Internal Audit Plan 2016/17 – Monitoring Report	Written Report	Head of IA&RM Shared Service	Part of the Committee's annual work programme
9. Audit and Governance Committee Work Programme	Timetable	-----------------	Standing Agenda Item

FUTURE AUDIT & GOVERNANCE COMMITTEE MEETING DATES:

- Monday, 20 June 2016
- Monday, 19 September 2016
- Monday, 21 November 2016

FUTURE AUDIT & GOVERNANCE COMMITTEE AGENDA ITEM – DATE TO BE AGREED:

- Update report on Peer Review visit