



## Audit and Governance Committee

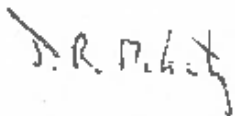
**Meeting: Monday, 11th March 2019 at 6.30 pm in Civic Suite - North Warehouse, The Docks, Gloucester, GL1 2EP**

<b>Membership:</b>	Cllrs. Gravells (Chair), Melvin (Vice-Chair), Brooker, D. Norman, Smith, Stephens and Wilson
<b>Contact:</b>	Democratic and Electoral Services 01452 396126 <a href="mailto:democratic.services@gloucester.gov.uk">democratic.services@gloucester.gov.uk</a>

### AGENDA

<b>1.</b>	<b>APOLOGIES</b>  To receive any apologies for absence.
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>  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.
<b>3.</b>	<b>MINUTES (Pages 5 - 8)</b>  To approve as a correct record the minutes of the meeting held on 21 <sup>st</sup> January 2019.
<b>4.</b>	<b>PUBLIC QUESTION TIME (15 MINUTES)</b>  To receive any questions from members of the public provided that a question does not relate to: <ul style="list-style-type: none"><li>• Matters which are the subject of current or pending legal proceedings, or</li><li>• Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers</li></ul>
<b>5.</b>	<b>PETITIONS AND DEPUTATIONS (15 MINUTES)</b>  To receive any petitions and deputations provided that no such petition or deputation is in relation to: <ul style="list-style-type: none"><li>• Matters relating to individual Council Officers, or</li><li>• Matters relating to current or pending legal proceedings</li></ul>
<b>6.</b>	<b>AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN (Pages 9 - 10)</b>  To consider the Action Plan.

<b>7.</b>	<b>TREASURY MANAGEMENT STRATEGY</b> (Pages 11 - 44)  To consider the report of the Head of Policy and Resources in relation to the Treasury Management Strategy.
<b>8.</b>	<b>ANNUAL RISK MANAGEMENT REPORT 2018/19</b> (Pages 45 - 50)  To consider the report of the Head of Audit Risk Assurance providing Members with an update on the Council's risk management activities from 2018/19.
<b>9.</b>	<b>INTERNAL AUDIT ACTIVITY 2018/19 - PROGRESS REPORT</b> (Pages 51 - 76)  To consider the report of the Head of Audit Risk Assurance updating Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2018/19.
<b>10.</b>	<b>INTERNAL AUDIT PLAN 2019-20</b> (Pages 77 - 102)  To consider the report of the Head of Audit Risk Assurance providing the Committee with a summary of the proposed Risk Based Internal Audit Plan 2018/2019 as required by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS) 2017.
<b>11.</b>	<b>REVIEW OF THE EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE</b> (Pages 103 - 152)  To consider the report of the Head of Internal Audit Risk Assurance examining the effectiveness of the Audit and Governance Committee.
<b>12.</b>	<b>ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE (CHAIR'S REPORT)</b> (Pages 153 - 166)  To consider the Chair's Annual Report.
<b>13.</b>	<b>AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME</b> (Pages 167 - 168)  To consider the Work Programme.
<b>14.</b>	<b>DATE OF NEXT MEETING</b>  6.30pm on 22 <sup>nd</sup> July in the Civic Suite, North Warehouse.



**Jon McGinty**  
**Managing Director**

**Date of Publication: Friday, 1 March 2019**

## 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.

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For enquiries about Gloucester City Council's meetings please contact Democratic Services, 01452 396126, [democratic.services@gloucester.gov.uk](mailto: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.

### **Recording of meetings**

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Any recording must take place in such a way as to ensure that the view of Councillors, Officers, the Public and Press is not obstructed. The use of flash photography and/or additional lighting will not be allowed unless this has been discussed and agreed in advance of the meeting.

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- 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, 21st January 2019

**PRESENT** : Cllrs. Gravells (Chair), Melvin (Vice-Chair), Smith, Stephens, Wilson and Lewis

### **Others in Attendance**

Councillor H. Norman, Cabinet Member for Performance and Resources  
Councillor Watkins, Cabinet Member for Communities and Neighbourhoods  
Corporate Director  
Head of Communities  
Head of Policy and Resources  
Housing Team Leader (Private Sector Housing)  
Deloitte's  
Democratic and Electoral Services Team Leader

**APOLOGIES** : Cllrs. Brooker and D. Norman

### **43. DECLARATIONS OF INTEREST**

43.1 There were no declarations of interest.

### **44. MINUTES**

44.1 The minutes of the meeting held on 19<sup>th</sup> November 2018 were agreed and signed by the Chair as a correct record.

### **45. PUBLIC QUESTION TIME (15 MINUTES)**

45.1 There were no public questions.

### **46. PETITIONS AND DEPUTATIONS (15 MINUTES)**

46.1 There were no petitions or deputations.

**AUDIT AND GOVERNANCE COMMITTEE**  
**21.01.19**

**47. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN**

- 47.1 The Committee considered the Action Plan. Members were made of aware of the management update in respect of Disabled Facility Grants (DFGs) which was included in the papers for the meeting. The Head of Communities advised that the number of Occupational Therapists who were able to conduct assessments for DFGs would be provided in due course.
- 47.2 **RESOLVED that:-** The Audit and Governance Committee **NOTE** the Action Plan.

**48. MANAGEMENT UPDATE REPORT - DFG**

- 48.1 Councillor Watkins, Cabinet Member for Communities and Neighbourhoods, provided an update on the allocation of funding for Disabled Facilities Grants (DFGs). She advised that there were just eight applications awaiting a decision and that the housing team would be examining how DFGs can be marketed to those who needed them.
- 48.2 The Head of Communities informed Members of an ombudsman investigation into a case of a family which had applied for a DFG but where the process had broken down at points. She advised that such processes would be reviewed and that she was supporting the family while the work was being carried out.
- 48.3 Councillor Stephens noted that, in previous years,, spending against budget had remained somewhat in line but the budget had subsequently increased. He further stated that there was still an issue with there being a six month wait from the submission of an application until the decision being made. The Head of Communities noted that the funding was not just the City's Council and that Officers had been proactive in remedying the underspend.
- 48.4 The Private Sector Housing Officer advised that important discussions with the County Council had taken place to remedy the underspend. He stated that there were indications that there was a downward trend in the take up of DFGs, possibly due to earlier interventions and better rehabilitation services.
- 48.5 Councillor Wilson acknowledged that there would be an underspend this fiscal year and that it may improve. Councillor Watkins stated that conversations with the County Council needed to continue and advised that if the full DFG allocation was not spent, the funds would revert to the Better Care Fund and would therefore still be used in the community.
- 48.6 In response to an intervention from Councillor Melvin, the Head of Communities stated there were a number of actions which could be done to promote DFGs including sharing marketing materials with GPs and other health professionals.
- 48.2 **RESOLVED that:- (1)**The Audit and Governance Committee **NOTE** the update and; **(2)** a report on DFGs be circulated after the conclusion of the county-wide review.

**AUDIT AND GOVERNANCE COMMITTEE**  
**21.01.19**

**49. INTERNAL AUDIT PROGRESS REPORT 2018/19**

- 49.1 The Principal Auditor presented the report and highlighted key aspects and findings. Members were informed that the Internal Audit team was able to provide either sufficient or substantial assurance in all areas.
- 49.2 Councillor Stephens queried why the audit into leavers' processes had been cancelled. The Principal Auditor advised that it was originally a separate audit such as for the return of IT equipment and network access controls. He further advised that this was duplication and was now included as part of the 2019/20 plan.
- 49.3 With regard to Counter Fraud activities, Councillor Stephens asked whether the associated report would be considered by the Committee. The Head of Policy and Resources advised that the report would be shared with the Audit and Governance Committee.
- 49.4 **RESOLVED that:-** The Audit and Governance Committee **NOTE** the Internal Audit Progress Report 2018/19.

**50. ANNUAL GOVERNANCE STATEMENT IMPROVEMENT PLAN 2017/2018**

- 50.1 The Committee considered the Annual Governance Statement Improvement Plan.
- 50.2 **RESOLVED that:** - The Audit and Governance Committee **NOTE** the Annual Governance Statement Improvement Plan 2017/18.

**51. DELOITTE - EXTERNAL AUDIT PLAN 2018/19**

- 51.1 The Committee considered the External Audit Plan as prepared by Deloitte's.
- 51.2 **RESOLVED that:** - The Audit and Governance Committee **NOTE** the External Audit Plan.

**52. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME**

- 52.1 The Committee considered the Work Programme and what could be examined in the future.
- 52.2 A discussion took place in relation to transparency of Members' work and the input Members had when they sat on outside bodies. Councillor Lewis suggested that included in this work could be an assessment as to why Members sat on particular bodies. Councillor Stephens suggested that such work should cover the duration of the current Committee's constitution and, as such, it was agreed the remit of the work would be since the Committee had sat (since May 2016).

**AUDIT AND GOVERNANCE COMMITTEE**  
**21.01.19**

- 52.3 Councillor Stephens queried whether recommendations that are made by the Committee are acted upon. The Corporate Director suggested that the Committee could undertake a piece of work to examine whether recommendations and action had led to implementation and also that a review could be conducted in terms of the governance aspect of Members taking on different roles.
- 52.4 A discussion took place suggesting that Chairs from other Councils be invited to share aspects of work programmes that are considered by other Audit Committees.
- 52.5 **RESOLVED that:-** (1) The Audit and Governance Committee undertake work to examine the efficacy of its recommendations since May 2016; (2) the Audit and Governance Committee scope a piece of work to examine the contribution of Members appointed to outside bodies by the Council; (3) to invite Audit Chairs from other Gloucestershire districts to discuss what matters make up their work programmes and; (4) The Audit and Governance Committee **NOTE** the Work Programme.

**53. DATE OF NEXT MEETING**

11<sup>th</sup> March 2019 at 6.30pm in the Civic Suite, North Warehouse.

**Time of commencement: 6.30 pm hours**  
**Time of conclusion: 7.05 pm hours**

**Chair**



**AUDIT AND GOVERNANCE COMMITTEE – 21 JANUARY 2019**

**ACTION PLAN**

MINUTE NO.	MATTER	CURRENT STATUS	RAG	TARGET DATE	OWNER
<b><u>Actions arising from meeting held on 21 January 2019:</u></b>					
48	A report on DFGs be circulated after the conclusion of the county-wide review.	Awaiting conclusion of review	<b>R</b>	To begin once review is concluded	RS
52	Scope a piece of work to examine the contribution of Members appointed to outside bodies by the Council.	Added to Work Programme	<b>A</b>	July 2019 Committee meeting	JL
52	Undertake work to examine the efficacy of its recommendations since May 2016.	In process, material being collated	<b>A</b>	By the March Committee meeting	SB

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# Gloucester City Council

<b>Meeting:</b>	<b>Cabinet</b>	<b>Date:</b>	<b>6<sup>th</sup> March 2019</b>
	<b>Audit &amp; Governance Committee</b>		<b>11<sup>th</sup> March 2019</b>
	<b>Council</b>		<b>21<sup>st</sup> March 2019</b>
<b>Subject:</b>	<b>Treasury Management Strategy 2019/20</b>		
<b>Report Of:</b>	<b>Cabinet Member for Performance and Resources</b>		
<b>Wards Affected:</b>	<b>All</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>Yes</b>
<b>Contact Officer:</b>	<b>Jon Topping, Head of Policy and Resources</b>		
	<b>Email: jon.topping@gloucester.gov.uk</b>	<b>Tel:</b>	<b>396242</b>
<b>Appendices:</b>	<b>1. Treasury Management Strategy 2019/20</b>		

## 1.0 Purpose of Report

- 1.1 To formally recommend that 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) 2019/20 £145m
  - b) 2020/21 £145m
  - c) 2021/22 £145m
- (3) The prudential indicators set out in section two of the strategy be approved.

## 3.0 Background and Key Issues

- 3.1 The Council's Treasury position changed in 2017-18 as a result of the property deal at Kings Walk. The Council entered into a long term lease arrangement which has resulted in a liability on the balance sheet. In doing so it now receives rental income which more than matches the charge on the

lease liability. Significant cash sums were also received to be held in reserve for future expenditure. These have resulted in an increase in the level of money available for Council investment purposes.

- 3.2 A portion of reserves have been invested in a property fund managed by CCLA Investment Management Ltd. CCLA is compliant with FSA and other Financial Regulations. This is a new form of investment for the City Council, made possible by the cash inflow, and generates a competitive rate of return within the Council's accepted risk parameters.
- 3.3 The 2019/20 treasury management strategy recommends to continue operating within an under-borrowing position. This position reflects that the Council uses internal resources, such as reserves, to fund the borrowing need rather than invest those funds for a return. This strategy is sensible, at this point in time, for two reasons. Firstly, the lost interest on those funds is significantly less than the costs of borrowing money for the capital programme. In addition, using the resources to reduce debt the Council will reduce exposure to investment counterparty risk. If an opportunity arises for commercial investment the under borrowing position will allow the Council the headroom to borrow funds for a purchase up to the under borrowing level.
- 3.4 There will be cash flow 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.
- 3.5 The borrowing strategy is to utilise investments to reduce short term borrowing. Once investments have been applied it is anticipated that the majority of new debt will be short term as the current market rates are attractive. Where the capital programme, or investment strategy, requires the creation of long-term investment need then some long term borrowing is likely to be undertaken to take advantage of low rates and mitigate the risk presented by having all borrowing on short-term deals.
- 3.6 The strategy allows flexibility for either debt rescheduling or new long term fixed rate borrowing while allowing the Council to benefit from lower interest rates on temporary borrowing at the current time.
- 3.7 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 by placing a charge on the General Fund each year. The preferred option is to provide for the borrowing need created over the approximate life of the asset purchased. This is achieved with an annuity calculation which provides a consistent overall annual borrowing charge with the level of principal (MRP) increasing each year, much like a repayment mortgage.
- 3.8 The recently revised Prudential Guide introduces the concept of Proportionality which is to be implemented in full. This is defined as "Where, in addition to treasury management investment activity, organisations invest in

other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organization and the organization should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions". This concept has implications for the Property Investment Strategy and decisions relating to the strategy will be taken in this context. The affordable borrowing limits to be set include the £80m agreed for the Property Investment Strategy.

#### **4.0 Alternative Options Considered**

4.1 The following option has been considered:

There is the potential to "lock in" borrowing for capital purposes on longer term rather than the current short term approach. This remains an option as long term borrowing rates are at historically low levels. However, the difference between the cost of the cost of short term loans should interest rates change but at the moment short terms rates are approximately 0.75% whereas long term rates are approximately 2.9% (25 years plus).

#### **5.0 Reasons for Recommendations**

5.1 As outlined in the legal implications the recommendations require Council approval. The Treasury and Investment Strategies recommended provide the best platform for financing the long-term capital programme and managing daily cash flow whilst protecting Council funds.

#### **6.0 Future Work and Conclusions**

6.1 The Treasury Management Strategy provides a logical basis to fund the Council's capital financing requirement and long-term Capital Programme. 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 Money Plan.

#### **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, MHCLG Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and MHCLG 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, Link 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

### Community Safety

- 12.1 None

### Sustainability

- 12.2 None

### Staffing & Trade Union

- 12.3 None

**Background Documents:** Local Government Act 2003  
 CIPFA Treasury Management Code  
 CIPFA Prudential Code  
 MHCLG MRP Guidance

**Appendix 1****Treasury Management Strategy 2019/20****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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

*“The management of the local authority's borrowing, 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.”*

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

**1.2 Reporting requirements****1.2.1 Capital Strategy**

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

### **1.2.2 Treasury Management reporting**

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 at Gloucester by the Audit and Governance Committee.

## **1.3 Treasury Management Strategy for 2019/20**

The strategy for 2019/20 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
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG 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 responsible for scrutiny. Finance training for members, including Treasury Management, is scheduled to feature in the member development programme during 2019/20

The training needs of treasury management officers are periodically reviewed and staff have attended training and seminars during 2018/19 and will continue to do so in the upcoming year.

## **1.5 Treasury management consultants**

The Council uses Link 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.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council uses such advisors on a case by case basis in relation to this activity.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22

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. These forecasts have had £15m added in 2019/20 to reflect the impact of the Property Investment Strategy including the Kings Quarter project.

Capital expenditure £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Policy & Resources	0.885	0.794	0.204	0.150	0.150
Place	6.067	3.926	16.890	24.160	60.080
Communities	0.775	0.493	0.529	0.529	0.529
Culture & Trading	0.034	0.045	0.000	0.045	0.000
<b>Total</b>	<b>7.761</b>	<b>5.258</b>	<b>17.623</b>	<b>24.884</b>	<b>60.759</b>

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 borrowing need.

Financing of capital expenditure £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital receipts	1.193	0.761	0.694	0.310	0.265
Capital grants	6.550	3.456	0.929	0.574	0.494
Capital reserves	0.000	0.000	0.000	0.000	0.000
Revenue	0.018	0.000	0.000	0.000	0.000
<b>Net borrowing need for the year</b>	<b>0.000</b>	<b>1.041</b>	<b>16.000</b>	<b>24.000</b>	<b>60.000</b>

The above financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments. This is the situation with the Council's property deal at Kings Walk which creates a long term lease financing liability as a result of the commitment to an agreed rental payment

### 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 indebtedness and so its 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 indebtedness in line with

each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes.

The Council is asked to approve the CFR projections below:

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
<b>Capital Financing Requirement</b>					
<b>Total CFR</b>	<b>45.032</b>	<b>45.513</b>	<b>60.642</b>	<b>83.413</b>	<b>141.287</b>
<b>Movement in CFR</b>	<b>19.361</b>	<b>0.481</b>	<b>15.129</b>	<b>22.771</b>	<b>57.874</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	19.890	1.041	16.000	24.000	60.000
Kings Walk Lease Liability	0	0.280	0.370	0.363	0.356
Less MRP/VRP and other financing movements	(0.529)	(0.840)	(1.241)	(1.592)	(2.482)
<b>Movement in CFR</b>	<b>19.361</b>	<b>0.481</b>	<b>15.129</b>	<b>22.771</b>	<b>57.874</b>

### 2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fund balances / reserves	6.354	6.000	5.000	5.000	5.000
Capital receipts	0.783	0.182	2.191	1.881	1.615
Provisions	1.787	1.500	1.500	1.500	1.500
Other (Grants)	7.319	2.000	2.000	2.000	2.000
<b>Total core funds</b>	<b>16.243</b>	<b>9.682</b>	<b>10.691</b>	<b>10.381</b>	<b>10.115</b>
Working capital*	3.654	5.000	3.000	3.000	3.000
Under/over borrowing**	(7.490)	(6.650)	(5.657)	(4.649)	(3.756)
<b>Expected investments</b>	<b>12.407</b>	<b>8.032</b>	<b>8.034</b>	<b>8.732</b>	<b>9.359</b>

\*Working capital balances shown are estimated year-end; these will vary in year

### 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 relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate 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 2018 with forward projections, is 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.

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
<b>External Debt</b>					
Debt at 1 April	19.764	17.652	18.693	34.693	58.693
Expected change in Debt	(2.112)	1.041	16.000	24.000	60.000
Other long-term liabilities (OLTL)	19.890	19.890	20.170	20.540	20.903
Expected change in OLTL	0.000	0.280	0.370	0.363	0.356
Actual gross debt at 31 March	<b>37.542</b>	<b>38.863</b>	<b>55.233</b>	<b>79.596</b>	<b>139.952</b>
The Capital Financing Requirement	<b>45.032</b>	<b>45.513</b>	<b>60.642</b>	<b>83.413</b>	<b>141.287</b>
Under / (over) borrowing	<b>7.490</b>	<b>6.650</b>	<b>5.409</b>	<b>3.817</b>	<b>1.335</b>

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Policy and Resources 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 and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	50	105	105	105
Other long term liabilities	25	25	25	25
Total	75	130	130	130

**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 £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	55	110	110	110
Other long term liabilities	35	35	35	35
Total	90	145	145	145

### 3.3 Prospects for interest rates

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

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but

expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

### **Investment and borrowing rates**

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### 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 still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Head of Policy and Resources 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. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

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

### 3.5 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.

### 3.6 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 Cabinet at the earliest meeting following its action. The Council only has one long term loan outstanding at the current time and there is no current rescheduling planned.

### **3.7 Municipal Bond Agency**

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** 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 achieve this consideration 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.
3. **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.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.
  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. As a result of the change in accounting standards for 2018/19 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a

temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

#### 4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & 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 Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink       5 years for Ultra-Short Dated Bond Funds 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

The Link Asset Services' creditworthiness service uses a wider array of information other 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 Link 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 Link 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.

### UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

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				

<b>Banks</b>	<b>No colour</b>	<b>Not to be used</b>	
<b>Limit 3 category – Council’s banker (where “No Colour”)</b>	<b>Barclays Bank</b>	<b>£100 %</b>	<b>1 day</b>
<b>Other institutions limit</b>	<b>A-</b>	<b>£5m</b>	<b>6 months</b>
<b>DMADF</b>	<b>UK sovereign rating</b>	<b>unlimited</b>	<b>6 months</b>
<b>Local authorities</b>	<b>n/a</b>	<b>£100%</b>	<b>1yrs</b>
<b>CCLA Property/DIF Funds</b>	<b>n/a</b>	<b>£10m</b>	
<b>Gloucestershire Airport</b>	<b>n/a</b>	<b>£1.75m</b>	<b>X</b>
	<b>Fund rating</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
<b>Money Market Funds CNAV</b>	<b>AAA</b>	<b>£5m</b>	<b>liquid</b>
<b>Money Market Funds LVNAV</b>	<b>AAA</b>	<b>£5m</b>	<b>liquid</b>
<b>Money Market Funds VNAV</b>	<b>AAA</b>	<b>£5m</b>	<b>liquid</b>
<b>Ultra-Short Dated Bond Funds with a credit score of 1.25</b>	<b>Dark pink / AAA</b>	<b>£5m</b>	<b>liquid</b>
<b>Ultra-Short Dated Bond Funds with a credit score of 1.50</b>	<b>Light pink / AAA</b>	<b>£5m</b>	<b>liquid</b>

### 4.3 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. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

### 4.4 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 increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 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:

<b>Maximum principal sums invested over 365 days</b>			
<b>£m</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Principal sums invested over 365 days	£15m	£15m	£15m

### 4.5 Investment risk benchmarking

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

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

- **5% historic risk of default when compared to the whole portfolio.**

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0m
- Liquid short term deposits of at least £5m available with a week's notice.
- Weighted average life benchmark is expected to be 25 years, with a maximum of 40 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate
- Investments – external fund managers - returns 110% above 7 day compounded LIBID.

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
<b>Maximum</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

#### 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.

### 5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2021/22 AND MRP STATEMENT

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.

#### 5.1.1 Capital expenditure

Capital expenditure £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Policy & Resources	0.885	0.794	0.204	0.150	0.150
Place	6.067	3.926	16.890	24.160	60.080
Communities	0.775	0.493	0.529	0.529	0.529
Culture & Trading	0.034	0.045	0.000	0.045	0.000
<b>Total</b>	<b>7.761</b>	<b>5.258</b>	<b>17.623</b>	<b>24.884</b>	<b>60.759</b>

### 5.1.2 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).

MHCLG 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 MHCLG 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 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

Repayments included in finance leases are applied as MRP.

**MRP Overpayments** - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £1.359m.

### 5.1.3 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:

#### a. 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.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	12.40%	13.04%	14.41%	13.74%	14.04%

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

The current figures are largely the result of the Kings Walk investment, rental payments for the King's Walk lease are counted as financing expenditure as they pay off the lease liability included within the CFR. Rental payments received from retailers within Kings Walk will cover these financing costs.



The increases from 2019/20 are related to sums borrowed for the Investment Strategy and Kings Quarter

#### 4.3.1 Maturity structure of borrowing

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:

<b>Maturity structure of fixed and variable interest rate borrowing 2018/19</b>		
	<b>Lower</b>	<b>Upper</b>
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%

#### 5.1.5. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

## 6 APPENDICES

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

### 6.1 INTEREST RATE FORECASTS 2019 – 2022

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
<b>Bank Rate</b>													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
<b>5yr PWLB Rate</b>													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
<b>10yr PWLB Rate</b>													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
<b>25yr PWLB Rate</b>													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
<b>50yr PWLB Rate</b>													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

PWLB forecasts are based on PWLB certainty rates.

## 6.2 ECONOMIC BACKGROUND

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

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

### **KEY RISKS - central bank monetary policy measures**

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

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

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about \$50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

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

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower

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

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

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

As for the **labour market** figures in October, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

**USA.** President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2 % in November, However, CPI inflation overall fell to 2.2% in

November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

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

**Eurozone.** Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

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

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

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

### **INTEREST RATE FORECASTS**

The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

### **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can have therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy**, in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

#### **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

**UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

### 6.3 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT OPTION 1

**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 100% 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
<b>DMADF – UK Government</b>	N/A	<b>100%</b>	<b>6 months</b>
UK Government gilts	UK sovereign rating	50%	12 months
UK Government Treasury bills	UK sovereign rating	50%	12 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	50%	6 months
Money Market Funds (CNAV, LNAV and VNAV)	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	12 months
Gloucestershire Airport	N/A	£1.75m	
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m £5m £5m £5m £0	12 months 12 months 6 months 100 days Not for use



CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£1m £1m £1m £1m £0	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	Nil	
CCLA Property/DIF Funds		£10m	10 years

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

#### 6.4 APPROVED COUNTRIES FOR INVESTMENTS

##### AAA

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

##### AA+

- Finland
- U.S.A.

##### AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

##### AA-

- Belgium
- Qatar

## 6.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

### (i) Council

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

### (ii) Audit and Governance Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;;
- 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) Body/person(s) with responsibility for scrutiny

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

## 6.6 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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
  - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
  - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>11<sup>th</sup> March 2019</b>
<b>Subject:</b>	<b>Annual Risk Management Report 2018/19</b>		
<b>Report Of:</b>	<b>Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer - Head of Audit Risk Assurance</b>		
	<b>Email:</b>	<b>Tel: 01452 396338</b>	
	<a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		
<b>Appendices:</b>	<b>Not Applicable</b>		

**FOR GENERAL RELEASE**

**1.0 Purpose of Report**

- 1.1 The Audit and Governance Committee’s role (as per the Constitution) includes the function to ‘monitor the adequacy and effectiveness of the Council’s governance arrangements’ including ‘monitoring the arrangements for the identification, monitoring and control of strategic and operational risk within 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 2018/19 and also confirm future planned actions.

**2.0 Recommendations**

- 2.1 Audit and Governance Committee is asked to **RESOLVE** that Members:
  - (1) Note and endorse:
    - The risk management arrangements in place for the past year; and
    - The proposals for future development of risk management.
  - (2) Agree that on the basis of the information set out in this report, it can be concluded that arrangements for managing risk within the Council are sound.

**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 seven core principles within the Council’s Code of Corporate Governance – ‘managing risks and performance through robust internal control and strong public financial management’.
- 3.4 The Council recognises the importance of effective risk management, that it is essential for good governance and 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 and Governance Committee in March 2018.

#### **4.0 Risk Management Process and Activity 2018/19**

##### **4.1 Risk Management Policy Statement, Strategy and Framework**

The Risk Management Policy Statement and Strategy sets out the risk management framework, principles and approach in operation within the Council. The Policy Statement and Strategy relevant to 2017-2020 was updated and approved by Members in February 2017 (Cabinet approval following recommendation by Audit and Governance Committee).

The Policy Statement and Strategy is supported by the Council’s Constitution and the standardised Committee report template, which requires all Committee reports to include ‘risk and opportunity management implications’ for consideration as part of the Council’s decision making process.

The Policy Statement and Strategy was promoted to staff through Net Consent (the Council’s policy management system) from May 2018 onwards.

##### **4.2 Strategic risk management**

The Risk Management Policy Statement and 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 (promises) within the Council Plan. This includes both strategic risks and emerging strategic risks.

For 2018/19, the strategic risk register has been formally reviewed by Senior Management Team (SMT) with risk owners at SMT level. Versions of the strategic risk register have been tracked to ensure an audit trail of changes and risk direction of travel.

From October 2018, the strategic risk register has been held on the Council’s performance and risk management system, Pentana. Work is ongoing to populate all risk registers on Pentana.

Member review of the strategic risk register within 2018/19 has been completed in November 2018 by Audit and Governance Committee and in December 2018 by Cabinet. Strategic risk register review by Members is next due in July 2019.

#### 4.3 Operational risk management

Heads of Service and Service Managers are responsible for completing a service risk register containing risks relevant to their service objectives (detailed within the service plan). Risk registers should also be completed for significant partnerships and projects.

Operational risk registers should be completed in line with the Council's risk register template (including application of the Council approved risk scoring matrix).

Identified high scoring operational risk themes should be reported to the relevant Director and considered by SMT within the strategic risk register review process – report section 4.2.

New service planning processes are being implemented by the Council for 2019/20, to ensure that all aspects of the Council Plan are reflected in service plans. The new processes maintain consideration of the service risk register and key service risks within the service plan template.

To assist with the new service planning process, the Senior Risk Management Advisor (SRMA) attended the Gloucester Management Team (GMT) meeting in October 2018 to:

- Reiterate the importance of these plans;
- Provide an understanding of the need to include relevant key service risks in the plans;
- Ensure that all relevant aspects of the Council Plan are reflected;
- Emphasise the enhancement of good decision making; and
- Explain the benefits of maintaining service risk registers.

Further 121 meetings were completed by the SRMA with managers, where requested, to support risk register completion.

#### 4.4 Promotion, communication and training

The SRMA has actively supported the continued embedding of risk management in the Council in 2018/19 via:

- Project risk register support: e.g. Gloucester Transport Hub Programme – Gloucester Bus Station (completed October 2018); Gloucester Transport Hub – Gloucester Railway Station Improvements (in conjunction with Great Western Railway (GWR)); and the Council Accommodation Review (ongoing).
- Service support: e.g. Advice and guidance with business continuity management for the Guildhall.
- Risk management training: Risk awareness sessions held for both GMT in June 2018; and Team Leaders (two cohorts) in June and October 2018.

Zurich (the Council's insurer) has made available risk management training, which has been included as part of the 2018 insurance offer. Based on this and with the support of the SRMA, risk awareness sessions have been scheduled for SMT, GMT and Members during February and March 2019.

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 the Chair of the Audit and Governance Committee.

#### 4.5 Review of risk management arrangements

The Annual Governance Statement 2017/18 Improvement Plan included the following action to support the ongoing development of performance management and risk management within the Council: 'To monitor the effectiveness of the Council's revised corporate performance / risk management approach, to ensure that it reflects the needs and the structure of the Council and provides the relevant performance and risk assurances and supports decision making.'

Progress against the Annual Governance Statement 2017/18 Improvement Plan was reported to the Audit and Governance Committee in January 2019. Final update on the position will be completed through the Annual Governance Statement 2018/19 which is due to be presented to Audit and Governance Committee in July 2019.

#### 4.6 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 audit approach is delivered in line with the requirements of the Public Sector Internal Audit Standards 2017 and is reported to the Audit and Governance Committee, supporting the Committee's function to monitor the operation of risk management.

Relevant reports submitted to Audit and Governance Committee include (but are not exclusive to):

- The Annual Risk Based Internal Audit Plan;
- Internal Audit monitoring reports - confirming the level of assurance for each completed audit and highlighting development/risk areas; and
- The Chief Internal Auditor'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 ABCD implications as a result of the recommendation made in 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 adequacy and effectiveness of the Council's governance arrangements'. The Council's Risk Management Policy Statement and Strategy requires receipt and review of the report by Audit and Governance Committee.

## **8.0 Future Work and Conclusions**

8.1 A Risk Management Action Plan is being developed for 2019/20 and will be considered by SMT, prior to presentation to Audit and Governance Committee alongside the strategic risk register in July 2019. The goal of the Action Plan will be to support further implementation and embedding of the 2017/18 Annual Governance Statement action (see report section 4.5) regards the Council's refreshed corporate performance and risk management approach.

8.2 The Risk Management Action Plan will be delivered within 2019/20.

## **9.0 Financial Implications**

9.1 There are no direct financial implications arising from the report recommendations.

(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.

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

## **11.0 Risk and Opportunity Management Implications**

11.1 Failure to deliver on effective risk management, particularly during periods of significant change, may have a negative effect on the achievement of the potential opportunities and adverse effects that challenge the assets, reputation and

objectives of the Council, strategic decision making and the wellbeing of our stakeholders.

## **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 and Trade Union

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

**Background Documents:** Accounts and Audit Regulations 2015  
CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016 Edition  
ISO 31000: Risk Management Principles and Guidelines  
Council's Constitution  
Council's Risk Management Policy Statement and Strategy 2017-2020  
Public Sector Internal Audit Standards 2017



<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>11<sup>th</sup> March 2019</b>
<b>Subject:</b>	<b>Internal Audit Activity Progress Report 2018/19</b>		
<b>Report Of:</b>	<b>Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer - Head of Audit Risk Assurance</b>		
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	<a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		
<b>Appendices:</b>	<b>A: Internal Audit Activity Progress Report 2018/19</b>		

**FOR GENERAL RELEASE**

**1.0 Purpose of Report**

1.1 To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2018/19.

**2.0 Recommendations**

2.1 Audit and Governance Committee is asked to **RESOLVE** to:

- (1) Accept the progress against the Internal Audit Plan 2018/19;
- (2) Requests senior management attendance at the next meeting of the Committee to provide an update on the actions taken in relation to the recommendations made in the Code of Conduct for Employees follow up audit; and
- (3) Accept the assurance opinions provided in relation to the effectiveness of the Council’s control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.

**3.0 Background and Key Issues**

3.1 Members approved the Internal Audit Plan 2018/19 at 12<sup>th</sup> March 2018 Audit and Governance Committee meeting. In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS), this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.

3.2 The Internal Audit Activity Progress Report 2018/19 at **Appendix A** summarises:

- The progress against the 2018/19 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;

- The outcomes of the Internal Audit activity during the period January 2019 to February 2019; and
- Special investigations/counter fraud activity.

3.3 The report is the fourth progress report in relation to the Internal Audit Plan 2018/19.

#### **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 No other options have been considered as the purpose of this report is to inform the Committee of the Internal Audit work undertaken to date, and the assurances given on the adequacy and effectiveness of the Council's control environment operating in the areas audited. Non completion of Internal Audit Activity Progress Reports would lead to non compliance with the PSIAS and the Council Constitution (see report section 6.2 and 6.3).

#### **6.0 Reasons for Recommendations**

6.1 The role of the Audit Risk Assurance shared service is to examine, evaluate and provide an independent, objective opinion on the adequacy and effectiveness of the Council's internal control environment, comprising risk management, control and governance. Where weaknesses have been identified, recommendations have been made to improve the control environment.

6.2 The PSIAS state that the Chief Internal Auditor 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.

6.3 Consideration of reports from the Chief Internal Auditor on Internal Audit's performance during the year, including updates on the work of Internal Audit, is also a requirement of the Audit and Governance Committee's terms of reference (part of the Council Constitution).

#### **7.0 Future Work and Conclusions**

7.1 In accordance with the PSIAS, and reflected within the Audit and Governance Committee work programme, Internal Audit Activity Progress Reports against the approved Internal Audit Plan 2018/19 are scheduled to be presented to the Audit and Governance Committee at the July 2019 meeting.

#### **8.0 Financial Implications**

8.1 There are no direct financial costs arising out of this report.

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

#### **9.0 Legal Implications**

- 9.1 Monitoring the implementation of Internal Audit recommendations assists the council to minimise risk areas and thereby reduce the prospects of legal challenge.

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

## **10.0 Risk and Opportunity Management Implications**

- 10.1 Failure to deliver an effective Internal Audit Service will prevent an independent, objective assurance opinion from being 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 A requirement of the Accounts and Audit Regulations 2015 is for the Council 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'*. The Internal Audit Service is delivered by Audit Risk Assurance which is an internal audit and risk management shared service between Gloucester City Council, Stroud District Council and Gloucestershire County Council. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.
- 11.2 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 in this report.

### Sustainability

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

### Staffing & Trade Union

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

**Background Documents:** Internal Audit Plan 2018/19  
PSIAS  
CIPFA Local Government Application Note for the UK PSIAS

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# Internal Audit Activity Progress Report

2018-2019



## **(1) Introduction**

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 a relevant authority “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Gloucester City Council, Stroud District Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing “proper internal audit practices”. The standards define the way in which the Internal Audit Service should be established and undertake its functions.

## **(2) Responsibilities**

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council’s Code of Corporate Governance and its Annual Governance Statement.

## **(3) Purpose of this Report**

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2018/19 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during the period January 2019 to February 2019; and
- Special investigations/counter fraud activity.



**(4) Progress against the 2018/19 Internal Audit Plan, including the assurance opinions on risk and control**

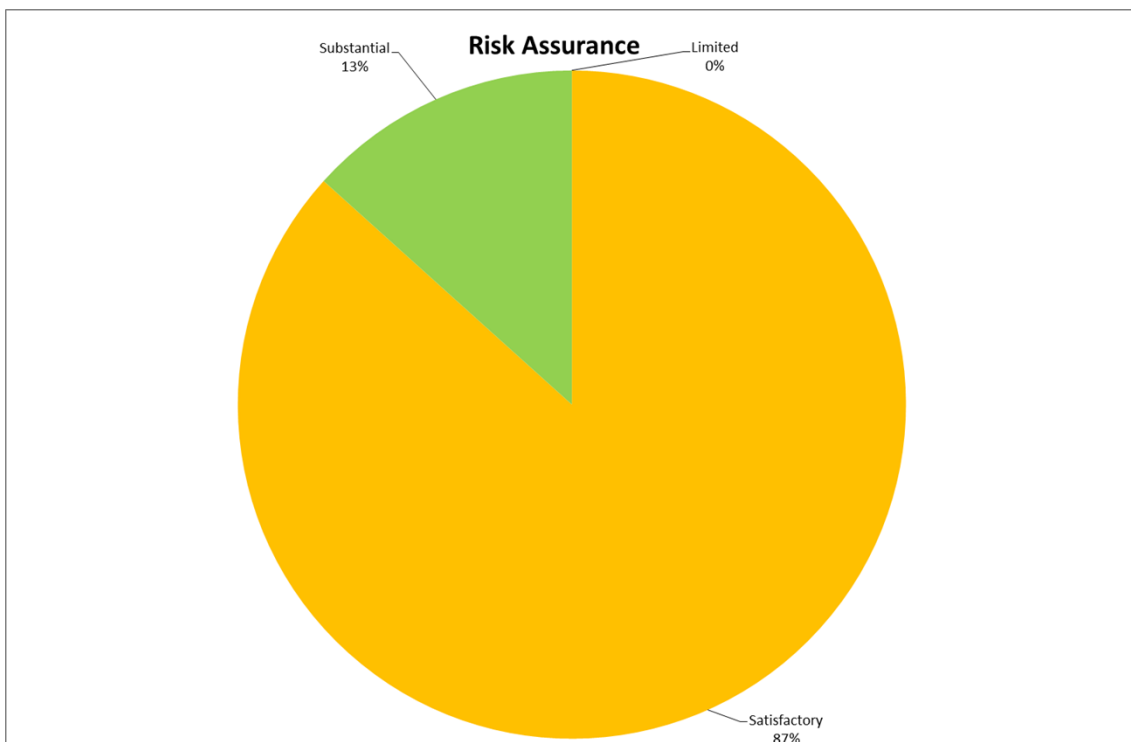
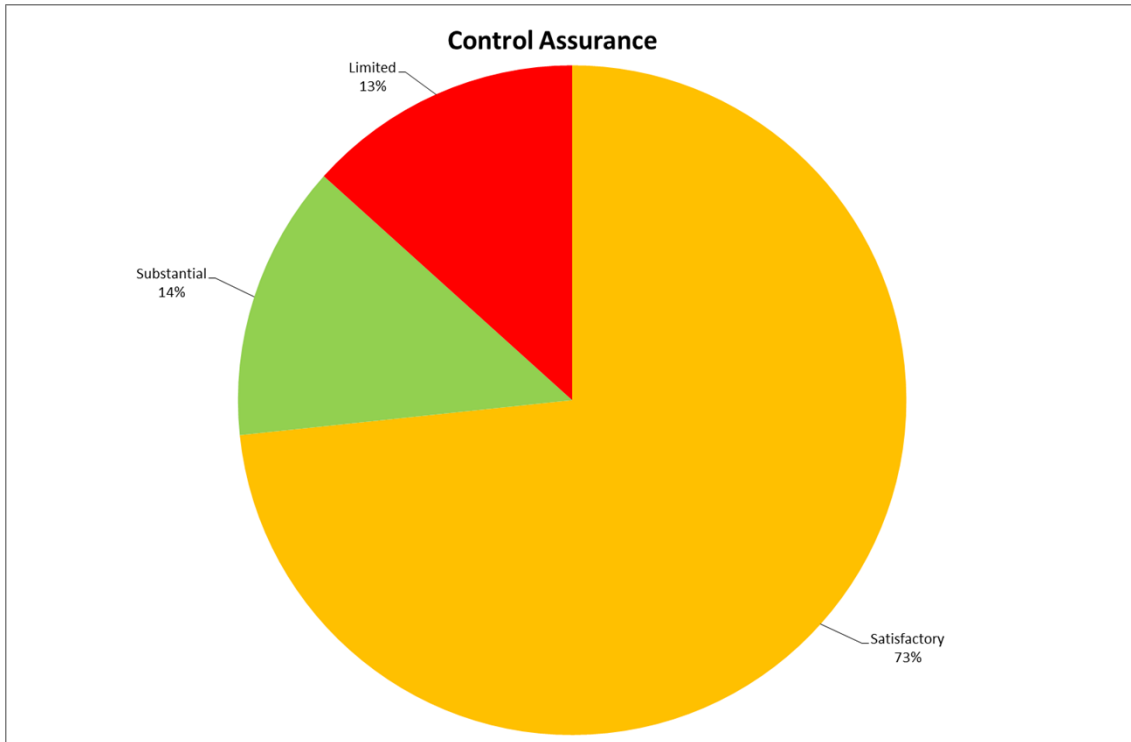
The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Governance Committee.

The schedule provided at **Attachment 2** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Governance Committee. Explanations of the meaning of these opinions are shown in the below table.

Assurance Levels	Risk Identification Maturity	Control Environment
<b>Substantial</b>	<p><b>Risk Managed</b> Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>• Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<p><b>Risk Aware</b> Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff, however some key risks are not being accurately reported and monitored in line with the Council's Risk Management Strategy.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>• Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<p><b>Risk Naïve</b> Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Strategy, the service area has not demonstrated an satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.</p>	<ul style="list-style-type: none"> <li>• System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>• Control Application – Significant breakdown in the application of control</li> </ul>

**(4a) Summary of Internal Audit Assurance Opinions on Risk and Control**

The pie charts provided below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the 2018/19 audit activity undertaken up to February 2019.



**(4b) Limited Control Assurance Opinions**

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Governance Committee may request Senior Management attendance at the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

**(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control**

During the period January 2019 to February 2019, one audit review has been provided with a limited assurance opinion on control which relates to the Code of Conduct for Employees review.

It is important to note that whilst a limited assurance opinion has been provided in this instance, management have responded positively to the recommendations made and actions are being taken to address them.

**(4d) Satisfactory Control Assurance Opinions**

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

**(4e) Internal Audit Recommendations**

During the period January 2019 to February 2019 Internal Audit made, in total, 9 recommendations to improve the control environment, none of these being high priority recommendations i.e. 9 being medium priority recommendations (89% accepted by management).

One medium priority out of the four recommendations made within the Homelessness audit was not accepted by management, as it was deemed to be within their risk appetite. Please refer to the summary report below for further detail.

The Committee can take assurance that (where made) all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

**(4f) Risk Assurance Opinions**

During the period January 2019 to February 2019, one limited assurance opinion on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be informed to enable the prioritisation of risk management support (where required).

## **Completed Internal Audit Activity during the period January 2019 to February 2019**

### **Summary of Limited Assurance Opinions on Control**

**Service Area: Council Wide**

**Audit Activity: Code of Conduct for Employees – Follow Up**

#### **Background**

The purpose of the Code of Conduct is to give all employees guidance on how the 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.

The 2017/18 Internal Audit report found that staff were conscious of the need to demonstrate correct and ethical behaviour and the risk opinion was satisfactory. A number of recommendations were made which, once completed, would raise the control opinion above limited. A Code of Conduct is in place (part of the Council's Constitution) but could be improved to address ambiguous phrasing and update the suite of supporting policies. There were also a number of procedural arrangements which need to be addressed.

#### **Scope**

This follow-up review will provide assurance that the remedial actions agreed with management following the 2017/18 audit review have been implemented to ensure that:

- The Council maintains a current and appropriate employee code of conduct, with appropriate links to the wider governance framework; and
- Council employees are aware of the code of conduct, are able to refer to it, understand its contents and their own responsibilities in applying it.

**Risk Assurance – Satisfactory**

**Control Assurance – Limited**

## Key Findings

Internal Audit evaluated the position in implementing the agreed actions of the 2017/18 review based upon discussions held with officers and reference to supporting information / documents received. This review found:

- Action to update the Council's Code of Conduct for Employees (The Code) has begun but is yet to be fully completed.
- The policies referenced within the current Code have been reviewed and updated/replaced where necessary and in due course will be carried forward into the updated Code.
- The current Code and referenced policies are available in a central location accessible to all staff via the Intranet or NETconsent.
- New starters are now provided with the current Employee City Council Code of Conduct and as part of the new starter process are required to provide written confirmation that they have read and understood its contents and will abide by this.
- No changes have been made to the process for employees to register interests and therefore potential conflicts of interest may not be recorded and are not being monitored effectively.
- Guidance on the Council's approach to registering gifts and hospitality has been published and is centrally available to all staff via the Intranet. The new guidance is to be added to the updated Code once it is completed.

## Conclusion

Behaving with integrity and demonstrating strong commitment to ethical values is one of the seven core principles of the Council's Code of Corporate Governance. It is the responsibility of the senior managers of the Council to establish the culture and to encourage integrity and strong positive ethical values within staff.

The Employee Code of Conduct is an integral part of forming culture within the Council to impact the behaviours, decisions, processes and operations, as well as manage the risk of ethical misconduct. To date a number of actions remain outstanding and until these are completed the limited assurance cannot be upgraded.

Internal Audit concludes that the completion of the remaining actions still needs to be progressed in order to strengthen management and governance arrangements. In particular:

- Completing the review and update the Employee Code of Conduct to include key sections and rephrase unclear wording and effectively communicate this to all current employees;
- Introduce procedures to enable employees to register any personal interests that could impact Council business and allow for management oversight; and
- Implement the guidance and procedure for registering gifts and hospitality into the Code of Conduct.

### **Management Actions**

Management have acknowledged that some recommendations from the 2017/18 audit are still outstanding and have advised Internal Audit that the redraft of the Employee Code of Conduct has begun, however the redrafting exercise is being co-ordinated with the redraft of the Councillor Code of Conduct and the Protocol on Councillor/Officer to ensure consistency across the two policies. The remaining outstanding recommendations, concerning gifts and hospitality and employee register of interests will be built into the Employee Code of Conduct with appropriate processes in place to monitor these.

### **Summary of Satisfactory Assurance Opinions on Control**

<b>Service Area:</b>	<b>Communities</b>
<b>Audit Activity:</b>	<b>Homelessness</b>

#### **Background**

The Homelessness Reduction Act 2017, came into effect on 3rd April 2018, and significantly reformed England's homelessness legislation resulting in extra duties for Local Authorities. The Acts central provision involves the introduction of a universal homelessness 'prevention' duty for all eligible households threatened with homelessness, as well as a 'relief' duty to take 'reasonable steps' to help to secure accommodation for eligible homeless applicants. Both these prevention and relief duties will apply regardless of priority need or intentionality status.

The Act also extends the definition of those considered 'threatened' with homelessness to encompass people likely to lose their home within 56 days, rather than 28 days as at present. Other provisions cover enhanced advisory services, and duties to agree and keep under review a 'personalised housing plan' with each eligible applicant.

Gloucester City Council's Housing Strategy and Enabling Service support the homeless and those facing homelessness in Gloucester. In 2017/18, the Housing Strategy and Enabling Service received 346 homeless applications and following government assessment guidelines 219 (63%) were classified as officially homeless and supported. In addition 384 households, who were threatened with homelessness, received support to prevent them from becoming homeless.

### **Scope**

The objective of this review was to determine whether:

- The assessment of homeless applications to determine their eligibility, homelessness position, priority group and intentionality status is in line with Homelessness Reduction Act 2017;
- Eligible applicants receive a 'personalised housing plan'; and
- There is a robust process for lessons learned from the appeals procedure.

### **Risk Assurance – Satisfactory**

### **Control Assurance – Satisfactory**

### **Key Findings**

Internal Audit can confirm that as required by the Homelessness Reduction Act 2017 the Housing Services team:

- Provide advice and information about homelessness and the prevention of homelessness, free of charge available to any person in their district;
- Understand how to assess:
  - eligibility for homelessness support;
  - whether an a homeless applicant is actually homeless;
  - if a homeless applicant has a priority need including whether they are vulnerable; and
  - if a homeless applicant has made themselves intentionally homeless.

The Locata system supports Housing Services to document and manage homelessness applications, set-up personalised housing plans and monitor the requirement to support applicants for 56 days.

Adverse decisions are when an officer assesses an applicant and disagrees with the applicant's opinion that they have:

- A priority need;
- Are vulnerable; and/or
- Are not intentionally homeless.

An officer's adverse decision does not go through a formal review process.

Government legislation has an expectation that all eligible homeless applicants receive a personalised housing plan, which does not currently happen.

Housing Services have a robust appeals process which could be further enhanced with a 'lessons learned' process.

### **Conclusion**

Internal Audit is able to conclude that there is an appropriate framework for assessing and managing homelessness applicants in line with Homelessness Reduction Act 2017 however this framework could be enhanced by:

- Ensuring that all relevant documentation is uploaded to Locata;
- An independent review of adverse decisions;
- Ensuring that all eligible applicants receive a personalised housing plan; and
- Empowering improvements through an appeals lessons learned process.

### **Management Actions**

Management have responded positively to three of the four recommendations made however believe that a review of adverse decisions is not required as they are confident in their current risk management measures for these decisions.

**Service Area: Cultural and Trading**

**Audit Activity: Gloucestershire Airport**

### **Background**

Gloucestershire Airport Ltd (GAL) is jointly owned by Gloucester City Council (GCC) and Cheltenham Borough Council (CBC), who are the Shareholders.



The Shareholders Forum oversees the direction and management of the airport in line with their strategic aims, with the GAL Board of Directors supporting the delivery of the airport's strategic aims, the business plan and financial management and projections.

In early 2017, the Shareholders commissioned a series of independent reviews into the governance issues arrangements of the GAL Board of Directors. The reports, completed in March 2017, identified that opportunities and actions should be taken to strengthen the existing governance arrangements.

A subsequent governance review was undertaken in September 2017 by CBC to examine the findings from the independent reports in respect of the GAL leadership and management. This review resulted in 27 recommendations which were to form the basis of an action plan to be monitored by the Shareholder Forum.

### **Scope**

The objective of this review was to determine whether an action plan had been developed that takes into consideration the recommendations made; that the action plan is progressing, regularly monitored, updated and is accurate.

### **Risk Assurance – Satisfactory**

### **Control Assurance – Satisfactory**

### **Key Findings**

- The Board of Directors has produced an action plan to address the 27 recommendations made by the Governance Review, and from June 2018 this is overseen by the Chairman with the Commercial Finance Director.
- The latest action plan, dated April 2018, is comprehensive and considers all of the 27 recommendations made and documents the 61 proposed actions to be taken.
- Internal Audit reviewed the action plan and concludes the actions, when completed, would address 24 of the recommendations with the remaining three requiring more detailed actions.
- From April 2018 the action plan has been monitored by the GAL Board of Directors. The Shareholder Forum formally approved the action plan at their meeting on 4th December 2017; and receives governance updates but not updates on the progress of the action plan.

Gloucester City Council's Overview and Scrutiny Committee on 27th November 2017 received a GAL Governance Review update that included information about the action plan however no further updates have been received since.

### **Conclusion**

The review concluded that an action plan had been developed and it takes into consideration the recommendations made.

Internal Audit reviewed the action plan to determine whether the 61 actions had been completed and recommendations implemented. Internal Audit was able to determine that:

- 17 of the 27 recommendations are still being implemented as not all actions have been completed; and
- 10 of the 27 recommendations have been implemented as the original actions are completed.

In addition the action plan could be improved by:

- Reviewing three of the 27 recommendation's actions to ensure they address the recommendation;
- Reviewing eight of the 27 recommendations to verify that there is evidence that they have been implemented; and
- Being reviewed and updated, and reported regularly to the Shareholder Forum.

Overall the action plan is progressing and is being monitored, however a complete review and update of the plan is also recommended.

### **Management Actions**

Management have responded positively to the three recommendations made.

**Service Area: Policy and Resources**

**Audit Activity: Treasury Management**

### **Background**

Gloucester City Council is required to operate a balanced budget, meaning that cash raised during the year will meet cash expenditure and 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 Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice as part of the Financial Regulations set out in the Constitution.

### **Scope**

The objectives of the audit were to review:

- The Council's treasury management strategy, policy and procedure to confirm compliance with the CIPFA Code of Practice; and
- The processes and internal controls in operation for:
  - a) Day to day operation and management of the function (including transaction decision making, authorisation and audit trail);
  - b) Use of brokers and specialist advisers;
  - c) Reconciliation of control accounts; and
  - d) Performance reporting to relevant stakeholders.

**Risk Assurance – Satisfactory**

**Control Assurance – Satisfactory**

### **Key Findings**

- A Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 have been approved by Members in accordance with the CIPFA Code of Practice (Code).
- The Code recommends as the “cornerstone of effective treasury management” Local Authorities maintain a Treasury Management Policy Statement and Treasury Management Practices and schedules.

These documents define the treasury management function and its daily operations across key areas recommended by CIPFA. Whilst the Treasury Management Strategy does cover elements of both the Policy Statement and Treasury Management Practices, omissions include the Council's stance and process for fraud, error and corruption and contingency management, ongoing performance measurement and organisation, clarity and segregation of responsibilities.

- The deals relating to investments and borrowings are in line with the treasury management strategy, including investment limits for counterparties/indicators and appropriate supporting documentation was available.
- In accordance with good practice the Council has appointed treasury management advisors i.e. Link Asset Services. From review it was identified that the initial contract period expired on 31st March 2018 with the arrangement now continuing until it is terminated by either party, giving no less than six months written notice. If the agreement is to continue beyond March 2019, the Head of Policy and Resources should consider obtaining alternative quotes by way of comparison to demonstrate that this continues to represent value for money for the Council.
- The Council has a fidelity guarantee insurance policy (which protects the Council against fraud). At the commencement of the audit, the designated officers listed within the policy did not match the current job roles at the Council (however following this being brought to the attention of the Accountancy Manager arrangements are in hand for this to be updated).
- Reconciliations between the daily cash flow statements, treasury management spreadsheet and general ledger are completed weekly and were found to be accurate.
- Performance reporting on the Council's treasury management activities is being reported to the Audit and Governance Committee at the required frequency as outlined in the Code.

### **Conclusion**

Overall the treasury management activities are well managed and the day to day procedures to identify potential investment opportunities and/or borrowing requirements are working as envisaged.

The strategy for treasury management is clearly set out and has been agreed with the Audit and Governance Committee.

However, the Policy Statement and Treasury Management Practices (detailing how the treasury management activity will achieve its objectives and manage risks associated with the daily operations) have not been fully documented in line with recommended practice.

Moving forward, this review has also highlighted the opportunity to strengthen the existing controls through an enhancement of the segregation of duty between the deal function (Front Office) and the Treasury Administration function (Back Office). In particular Internal Audit recommends that the current practice is changed to ensure that:

- Existing treasury management practices documentation to be updated including stating that the treasury management dealer does not approve a payment for a deal they have selected with brokers / investment institutions;
- Standard Settlement Instructions are retained and issued by the Accountancy Manager / Head of Policy and Resources; and
- A system change is made to prevent amendments to a payment template being actioned solely by the main treasury dealer.

### **Management Actions**

Management have responded positively to the two recommendations made. The treasury management guidance will be updated to include areas highlighted within the report. This will confirm that the treasury management dealer should not approve payment transactions within the banking system for deals which they have selected. Procedure notes have been updated to reflect this and this change has been communicated to the Finance Team.

It has been decided that no changes to the retention of the Standard Settlement Instructions will be made due to existing compensatory controls which management consider would immediately highlight any misuse and enable intervention.

Whilst a change to the payment templates has been considered management have stated this is not feasible as the software does not allow for this to be done.

**Service Area: Policy and Resources**

**Audit Activity: Cash and Bank follow-up**

### **Background**

The Council receives income from many sources in order to support its functions. Reasons for receiving income include payments against local taxation, application fees, other fees and charges, or payments against sundry debtor invoices. The main system for recording cash is the Axis Income Management system, which is administered by Civica on the Council's behalf. Income at outstations such as the Guildhall, Tourist Information Centre and museums is recorded via the SeetGeek Enterprise Standing Room Only (SRO, was previously Toptix) box office software.

The income recorded in each of these systems is a significant sum, and consequently the cash receipting has been identified as a key financial system.

The Council operates five bank accounts, including the Income bank account. Cash takings and other transactions within each bank account must be mirrored within the Council's main accounting system and represents a key financial control. This is to ensure the Council's financial position is correctly determined and that the Council makes informed decisions on sound financial information.

In December 2017, Internal Audit reviewed the arrangements in place for banking and to secure and account for income. Whilst overall (due to the wide scope of the review) a satisfactory assurance level for the control environment was obtained, a number of concerns were also identified where further action was required to strengthen the control environment for some aspects of this high risk activity.

### **Scope**

To provide assurance that the recommendations raised in the 2017-18 audit of cash and bank have been fully implemented.

### **Risk Assurance – Satisfactory**

### **Control Assurance – Satisfactory**

### **Key Findings**

The follow-up review established that:

- One high and two medium priority recommendations had been implemented;
- One medium priority recommendation was still progressing to completion;

- One medium priority recommendation had been superseded following the introduction of new processes and controls;
- One medium priority recommendation had not been accepted by management (previously reported) and the risk accepted as being within their risk appetite; and
- One medium priority recommendation had not been implemented at the time of this follow-up audit review in December 2018.

**Outstanding Medium priority recommendation 2** – Risk assessment for cash handling arrangements. Internal Audit opinion – Recommendation not completed at the time of this review.

Original completion date – 30th June 2018.

Risk assessments for cash handling have not been completed at the time of this review for each of the visitor experience sites, cashiers and shop mobility. Although the risk impact has been reduced following changes to the payment arrangements for the markets i.e. card and bank payments now only accepted, it is important that these assessments are performed for the other sites to demonstrate that risks relating to cash handling and security have been considered appropriately such as loss of income, failure to comply with financial regulations, staff risks, etc.

The Accountancy Manager has, subsequent to this review, drafted a risk assessment template and guidance for completion of the form by Visitor Experience management. In addition the Visitor Experience Manager has provided confirmation that a risk assessment for each of the cash handling sites will be completed by the end of February 2019.

**Outstanding Medium priority recommendation 4** – Contract arrangements for cash collection service. Internal Audit opinion – Recommendation progressing

Original completion date – 31st December 2018.

The contract for the cash collection service with Group 4 Security (G4S) could not be located by Finance. Therefore value for money, compliance with the Council's procurement and contract rules could not be confirmed by Internal Audit. The Accountancy Manager has instructed the Procurement Officer during December 2018 to commence a procurement exercise for this service.

## **Conclusion**

Positive progress has been made by management and officers in implementing the majority of the recommendations as raised by Internal Audit in the May 2018 audit report.

This has resulted in improvements in the control environment, but further work is still required to fully implement and complete the remaining two outstanding medium priority recommendations.

### **Management Actions**

Management has provided positive assurance and commitment to fully implement the two outstanding medium priority recommendations and improvements to the current processes suggested by Internal Audit.

## **Summary of Special Investigations/Counter Fraud Activities**

### **Current Status**

One referral has been received by Internal Audit (IA) for investigation during 2018/19 to date, and IA continued to work with one referral brought forward from 2017/18. Both cases have now been closed, details of which have previously been provided to Audit and Governance Committee.

In February 2019 ARA appointed a new Counter Fraud Specialist to the team increasing the resource to 2.6 equivalent FTE's and therefore increasing the resilience and expertise in this area. The team will be raising the profile of the service by actively engaging with Gloucester City staff over the next six months by attending staff meetings and running fraud awareness training sessions. By raising the profile of the service it is expected that this will generate referrals from across the City Council.

Any fraud alerts received by Internal Audit from National Anti-Fraud Network (NAFN) are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

The review of the Council's Social housing waiting list is now complete and a final report is expected to be issued by the Counter Fraud Unit (CFU) to Internal Audit by the end of February. A summary of the findings will be reported to Audit and Governance Committee.

In addition, work to review the Council's listed empty properties and Small Business Rate properties have now been completed by the CFU and reports of the detailed findings will be issued to Internal Audit by the end of February 2019.

### **National Fraud Initiative (NFI)**

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office.



The 2018/19 data collections have been successfully uploaded to the Cabinet Office during October 2018 and the data matching reports were released on 31<sup>st</sup> January 2019 and the relevant staff at Gloucester City have been informed and any significant outcomes will be reported to the Committee. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

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Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Governance Committee	Comments
Council Wide	Business Continuity Planning	High	Planned				Terms of Reference Issued
Council Wide	General Data Protection Regulations (GDPR)	High	Planned				
Council Wide	Health and Safety	High	Audit in Progress				
Council Wide	Purchasing: Low and Intermediate Value Transactions	High	Draft Report Issued				
Council Wide	IT Disaster Recovery and Business Continuity	High	Planned				
Council Wide	Ongoing Cyber Resilience	High	Planned				
Council Wide	Key ICT Project Governance	High	Planned				
Council Wide	Code of Conduct for Employees - Follow Up	High	Final Report Issued	Satisfactory	Limited	11/03/2019	
Council Wide	Scheme of Delegation	High	Planned				Terms of Reference Issued
Council Wide	Network Access Controls	High	Final Report Issued	Satisfactory	Limited	17/09/2018	Brought Forward from 17/18 plan
Communities	Licensing	High	Final Report Issued	Satisfactory	Satisfactory	17/09/2018	
Communities	Houses Multiple Occupation (HMOs) - Licensing and Enforcement	High	Planned				
Communities	Disabled Facilities Grants	Medium	Final Report Issued	Satisfactory	Satisfactory	19/11/2018	
Communities	Solace - Follow Up	High	Final Report Issued	Satisfactory	Satisfactory	17/09/2018	
Communities	Homelessness	High	Final Report Issued	Satisfactory	Satisfactory	11/03/2019	
Cultural and Trading	Gloucestershire Airport Limited	High	Final Report Issued	Satisfactory	Satisfactory	11/03/2019	
Cultural and Trading	Markets	Medium	Deferred				Deferred to 2019/20 due to new cash handling systems being developed and implemented
Cultural and Trading	Great Place Funding	High	Final Report Issued	Satisfactory	Satisfactory	19/11/2018	
Place	Planning - Processing and Performance	High	Planned				
Policy and Resources	Blackfriars Priory Turnover Certification	High	Final Report Issued	Not Applicable	Not Applicable	17/09/2018	
Policy and Resources	Leavers Processes	Medium	Cancelled				Scope will be delivered through the Network Access Controls limited assurance follow up Q1 2019/20 plan
Policy and Resources	Treasury Management	High	Final Report Issued	Satisfactory	Satisfactory	11/03/2019	
Policy and Resources	Service Planning and Performance Reporting	High	Planned				
Policy and Resources	Cash and Bank - Follow Up	High	Final Report Issued	Satisfactory	Satisfactory	11/03/2019	
Policy and Resources	Civil Parking Enforcement	Medium	Planned				
Policy and Resources	Local Taxation	High	Final Report Issued	Satisfactory	Satisfactory	21/01/2019	
Policy and Resources	Members' Allowances and Expenses	Medium	Final Report Issued	Substantial	Substantial	17/09/2018	
Policy and Resources	Accounts Receivable	High	Final Report Issued	Satisfactory	Satisfactory	19/11/2018	
Policy and Resources	Capital Accounting	High	Final Report Issued	Substantial	Substantial	21/01/2019	
Policy and Resources	Payroll	High	Final Report Issued	Satisfactory	Satisfactory	17/09/2018	Brought Forward from 17/18 plan

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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>11<sup>th</sup> March 2019</b>
<b>Subject:</b>	<b>Internal Audit Plan 2019/2020</b>		
<b>Report Of:</b>	<b>Theresa Mortimer – Head of Audit Risk Assurance</b>		
<b>Wards Affected:</b>	<b>N/A</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
	<b>Email:</b>	<b>theresa.mortimer@gloucester.gov.uk</b>	<b>Tel:01452 396338</b>
<b>Appendices:</b>	<b>1. Proposed Internal Audit Plan 2019/20</b>		

**1.0 Purpose of Report**

1.1 To provide the Committee with a summary of the proposed Risk Based Internal Audit Plan 2019/2020 as required by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS) 2017.

**2.0 Recommendations**

- 2.1 Audit and Governance Committee is asked to **RESOLVE** that Members:
- Agree that the Internal Audit Plan for 2019/2020 reflects the risk profile of the Council; and
  - Approve the Internal Audit Plan 2019/2020 as detailed in Appendix 1.

**3.0 Background and Key Issues**

- 3.1 All local authorities must make proper provision for internal audit in line with the Accounts and Audit Regulations 2015. The Regulations provide that a relevant authority “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. By undertaking annual internal audits based on the risk profile of the Council also supports the s151 Officer’s duty to ensure the proper administration of the Council’s financial affairs.
- 3.2 The guidance accompanying the Regulations recognises the PSIAS 2017 as representing “proper internal audit practices”. The Standards define the way in which the Internal Audit Service should be established and undertake its functions. 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, taking into account the organisation’s risk management framework, including risk appetite levels set by management and internal audit’s own judgement of risks.

- 3.3 To ensure our internal audit resources continue to be focussed accordingly, particularly during periods of organisational 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.
- 3.4 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.
- 3.5 To ensure that an effective plan is developed, in addition to including activity requested by the Audit and Governance Committee, and alongside internal audit's own assessment of risk, a consultation process took place with Corporate Directors, Heads of Service and Service Managers to establish priorities and assurance requirements. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.
- 3.6 The audit plan is stated in terms of estimated days input to the Council of **550** audit days, which is comparable to last year. 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.
- 3.7 The PSIAS also require the Annual Risk Based Internal Audit Plan to be reviewed and approved by the appropriate body, which in respect of the City Council, is the Audit and 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 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 and Governance Committee.

## **7.0 Future Work and Conclusions**

- 7.1 Regular reports on progress against the Plan and any significant control issues identified will be presented to the Audit and 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 As set out in the report, the Internal Audit Plan assists the council to discharge its statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015 and significant aspects of the Section 151 Officer's duties.

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

## **10.0 Risk and Opportunity Management Implications**

- 10.1 Failure to deliver an effective Risk Based Internal Audit Plan will impact on the statutory requirement to provide the Council with an annual independent audit opinion on the effectiveness of the Council's control environment comprising risk management, control and governance.

## **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 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:** Accounts and Audit Regulations 2015  
Public Sector Internal Audit Standards 2017

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# Internal Audit Plan

2019-2020



## **Background**

All local authorities must make proper provision for internal audit in line with 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) 2017 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.

The Shared Service Internal Audit function conforms to the International Standards for the Professional Practice of Internal Auditing.

## **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 2019/2020 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 organisational 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, in addition to obtaining the views of the Audit and Governance Committee and internal audit's own risk assessment, a consultation process took place with the Corporate Directors, Heads of Service and Service Managers 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 which is comparable to last year. By continuing to apply RBIAP 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.

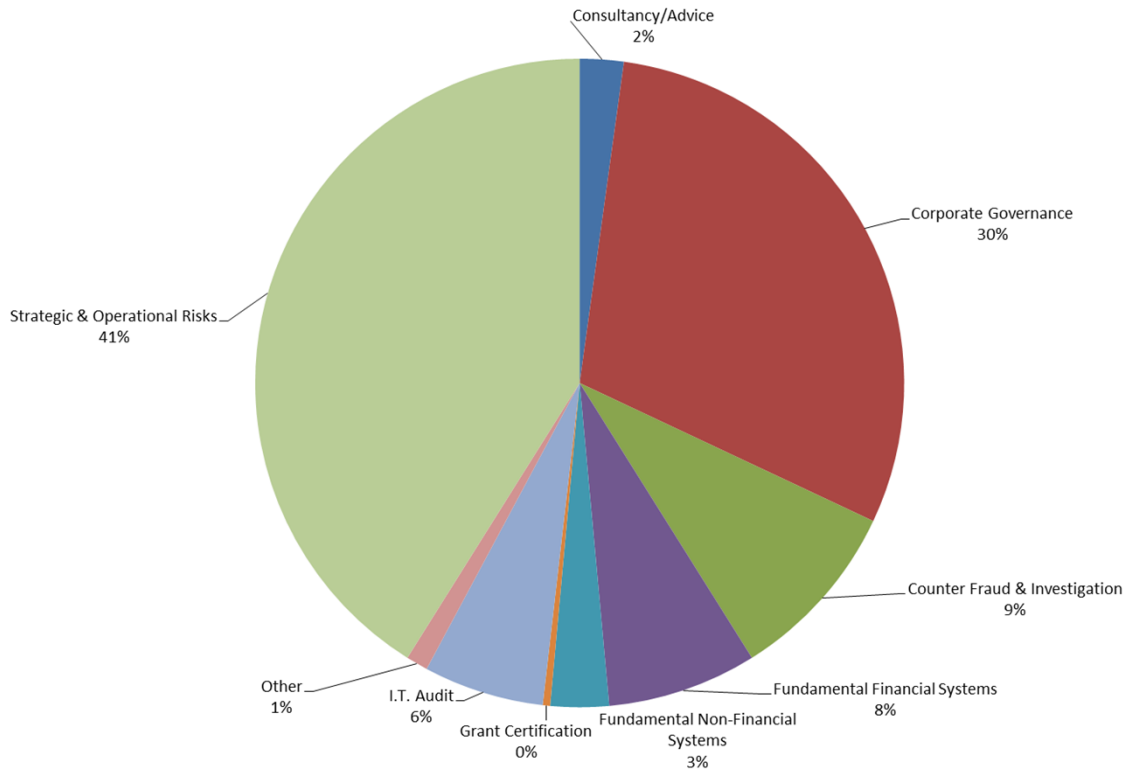
We will however, continue to reassess our resources required against the Council's priorities, in year demand and risks and will amend the plan throughout the year as required, reporting any key changes to the Audit and Governance Committee.

### **Overview of Internal Audit's Risk and Control Assurance Programme**

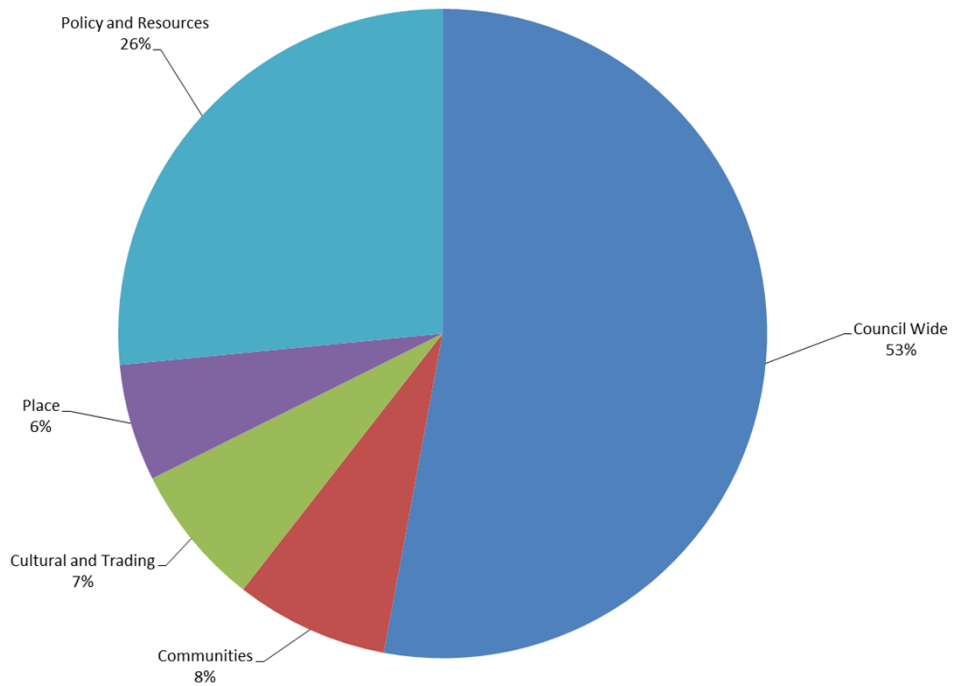
In order to provide a high level overview of the proposed Risk and Control Assurance Programme the pie charts below highlight the allocation of audit resources per:

- Category of review; and
- Functional service area.

**Percentage of audit days per category of review**



**Percentage of audit days per functional service area**



The key points to note within the proposals are:

- There is a proportional split, based on risk, between each of the functional service areas to enable the provision of an audit opinion;
- Continued focus on corporate governance, compliance with corporate policies, key financial systems and strategic risks due to the significant organisational change agenda; and
- Taking into consideration other assurance providers.

The detail supporting this overview is attached at Appendix 1 which shows:

- Audit activity per service area;
- Name of the audit activity;
- Reason for the audit i.e. as a result of RBIAP and link to the Council's Strategic Risk Register, statutory requirements etc;
- Outline scope of the review (please note that a detailed terms of reference is agreed with the 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); and
- The priority of the audit i.e. priorities 1 and 2. Priority one reflects statutory requirements i.e. grant certification, a limited assurance follow-up review, activities that may have been subject to a previous investigation / irregularity, or as deemed necessary by the Chief Internal Auditor to enable an opinion on the control environment to be provided. Priority two activities are the remaining identified activities. The aim being that all priority one activities would be delivered within the year with the priority 2 audits being reassessed in the eventuality of any new emerging risk areas highlighted where assurances may be required, or where additional fraud investigations/irregularities materialise.

## Council Wide

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Audit	Reason for Audit	Outline Scope	Priority
Compliance with Corporate Policies	Identified as part of Risk Based Internal Audit Planning (RBIAP)  Strategic Risk Register (SRR) 1.2 and 1.3	Failure by employees to follow agreed Council policies and procedures can expose the Council to unnecessary liability, losses or inappropriate expenditure and behaviour. If the non-compliance of corporate policies becomes the 'norm' and this position is allowed to remain unchecked it will, over a fairly short period of time, significantly undermine the Council's governance framework and potentially damage the Council's reputation. This allocation will enable ARA to review compliance with the following corporate policies: <ul style="list-style-type: none"> <li>➤ Travel by employees / reimbursement of expenses to employees;</li> <li>➤ Disposal of assets;</li> <li>➤ The award of an Honorarium or a Temporary Promotion; and</li> <li>➤ The use of the Internet during working hours.</li> </ul>	<b>Priority 1</b>
Review of the Governance: Assurance Statements (2018/19 returns)	Identified as part of RBIAP  SRR 1.1 to 1.14 (inclusive)	Local authorities are required to prepare an Annual Governance Statement (AGS) in order to report publicly on the extent to which they comply with their own Local Code of Corporate Governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period.  This review will seek to determine the robustness of the governance, internal control and risk management arrangements as detailed within a sample of the assurance statements. These statements underpin the declarations made within the AGS.	<b>Priority 1</b>

## Internal Audit Plan 2019/20

Audit	Reason for Audit	Outline Scope	Priority
Health and Safety	Identified as part of RBIAP  Limited Assurance Follow Up  SRR 1.3	The Council is fully committed to achieving high standards of health and safety to protect the well being of employees, residents and anyone else who may be affected by the Council's activities. The 2018/19 audit highlighted a number of control weaknesses in the current arrangements and a need to further clarify roles and responsibilities.  This audit will provide assurance that the action plan agreed with management has been implemented and operating effectively.	Priority 1
Complaints Procedures	Identified as part of RBIAP  SRR 1.2 and 1.3	The effective handling and wherever possible the satisfactory resolution of a complaint (together with identifying and acting on lessons learned) is key to good governance. This audit will review the process for handling expressions of dissatisfaction and provide assurance that these are handled in line with corporate policy and guidelines and that the level of corporate oversight is appropriate.	Priority 2
Safeguarding	Identified as part of RBIAP  SRR 1.2 and 1.3	Safeguarding means protecting people's health, wellbeing and human rights and enabling them to live free from harm, abuse or neglect. The Council has a statutory responsibility and a duty of care to cooperate and report issues relating to safeguarding to the appropriate authorities and partner agencies. This audit will review the effectiveness of the arrangements established by the Council to fulfil its responsibility in this area.	Priority 2

## Internal Audit Plan 2019/20

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Audit	Reason for Audit	Outline Scope	Priority
Sickness and Absence Procedure	Identified as part of RBIAP  SRR 1.3	Sickness absence has an impact on the delivery of the Council's services and to the individual themselves and their colleagues. The Council wishes to ensure that the reasons for sickness absence are understood in each case, investigated where necessary and that, where needed, measures are taken to assist those who have been absent by way of sickness absence to return to work. Managers are responsible for the successful operation of the Absence Procedure within their service areas for which they are responsible, supported by the HR Service as appropriate. This audit will review how this procedure is operating in practice and that appropriate action is being taken by the managers.	<b>Priority 2</b>



# Internal Audit Plan 2019/20

## Communities

Audit	Reason for Audit	Outline Scope	Priority
Civil Penalties to Tackle Unsatisfactory Housing Conditions within the Private Rented Housing Sector	Identified as part of RBIAP  SRR 1.2 and 1.13	<p>The Housing and Planning Act 2016, which amended parts of the Housing Act 2004, came into force during 2017 and introduced a range of new measures to tackle rogue landlords including:</p> <ul style="list-style-type: none"> <li>➤ Civil Penalties (Fixed Penalty Notices) of up to £30,000 as an alternative to prosecution for certain specified offences;</li> <li>➤ Database of rogue landlords and property agents;</li> <li>➤ Banning Orders for the most serious and prolific offenders; and</li> <li>➤ Additional grounds to apply for rent repayment orders (RRO) under the Housing Act 2004.</li> </ul> <p>In May 2014, Cabinet resolved to adopt the new powers. This audit will review compliance with the new policy and procedures established by the Council in respect of the imposition of Civil Penalties.</p>	<b>Priority 2</b>

## Internal Audit Plan 2019/20

Audit	Reason for Audit	Outline Scope	Priority
Licensing	Identified as part of RBIAP  SRR 1.2	The Council supports the local economy by ensuring that businesses providing licensable services are regulated to protect the public or others from harm. Licences are generally subject to a fee designed to cover service costs. This audit shall review the fee-setting arrangements, administration and the monitoring of compliance with legislated requirements for the granting of licences relating to: <ul style="list-style-type: none"> <li>➤ Gambling;</li> <li>➤ Scrap metal merchants; and</li> <li>➤ Animal welfare.</li> </ul>	Priority 2
Temporary Accommodation	Identified as part of RBIAP  SRR 1.1, 1.2 and 1.13	Due to increased demand by those who present as homeless the Council's numbers for increased temporary accommodation has increased. In May 2018 Cabinet considered plans to manage the demand for temporary accommodation that included operational service improvements, the development of incentives to access the private sector, more flexible use of Discretionary Housing Payments and the acquisition of property for temporary housing.  This audit will review the effectiveness of the new arrangements.	Priority 2

# Internal Audit Plan 2019/20

## Cultural and Trading

Audit	Reason for Audit	Outline Scope	Priority
Markets	Identified as part of RBIAP  SRR 1.5	A range of markets exist within the City: Eastgate Indoor Market, Farmers Market, Hempsted Meadow Market, and Kings Square Market. The Council directly manages the Eastgate Indoor Market and Kings Square markets and in addition, any car boot sale or occasional market held within 6.1 miles of Gloucester Cross, requires permission. This audit will review arrangements that support the Council's objectives to create a vibrant and prosperous city, and achieve value for money and ensuring that income due is collected and accounted for in an effective and timely manner.	Priority 1
Page 91 Guildhall and Blackfriars Priory – Income received from events	Identified as part of RBIAP  SRR 1	The Council generates substantial income (circa £500k) for hiring out areas / rooms to business and members of the public to hold meetings, live events, functions and weddings within the two buildings. This audit will review the controls to ensure that all income due to the Council is received and accounted for.	Priority 2
Shopmobility Fees and Charges	Identified as part of RBIAP  SRR 1.1 and 1.2	This service provides battery powered scooters, wheelchairs, battery chairs, power chairs and rollators to help people who have limited mobility through permanent or temporary disablement, accident or age to use the facilities in the City Centre, the Gloucester Quays Designer Outlet Centre and the Docks. To use this service a customer will need to register with Shopmobility before being allowed to take out a vehicle. Both annual registration and hire fees are charged for this service. In February 2018 Cabinet agreed to adopt a new 'fees and charges' structure for the service effective from March. This audit will provide assurance that the fees are being collected as expected and correctly accounted for.	Priority 2

## Internal Audit Plan 2019/20

### Place

Audit	Reason for Audit	Outline Scope	Priority
Building Control Shared Service	Identified as part of RBIAP  SRR 1.4	The Council agreed to enter into a 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 and will follow-up on the agreed action areas highlighted by the previous audit review completed in November 2016.	Priority 2
Page 32 Planning – Processing and Performance	Identified as part of RBIAP  SRR 1.2 and 1.3	<p>The Council is the area's local planning authority, responsible for determining whether development in the local environment (constructing or altering buildings, or use of land) is suitable and in accordance with local and national policy.</p> <p>This audit will consider the arrangements in accepting, validating, publicising and determining planning applications. National government is keen to ensure continuing improvement in the planning system, and measures the Council's performance on the speed and quality of decisions on applications for major development. The Council's activities in monitoring and securing good performance shall also be reviewed.</p>	Priority 2

# Internal Audit Plan 2019/20

## Policy and Resources

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Audit	Reason for Audit	Outline Scope	Priority
Blackfriars Priory Turnover Certificate	Grant Certification SRR 1.4	The rent charges paid by the Council to English Heritage are based on a percentage of the income generated from holding events at Blackfriars Priory. It is a condition of the lease that the Council provides a turnover certificate from a qualified auditor to confirm the level of income received. This audit will provide assurance that the turnover values stated to English Heritage are in accordance with and supported by documents and records held by the Council.	Priority 1
Purchasing: Low and Intermediate Value Transactions	Identified as part of RBIAP  Limited Assurance Follow Up  SRR 1.6	The Council undertakes a variety of purchasing activities to deliver services and to meet its key aims and objectives. Failure to operate a transparent process for the procurement activity (coupled with any non-compliance with the requirements of the Public Contracts Regulations 2015) exposes the Council, Officers and Members to significant risks in the event that the contract award is subject to challenge or does not provide value for money. The 2018/19 audit highlighted a number of control weaknesses in the current arrangements and for enhanced corporate oversight. This audit will provide assurance that the action plan agreed with management has been implemented and operating as intended.	Priority 1
Budget Setting Monitoring and Reporting	Identified as part of RBIAP  SRR 1.1 and 1.2	The Council's budget in 2018/19 is circa £14m revenue and £6m capital. This audit will review the revenue budget setting process to provide assurance that accurate and operationally reflective budgets are set at the start of the 2019/20 financial year and that the agreed budgets are then effectively monitored and accurately reported to budget holders and members.	Priority 2

## Internal Audit Plan 2019/20

Audit	Reason for Audit	Outline Scope	Priority
Civil Parking Enforcement – Income	Identified as part of RBIAP  SRR 1.1, 1.2 and 1.4	<p>In May 2018, the Council awarded a contract (a total maximum term of seven years made up of an initial five year period with two optional extensions for 12 month periods”) to Indigo Park Services UK Ltd for the enforcement and management of the Council’s car parks from 31st of August 2018.</p> <p>This audit will provide assurance that the income due is being collected, received and accounted for and that the new arrangements are operating as envisaged.</p>	Priority 2
Freedom of Information (Fol) requests	Identified as part of RBIAP  SRR 1.2 and 1.8	<p>The Freedom of Information Act 2000 provides public access to information held by public authorities. It does this in two ways:</p> <ul style="list-style-type: none"> <li>➤ Public authorities are obliged to publish certain information about their activities; and</li> <li>➤ Members of the public are entitled to request information from public authorities.</li> </ul> <p>The Council will normally have a maximum of twenty working days to respond to the request unless this is of such complex nature that additional time may be required and/or exemptions may apply.</p> <p>This audit will review the processes and procedures put in place by the Council to ensure it fulfil its legal obligations under this Act and when responding to the requests received.</p>	Priority 2

## Internal Audit Plan 2019/20

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Audit	Reason for Audit	Outline Scope	Priority
Housing Benefits	Identified as part of RBIAP  SRR 1.2 and 1.4	Tax Support is in excess of £40m per annum. The rules surrounding entitlement to Housing Benefit and Council Tax support are complex and has the potential to lead to a number of under/overpayments. The service was outsourced to Civica Ltd in October 2011 with contract recently extended to October 2021. The final scope will be agreed with the Council's Intelligent Client Officer but is anticipated to include a review of the controls operating within one or more of the following areas: <ul style="list-style-type: none"> <li>➤ Assessment;</li> <li>➤ Payments;</li> <li>➤ Overpayments; and</li> <li>➤ Fraud Prevention and Detection.</li> </ul>	Priority 2
IR35 Off-payroll working through an intermediary	Identified as part of RBIAP  SRR 1.2 and 1.3	IR35 is tax legislation that is designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used. Such workers are referred to as 'disguised employees' by Her Majesty's Revenue and Customs (HMRC). <p>The Council is responsible for deciding if off-payroll working rules apply when procuring services and if the rules do apply they must deduct tax and Class 1 National Insurance Contributions and report them the HMRC.</p> <p>This review will seek to determine whether the council has effective arrangements in place to ensure that it conforms to these regulatory requirements.</p>	Priority 2

## Internal Audit Plan 2019/20

Audit	Reason for Audit	Outline Scope	Priority
Property Investment Strategy	Identified as part of RBIAP SRR 1.14	The Council has a substantial property portfolio across the City.  This audit will review the effectiveness of the decision making process and controls concerning the acquisition and disposal of property owned by the Council.	Priority 2
Local Government Transparency Code - 2015	Identified as part of RBIAP SRR 1.2 and 1.5	This Code is issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services. Transparency is the foundation of local accountability and the key that gives people the tools and information they need to enable them to play a bigger role in society. The availability of data can also open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets.  This audit will review the arrangements established by the Council to meet the requirements of the Code.	Priority 2
VAT	Identified as part of RBIAP SRR 1.2 and 1.5	The City Council re-claims circa £3.5m worth of VAT each year and it is essential that procedures for accounting for this are sound in order to minimise the risk of penalties and the Council's tax liability.  This audit will examine those processes to ensure the returns are accurate and submitted in accordance with the expected schedule.	Priority 2



## Internal Audit Plan 2019/20

### ICT to include audits provided by ICT external auditors

Audit	Reason for Audit	Outline Scope	Priority
Network Access Controls	Identified as part of RBIAP  Limited Assurance Follow Up  SRR 1.2 and 1.8	Network access control is primarily a solution with the key objectives of creating and managing identity and access management; ensuring that security policy is followed, and removing, preventing and mitigating security risks to the entire network environment. The 2018/19 audit highlighted a number of control weaknesses to which a management action plan was agreed.  This follow-up audit will provide assurance that the agreed actions have been implemented and effective	Priority 1
ICT	SRR 1.8, 1.9 and 1.10	The ICT audit activity will be identified following an audit needs assessment which will be compiled by ARA's ICT audit specialists in consultation with and input from the Council and Civica officers.	Priority 2

# Internal Audit Plan 2019/20

## Counter Fraud

Audit	Reason for Audit	Outline Scope	Priority
Fraud Investigation / Detection	<p>To support the Annual Governance Statement</p> <p>Protect the Public Purse</p> <p>Strategic Risk Register (SRR) 6</p>	<p>Allocation to continue the development and implementation of 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 counter-fraud reviews and undertaking investigations as required.</p>	<p><b>Priority 1</b></p>
National Fraud Initiative (NFI)	<p>To support the Annual Governance Statement</p> <p>Strategic Risk Register (SRR) 6</p>	<p>To continue to co-ordinate activity as part of the NFI (a national data matching exercise that compares data/records i.e. payroll, licences, housing waiting list, single person discounts, creditors etc.) for a wide range of public services, including ensuring that matches are investigated promptly and thoroughly, and reporting of results.</p>	<p><b>Priority 1</b></p>

## Internal Audit Plan 2019/20

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Audit	Reason for Audit	Outline Scope	Priority
Fraud Risk Management	To support the Annual Governance Statement  Informs the Risk Based Internal Audit Plan	The CIPFA Counter Fraud Centre has issued guidance on actions to be taken to 'Manage the Risk of Fraud and Corruption' 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 and internal audit resources/activity accordingly.	<b>Priority 1</b>

## Management Activity to Support the Audit Opinion

Activity	Reason for Activity	Outline Scope	Priority
Annual Governance Statement (AGS)	Statutory Requirement	This allocation is to lead on the development and implementation of the governance assurance framework and to develop and publish the 2019/20 AGS and Local Code of Corporate Governance.	Priority 1
Audit and Governance Committee / Member / Officer and Chief Financial Officer 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 and Vice Chair of the Audit and Governance Committee and the Head of Policy and Resources.	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 Council.	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) 2017. This allocation is to undertake an annual self assessment and when required, commission and deliver an external quality assessment, against the standards.	Priority 1

## Internal Audit Plan 2019/20

Activity	Reason for Activity	Outline Scope	Priority
External Working Groups	Activity to support the audit opinion	Attendance / work in relation to the Local Authority Chief Auditor's Network (National Group), Midland Counties and Districts Chief Internal Auditors Group and the Fraud and ICT Groups to enable networking and to share good practice.	Priority 1
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 2018/2019 audits which require finalising.	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
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 2

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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>11<sup>th</sup> March 2019</b>
<b>Subject:</b>	<b>The Review of the Effectiveness of the Audit and Governance Committee</b>		
<b>Report Of:</b>	<b>Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer - Head of Audit Risk Assurance</b>		
	<b>Email:</b>	<b>Tel: 01452 326338</b>	
	<a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		
<b>Appendices:</b>	<b>A: The Review of the Effectiveness of the Audit and Governance Committee</b>		

**FOR GENERAL RELEASE**

**1.0 Purpose of Report**

- 1.1 To ascertain the Committee’s views on the approach to be taken in respect of reviewing the effectiveness of the Audit and Governance Committee.

**2.0 Recommendations**

- 2.1 Audit and Governance Committee is asked to **RESOLVE** to:

Undertake a self-assessment against recommended practice.

**3.0 Background and Key Issues**

- 3.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, have recently produced revised guidance on the function and operation of audit committees; “Audit Committees in Local Authorities and Police, 2018 edition”. The guidance represents CIPFA’s view of best practice for Audit Committees in local authorities throughout the UK and replaces the Position Statement of Audit Committees in Local Government issued in 2013.
- 3.2 Audit committees are a key component of an authority’s governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 3.3 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

#### **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 No other options have been considered

#### **6.0 Reasons for Recommendations**

6.1 The role of the Audit and Governance Committee within the Council's Constitution is to gain assurance that the Council's governance arrangements are operating effectively in line with good practice guidance. This report provides the Committee with the revised CIPFA guidance on effective audit committees. Appendix A attached includes within:-

- Appendix 1 provides the key changes to the guidance and key highlights.
- Appendix 2 provides the first draft self assessment and provides a high level review that incorporates the key principles set out in CIPFA's Position Statement.
- Appendix 3 evaluates the effectiveness of the audit committee; and
- Appendix 4 highlights the outcome of the Audit and Governance Committee's knowledge and skills assessment.

#### **7.0 Future Work and Conclusions**

7.1 The outcomes of this and future self assessments will be included in the Audit and Governance Committee's annual report to Council and the Council's Annual Governance Statement 2018/19.

#### **8.0 Financial Implications**

8.1 There are no direct financial costs arising out of this report.

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

#### **9.0 Legal Implications**

9.1 The revised Guidance provides the Committee with a good opportunity to assess itself against the most current best practice for Audit Committees.

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

#### **10.0 Risk and Opportunity Management Implications**

10.1 Failure to deliver an effective Audit and Governance Committee will prevent the non-executive, advisory function supporting those charged with governance.

#### **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 in this report.

### Sustainability

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

### Staffing & Trade Union

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

**Background Documents:** CIPFA – Audit Committees – Practical Guidance for Local Authorities and Police 2018.

CIPFA's Position Statement – Audit Committees in Local Authorities and Police 2018

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# THE REVIEW OF THE EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE



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### **CIPFA - Audit Committees – Practical Guidance for Local Authorities and Police 2018**

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The Chartered Institute of Public Finance and Accountancy, CIPFA, have recently produced revised guidance on the function and operation of audit committees; “Audit Committees in Local Authorities and Police, 2018 edition”. The guidance represents CIPFA’s view of best practice for Audit Committees in local authorities throughout the UK and replaces the Position Statement of Audit Committees in Local Government issued in 2013.

**Appendix 1 attached to this report provides the key changes to the guidance and key highlights.**

### **CIPFA’s Position Statement: Audit Committees in Local Authorities and Police 2018**

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Audit committees are a key component of an authority’s governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

**Authorities audit committees should adopt a model that establishes the committee as independent and effective. The committee should:**

- Act as the principal non-executive, advisory function supporting those charged with governance.
- In local authorities, be independent of the executive and the scrutiny functions and include an independent member where not already required to do so by legislation.
- Have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be directly accountable to the authority’s governing body.

### The core functions of an audit committee are to:

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
- In relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and professionalism;
  - support the effectiveness of the internal audit process; and
  - promote the effective use of internal audit within the assurance framework.
- Consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.
- Monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

### An audit committee can also support their authorities by undertaking a wider role in other areas including:

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards and ethics committees to support ethical values.

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## The Review of the Effectiveness of the Audit and Governance Committee

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- Reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017).
- Providing oversight of other public reports, such as the annual report.

### Good audit committees are characterised by:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council however, it is important to achieve the right mix of apolitical expertise.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
  - Promoting apolitical open discussion.
  - Managing meetings to cover all business and encouraging a open approach from all participants.
  - An interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

### To discharge its responsibilities effectively the committee should:

- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor.

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## The Review of the Effectiveness of the Audit and Governance Committee

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Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required.

- Have the right to call any other officers or agencies of the authority as required.
- Report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

## Self Assessment of Good Practice – Evaluation of Effectiveness 2019/20

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In the guidance, CIPFA provide a suggested self-assessment against recommended practice.

By reviewing the Committee's effectiveness against a good practice self-assessment on an annual basis, the Committee can demonstrate a high degree of performance and evidence that the Committee is soundly based with a knowledgeable membership that is not impaired in any way.

Completion of the self-assessment can also be used to support the planning of the Committee's work programme and training plans and inform the Committee's annual report to Council.

**Appendix 2: provides the first draft self assessment and provides a high level review that incorporates the key principles set out in CIPFA's Position Statement.**

**Appendix 3: evaluates the effectiveness of the audit committee; and**

**Appendix 4: highlights the outcome of the Audit and Governance Committee's knowledge and skills assessment.**



## Key Changes to the Practical Guidance for Local Authorities 2018 Edition

### Position Statement

- In Local Authorities, the Committee should include an independent member where not already required to do so by legislation. (Page 3)
- When considering risk management arrangements need to consider partnerships and collaborations. (Page 4)
- In monitoring the effectiveness of the control environment, supporting standards and ethics should be included. (Page 4)

### Purpose of Audit Committees

Under the areas where the Committee can influence and add value:-

- Raise awareness of the need for sound internal controls. (Page 8).
- Reinforce the objectivity, importance and independence of Internal Audit and External Audit and the effectiveness of the audit functions. (Page 8)

### Core Functions of an Audit Committee

- The high level core functions of an audit committee remain unchanged.
- Annual Governance Statement (AGS) – now reference to Accounts and Audit Regulations – approval of AGS by 31st July. (Page 12)
- Internal Audit – reference now made to the Public Sector Internal Audit Standards (PSIAS) including the mission of Internal Audit, Code of Ethics, definition of Internal Auditing and the core principles of an effective Internal Audit. (Page 13)
- Internal Audit – confirm organisational independence of Internal Audit. (Page 14)
- Approve and review safeguards to limit impairments to independence and objectivity. (Page 14)
- Receive communications on performance relative to the Internal Audit plan and other matters. (Page 15)

- Approve any significant additional consulting services (not already included in the Audit Plan). (Page 15)
- Value for money – Where External Audit has issued a qualified conclusion on value for money, the Committee should ensure there is a robust plan to address the issues. (Page 18)
- Counter Fraud and Corruption – reference to revised counter fraud standards. (Page 18)
- External Audit – recognises role the Committee plays in the appointment of External Audit and monitoring the External Audit process. (Page 19)
  - Auditor panel / Public Sector Audit Appointments Limited (PSAA);
  - Opinion on selection and rotation;
  - Ensure independence is maintained;
  - Receive and consider work / reports; and
  - Support quality and effectiveness of the External Audit process.
- External Audit will disclose annually to the Committee an assessment of its independence, usually in the audit plan. (Page 20)
  - Assurance that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel.
  - Section on potential threats to external independence. (Page 21)
- Financial Reporting – Reporting deadlines for accounts publication is 31st July. (Page 22)
- Partnership Governance and Collaboration Agreements – reference made to collaboration of emergency services and recognising that ensuring adequacy of governance / risk management is more complicated. (Pages 23 & 24)

**Possible Wider Functions of an Audit Committee**

- No changes in relation to the detail contained in this section.

## Key Highlights from the Practical Guidance for Local Authorities 2018 Edition

### Independence and Accountability

- 85% councils had audit committees reporting to full Council. (Page 33)
- The number of stand alone committees declined from 58% to 47%. (Page 33)
- Head of Internal Audit free unfettered access to CEO and Chair of Audit Committee. (Page 36)
- Committees are most effective when discussing governance, risk, control issues with responsible managers directly. (Page 37)

### Membership and Effectiveness

- Achieve the right mix of apolitical expertise. (Page 39)
- Chair – promoting open discussion, encourage candid approach from all participants and be interested in several disciplines. (Page 39)
- Use of independent members – establish effective working relationships and agree protocols for briefings and access to information. (Page 41)
- Maintain register of interests. (Page 42)

### Common Areas of Difficulty for Audit Committees

- For Local Authorities, the top three difficulties for Audit Committees were found to be:-
  - Limited knowledge and experience of members;
  - Committee not seen as a priority by other members; and
  - Intrusion of political interests. (Page 44)

Also – breakdown in the relationship between committee members and the executive or with senior management. (Page 47)

### Suggested Terms of Reference

- Internal Audit – to provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee. (Page 61)
- External Audit – To support the independence of external audit through consideration of the external auditor’s annual assessment of its independence and review of any issues raised by PSAA or the authority’s auditor panel as appropriate. (Page 61)
- Accountability Arrangements – To publish an annual report on the work of the committee. (Page 62)

### Audit Committee Members – Knowledge and Skills




No changes have been made to the Audit Committee members core areas of knowledge or specialist knowledge that adds value to the audit committee or core skills.




### Self Assessment of Good Practice


- Functions of the Committee – Does the Committee’s Terms of Reference address supporting the ethical framework?
- Membership and Support – Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council as appropriate for the organisation? (Page 74)
- Effectiveness of the Committee:-
  - Are meetings effective with a good level of discussion and engagement from all the members?
  - Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?
  - Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?
  - Does the committee publish an annual report to account for its performance and explain its work?

Self-assessment of Good Practice

Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
<b>Audit Committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?		Details within the Constitution.  constitution-2018-19-v2.pdf  Refer to section 3 - Responsibility for Functions of the Constitution (Audit and Governance Committee Terms of Reference)	None

Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
2	<p>Does the audit committee report directly to full council?</p> <p>(Applicable to local government only).</p>		<p>The Audit and Governance Committee reports directly to full Council as per the Constitution by presenting an annual report providing assurance that the Council’s systems of governance are operating effectively.</p> <p> Annual Report to Council 2018.pdf</p>	None





Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)										
3	Do the terms of reference clearly set out the purpose of the Committee in accordance with CIPFA's Position Statement?		<p>The Audit and Governance Committee's Terms of Reference is currently in accordance with the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013 edition.</p> <p>This Terms of Reference was approved by.</p> <table border="0" data-bbox="1232 829 1635 1308"> <tr> <td><b>Committee:</b></td> <td><b>Date:</b></td> </tr> <tr> <td>Audit and Governance Committee</td> <td>19th September 2016</td> </tr> <tr> <td>Constitution Working Group</td> <td>5th October 2016</td> </tr> <tr> <td>General Purposes Committee</td> <td>18th October 2016</td> </tr> <tr> <td>Council</td> <td>24th November 2016</td> </tr> </table> <p style="text-align: center;"> constitution-2018-19-v2.pdf</p>	<b>Committee:</b>	<b>Date:</b>	Audit and Governance Committee	19th September 2016	Constitution Working Group	5th October 2016	General Purposes Committee	18th October 2016	Council	24th November 2016	<p><b>Action</b></p> <p>Update Terms of Reference in line with the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2018.</p>
<b>Committee:</b>	<b>Date:</b>													
Audit and Governance Committee	19th September 2016													
Constitution Working Group	5th October 2016													
General Purposes Committee	18th October 2016													
Council	24th November 2016													

Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
4	Is the role and purpose of the audit committee understood and accepted across the authority?	★	<p>The annual report of the Audit and Governance Committee is presented to full Council. The committee’s terms of reference are included within the Constitution and is accessible to members, officers and the public.</p> <p>All members are informed of changes to the Constitution including any revisions to the committee’s terms of reference.</p>	None
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	★	<p>The Committee review and approve the Council’s Local Code of Corporate Governance and Annual Governance Statement.</p> <p>Also, its Terms of Reference enables the Committee to contribute to good governance.</p>	None



Good practice questions		Compliant Y / N / P ★ ▲ ●	Comments	Actions for improvement (incl. timescales)
6	Are the arrangements to hold the Committee to account for its performance operating satisfactorily?	●	The Audit and Governance Committee has carried out the annual self assessment of its effectiveness, the outcome to be provided in its 2018/19 annual report to full Council.	<p><b>Action</b></p> <p>The annual report needs to consider the contextual requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2018.</p>


		Compliant												
Good practice questions		Y / N / P	Comments	Actions for improvement (incl. timescales)										
		★ ▲ ●												
Functions of the committee														
7	<p>Do the committee’s terms of reference explicitly address all the core areas identified in CIPFA’s Position Statement?</p> <ul style="list-style-type: none"> <li>➤ good governance</li> </ul>	●	<p>The Terms of Reference currently reflect the requirements of good practice guidance and legislation i.e. CIPFA’s Position Statement 2013 and the Public Sector Internal Audit Standards 2013.</p> <p>The current Terms of Reference was approved by:</p> <table border="0"> <tr> <td><b>Committee:</b></td> <td><b>Date:</b></td> </tr> <tr> <td>Audit and Governance Committee</td> <td>19th September 2016</td> </tr> <tr> <td>Constitution Working Group</td> <td>5th October 2016</td> </tr> <tr> <td>General Purposes Committee</td> <td>18th October 2016</td> </tr> <tr> <td>Council</td> <td>24th November 2016</td> </tr> </table>	<b>Committee:</b>	<b>Date:</b>	Audit and Governance Committee	19th September 2016	Constitution Working Group	5th October 2016	General Purposes Committee	18th October 2016	Council	24th November 2016	<p><b>Action</b></p> <p>Update Terms of Reference in line with the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2018.</p>
<b>Committee:</b>	<b>Date:</b>													
Audit and Governance Committee	19th September 2016													
Constitution Working Group	5th October 2016													
General Purposes Committee	18th October 2016													
Council	24th November 2016													


Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
	➤ assurance framework, including partnerships and collaboration arrangements		Whilst this operates in practice. New formal requirement under the 2018 guidance.	<b>Action</b>  Update Terms of Reference in line with the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2018.
	➤ internal audit		Current Terms of Reference address the core functions of Internal Audit.	<b>Action</b>  Minor wording amendments to reflect the 2018 guidance are required.
	➤ external audit		Current Terms of Reference address the core functions of External Audit.	<b>Action</b>  Minor wording amendments to reflect the 2018 guidance are required.


Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
	➤ financial reporting	★	Current Terms of Reference address the core requirements of Financial Reporting.	<b>Action</b>  Minor wording amendments to reflect the 2018 guidance are required.
	➤ risk management	★	Current Terms of Reference address the core principles of Risk Management.	<b>Action</b>  Minor wording amendments to reflect the 2018 guidance are required.
	➤ value for money or best value	★	Current Terms of Reference address the core principles of Value for Money.	None
	➤ counter-fraud and corruption	★	Current Terms of Reference address the core principles of counter-fraud and corruption.	<b>Action</b>  Minor wording amendments to reflect the 2018 guidance are required.

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Good practice questions		Compliant		Actions for improvement (incl. timescales)
		Y / N / P	Comments	
		★ ▲ ●		
	➤ supporting the ethical framework	★	Current Terms of Reference address the core requirements of ethical governance.	None
8	Is an annual evaluation undertaken to assess whether the Committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	▲	An evaluation is currently being assessed.	<b>Action</b> An annual review to be undertaken with the outcomes reported in the Audit and Governance Committee’s annual report to Council and the Council’s Annual Governance Statement.
9	Has the audit committee considered the wider areas identified in CIPFA’s Position Statement and whether it would be appropriate for the Committee to undertake them?	●	The Committee’s current remit includes the ethical governance and treasury management arrangements.	<b>Action</b> Consideration to be given to reviewing a wider role as per CIPFA’s Position Statement.


Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	★	Where coverage of core areas has been found to be limited, action plans have been put in place to address the issues identified e.g. the Annual Governance Statement Action Plans. The action plans implementation is overseen by the Audit and Governance Committee and/or relevant scrutiny committee.	None




Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
11	Has the Committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	★	The Committee’s decision making powers are all in line with their Terms of Reference e.g. approving the Annual Statement of Accounts, Annual Governance Statement, Internal Audit Charter, Risk Based Internal Audit plan etc.	None

Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
<b>Membership and support</b>				
12	Has an effective audit committee structure and composition of the Committee been selected?	★	Audit and Governance Committee members are appointed by full Council being drawn down from all parties to reflect the political balance of the Council.	None
	This should include:			
	➤ separation from the executive	★	No Audit and Governance Committee members are members of the Executive.	None
	➤ an appropriate mix of knowledge and skills among the membership	★	Audit and Governance Committee members include members with extensive knowledge and skills from a wide range of financial, business and social backgrounds.	None
	➤ a size of committee that is not unwieldy	★	There are eight members of the Committee including one ex-Officio, meetings are always quorate and are well attended.	None
➤ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)	▲	New requirement under the 2018 guidance.	<p><b>Action</b></p> <p>Consideration to appoint an independent member who is not a councillor or an officer of the Council or the chair to be a member of the opposition party to assist independence.</p>	





Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full Council as appropriate for the organisation?		New requirement under the 2018 guidance.	<b>Action</b>  Consideration to appoint an independent member who is not a councillor or an officer of the Council.




Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
14	Does the chair of the Committee have appropriate knowledge and skills?		<p>The Chair of the Audit Committee has represented the area on both the City Council and the County Council for several years now, and is widely-regarded as one of Gloucester’s most experienced councillors.</p> <p>He has helped hundreds of local people, who have asked him for his help in their dealings with the local councils. He secured large sums of grant money for the Abbeydale Sports and Community Centre, helping to get the Astroturf project there started, and he followed that through to its successful delivery. He’s also served the city as Mayor and Sheriff of Gloucester.</p> <p>The Chair seeks and receives appropriate support and advice as needed.</p> <p>The Chair works with the officers to identify whether any further specialist training that may be of particular benefit to the unique role of the Chair.</p>	Audit and Governance Committee review


Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
15	Are arrangements in place to support the Committee with briefings and training?		There is a corporate members training programme and specific training on financial statements, external / internal audit, annual governance statement, risk management, treasury management etc. have been and will continue to be provided as needed.	None
16	Has the membership of the Committee been assessed against the core knowledge and skills framework and found to be satisfactory?		The framework is part of the new CIPFA guidance issued in 2018; therefore this assessment is currently being carried out in 2018/19.	<b>Action</b> Assess membership of the Committee against the core knowledge and skills framework, identify gaps and address any improvement areas identified to help inform the Committee’s training programme – <b>please see Appendix 4.</b>

Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
17	Does the Committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	★	<p>External Audit attends all Committee meetings. The Chief Financial Officer, Monitoring Officer and Chief Internal Auditor meet with the Chair prior to every Committee meeting and also attends the Committee meeting.</p> <p>Members have the ability to meet with these officers at any time.</p>	None



Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
18	Is adequate secretariat and administrative support to the Committee provided?	★	Democratic Services have nominated an officer who leads on the support provided to the Committee.	None


Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
Effectiveness of the committee				
19	Has the Committee obtained feedback on its performance from those interacting with the Committee or relying on its work?	★	<p>The Audit and Governance Committee has designated Senior Management Team members i.e. the Chief Financial Officer (s151) and Monitoring Officer as lead officers.</p> <p>Whilst there is no formal mechanism for feedback on the Committee’s performance there are opportunities for views to be relayed.</p> <p>The annual report to Council also provides opportunities for feedback on performance.</p>	None

Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
20	Are meetings effective with a good level of discussion and engagement from all the members?		New requirement under the 2018 guidance.  Constructive, robust, challenge and dialogue invoked by members of the Committee.	None
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?		New requirement under the 2018 guidance.  Where audit activity records that a limited assurance opinion on control has been provided, the Audit and Governance Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.	<b>Action</b>  Consideration is given to amend the terms of reference to have clear rights of access to other committees/functions, for example, scrutiny and service committees, risk management group and other strategic groups.

Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	★	<p>New requirement of 2018 guidance.</p> <p>The Audit and Governance Committee are key contributors to the Annual Risk Based Internal Audit Plan and the implementation of the plan is monitored accordingly.</p> <p>The Chief Internal Auditor has the ability to meet with the Chair of the Audit and Governance Committee independently should any key governance issues arise.</p>	None.



Good practice questions		Compliant Y / N / P 	Comments	Actions for improvement (incl. timescales)
23	Has the committee evaluated whether and how it is adding value to the organisation?		<p>The work of the Committee is clearly very important and valuable and its function essential but there has been no formal evaluation of how it adds value. However, the annual report to full Council and this self assessment does evaluate whether the Committee is adding value.</p> <p>One current Audit and Governance Committee member is also a member of the Overview and Scrutiny Management Committee which enables two way dialogue between the committees and provides further assurance on effective governance.</p>	<p><b>Action</b></p> <p>Future annual reports to Council to include outcome of annual self assessment.</p>

Good practice questions		Compliant Y / N / P ★ ▲ ●	Comments	Actions for improvement (incl. timescales)
24	Does the committee have an action plan to improve any areas of weakness?	●	The Committee have a dynamic work plan which reflects need and current and emerging risks and issues.	<b>Action</b>  Any improvements identified as part of this assessment will be documented in an action plan.
25	Does the committee publish an annual report to account for its performance and explain its work?	●	New requirement of the 2018 guidance.  A report is currently published.   Annual Report to Council 2018.pdf	<b>Action</b>  To include outcome of annual self assessment in annual report.

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## Evaluating the Effectiveness of the Audit and Governance Committee

Assessment key	
5	Clear evidence is available from a number of sources that the Committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the Committee is actively and effectively supporting improvement across some aspects of this area.
3	The Committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the Committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the Audit and Governance Committee can add value by supporting improvement	Examples of how the Audit and Governance Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
<p>Promoting the principles of good governance and their application to decision making.</p>	<p><b>NEW: Supporting the development of a local code of corporate governance.</b></p> <p>Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it.</p> <p>Working with key members / governors to improve their understanding of the AGS and their contribution to it.</p> <p>Supporting reviews / audits of governance arrangements.</p> <p>Participating in self-assessments of governance arrangements.</p> <p>Working with partner audit committees to review governance arrangements in partnerships.</p>	<p>Annual and ongoing input into the Risk Based Internal Audit Plan.</p> <p>Annual review, challenge and approve of the Annual Governance Statement, Local Code of Corporate Governance and assurance framework.</p> <p>The Committee monitors actions taken to address issues identified in the Annual Governance Statement.</p> <p>Receipt of the Chief Internal Auditor’s annual report on Internal Audit and Risk Management activity.</p>	

Areas where the Audit and Governance Committee can add value by supporting improvement	Examples of how the Audit and Governance Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
		<p>Monitoring of internal / external audit work throughout the year.</p> <p>Governance arrangements with respect to partnerships are considered as part of the Annual Governance Statement process.</p>	
<p>Contributing to the development of an effective control environment.</p>	<p>Actively monitoring the implementation of recommendations from auditors.</p> <p>Encouraging ownership of the internal control framework by appropriate managers.</p> <p>Raising significant concerns over controls with appropriate senior managers.</p>	<p>The Committee receives quarterly updates on all Internal Audit activity and management actions taken to address issues highlighted.</p> <p>Where a limited assurance opinion is provided on the control environment, management are requested to attend Committee to provide updates / assurance that Internal</p>	

Areas where the Audit and Governance Committee can add value by supporting improvement	Examples of how the Audit and Governance Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
		<p>Audit recommendations have been implemented.</p> <p>Committee's Terms of Reference enables the above.</p>	
<p>Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.</p>	<p>Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.</p> <p>Monitoring improvements.</p> <p>Holding risk owners to account for major / strategic risks.</p>	<p>The Committee's role is to be assured that there is an effective framework in place to manage risk. They are provided with an annual report on Risk Management activity which includes the status of the Strategic Risk Register.</p> <p>In addition, Cabinet oversee ongoing actions taken to mitigate strategic risks associated with corporate objectives.</p>	

Areas where the Audit and Governance Committee can add value by supporting improvement	Examples of how the Audit and Governance Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
<p>Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.</p>	<p>Specifying its assurance needs, identifying gaps or overlaps in assurance.</p> <p>Seeking to streamline assurance gathering and reporting.</p> <p>Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.</p>	<p>The Committee is proactive in requesting assurance work and contribution towards the development of the Risk Based Internal Audit Plan.</p> <p>The Committee has received the assurance framework i.e. the three lines of defence risk assurance model, as part of the Annual Governance Statement.</p>	
<p>Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.</p>	<p>Reviewing the audit charter, code of ethics and functional reporting arrangements.</p> <p>Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements.</p> <p>Actively supporting the quality assurance and</p>	<p>The Internal Audit Charter (which defines the role, purpose and authority of the internal audit function) was approved by the Committee in November 2016, which requires the Chief Internal Auditor to provide an annual report on Internal Audit</p>	

Areas where the Audit and Governance Committee can add value by supporting improvement	Examples of how the Audit and Governance Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
	improvement programme of internal audit.	activity and performance against the Public Sector Internal Audit Standards which took effect from the 1st April 2013 (updated 2016).  Quarterly progress reports are also provided.	
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	<p><b>NEW Reviewing how the governance arrangements support the achievement of sustainable outcomes.</b></p> <p>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</p> <p>Reviewing the effectiveness of performance management arrangements.</p>	The role of Cabinet is to review the effectiveness of the performance management process including major progress and programmes, however the Committee are provided with an overview of these arrangements in the Annual Governance Statement.	



Areas where the Audit and Governance Committee can add value by supporting improvement	Examples of how the Audit and Governance Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
		In addition Internal Audit undertake risk based internal auditing providing the relevant assurances (based on risk) on key projects / programmes.	
Supporting the development of robust arrangements for ensuring value for money.	<p>Ensuring that assurance on value for money arrangements is included in the assurances received by the Audit Committee.</p> <p>Considering how performance in value for money is evaluated as part of the AGS.</p>	<p>An annual report is received from the external auditor on their assessment of the Council's delivery of value for money.</p> <p>Value for money is fully considered and reported on in the Council's Annual Governance Statement.</p>	
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<p>Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).</p> <p>Reviewing fraud risks and the effectiveness of the</p>	Anti Fraud and Corruption Policy Statement and Strategy 2017 – 2019 (based on the CIPFA standards) presented to Committee in January 2017.	

Areas where the Audit and Governance Committee can add value by supporting improvement	Examples of how the Audit and Governance Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
	<p>organisation’s strategy to address those risks.</p> <p>Assessing the effectiveness of ethical governance arrangements for both staff and members.</p>	<p>Annual Governance Statement provides an overview on how fraud risks are managed.</p> <p>Internal Audit provide quarterly updates relating to fraud / irregularity to the Committee.</p>	
<p>Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability.</p>	<p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</p> <p>Publishing an annual report from the Committee.</p>	<p>The Committee is open to members of the public to attend. All agendas and minutes of meetings are published.</p> <p>Audit and Governance Committee actively seek to ensure all public reports use plain english and appropriate language. The Committee publish an annual report to Council.</p>	

**Audit Committee members knowledge and skills framework**

Scores:                    1. Improvement Required                    2. Acceptable                    3. Good                    4. Excellent

Core areas of knowledge	Details of core knowledge required	How the Audit and Governance Committee member is able to apply the knowledge	Score 1 - 4
Organisational knowledge	<p>An overview of the governance structures of the authority and decision-making processes.</p> <p>Knowledge of the organisational objectives and major functions of the authority.</p>	<p>This knowledge of the Council’s Constitution and the Committee’s Terms of Reference within, is core to the activities of the Audit and Governance Committee which includes the review and challenge of the Annual Statement of Accounts, Annual Governance Statement, internal and external audit reports, treasury management and risk management reports.</p>	
Audit and Governance Committee role and functions	<p>An understanding of the Audit and Governance Committee’s role and place within the governance structures. Familiarity with the committee’s terms of reference and accountability arrangements.</p> <p>Knowledge of the purpose and role of the Audit and Governance Committee.</p>	<p>This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.</p>	
Governance	<p>Knowledge of the seven principles of the CIPFA / SOLACE Good Governance Framework and the requirements of the Annual Governance Statement (AGS).</p> <p>Knowledge of the local code of corporate governance (LCCG).</p>	<p>The Committee reviews, considers, challenges and approves the Annual Governance Statement and Local Code of Corporate Governance annually, which provides the assurance that the seven principles of the CIPFA guide are being met. The Committee also receives progress updates on actions taken to address the improvement areas identified as part of the annual review.</p>	

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Core areas of knowledge	Details of core knowledge required	How the Audit and Governance Committee member is able to apply the knowledge	Score 1 - 4
<p>Internal Audit</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 148</p>	<p>An awareness of the key principles of the Public Sector Internal Audit Standards (PSIAS) and the <i>Local Government Application Note</i>.</p> <p>Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.</p>	<p>The Audit and Governance Committee has approved the Internal Audit Charter and Code of Ethics which conforms to the PSIAS.</p> <p>The Committee receives awareness briefings and training regarding the role of internal audit as required.</p> <p>The Committee reviews the assurances from internal audit work and contributes and approves the annual risk-based audit plan. The Committee also receives the Chief Internal Auditor’s annual report, including the opinion on the control environment and information on conformance with professional standards.</p> <p>The Committee was provided with the outcome of the external review of the effectiveness of the Internal Audit function (100% conformance) that was undertaken in May 2015. The next external assessment is due in 2020.</p>	
<p>Financial Management and Accounting</p>	<p>Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them.</p> <p>Understanding of good financial management principles.</p> <p>Knowledge of how the organisation meets the requirements of the role of the Chief Financial Officer (CFO), as required by the <i>CIPFA</i></p>	<p>The Committee:</p> <ul style="list-style-type: none"> <li>➤ reviews and challenges the financial statements prior to publication.</li> <li>➤ receives and challenges the external audit report and opinion on the financial audit.</li> <li>➤ reviews and challenges both external and internal audit reports relating to financial management and controls.</li> </ul>	

Core areas of knowledge	Details of core knowledge required	How the Audit and Governance Committee member is able to apply the knowledge	Score 1 - 4
	<p><i>Statement on the Role of the Chief Financial Officer in Local Government (CIPFA 2016)</i></p>	<ul style="list-style-type: none"> <li>➤ Receives relevant financial training as required.</li> </ul> <p>The role of the CFO is included within the Annual Governance Statement which is approved by the Committee.</p>	
<p>External Audit</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 149</p>	<p>Knowledge of the role and functions of the external auditor and who currently undertakes this role.</p> <p>Knowledge of the key reports and assurances that external audit will provide.</p> <p>Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken.</p>	<p>The Committee:</p> <ul style="list-style-type: none"> <li>➤ receives and challenges the external audit reports and opinions.</li> <li>➤ Monitors the relationship with internal audit to ensure co-ordination/avoid duplication.</li> </ul> <p>Receives awareness briefings and training sessions from the external auditor as required.</p>	
<p>Risk Management</p>	<p>Understanding of the principles of risk management, including linkage to good governance and decision making.</p> <p>Knowledge of the risk management policy and strategy of the organisation.</p> <p>Understanding of risk governance arrangements, including the role of members and the Audit and Governance Committee.</p>	<p>In reviewing the Annual Governance Statement and the Annual report on Risk Management Activity, the Committee considers the robustness of the authority’s risk management arrangements and should also have awareness of the major risks the authority faces.</p> <p>The Committee input to and reviews the corporate Risk Management Policy Statement and Strategy.</p> <p>Keeping up to date with the risk profile is necessary to support the review of a number of committee agenda items, including the risk-based internal audit plan, external audit plans, and the explanatory foreword of the accounts.</p>	

Core areas of knowledge	Details of core knowledge required	How the Audit and Governance Committee member is able to apply the knowledge	Score 1 - 4
		<p>Risk registers are used to inform these plans.</p> <p>The Committee receives awareness briefings and training regarding the risk management arrangements as required.</p>	
<p>Counter-fraud</p> <p>Page 150</p>	<p>An understanding of the main areas of fraud and corruption risk to which the organisation is exposed.</p> <p>Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).</p> <p>Knowledge of the organisation’s arrangements for tackling fraud.</p>	<p>The Committee reviews the authority’s Anti Fraud and Corruption Policy Statement and Strategy and receives quarterly progress reports on fraud and irregularity work undertaken by internal audit.</p> <p>An assessment of arrangements for managing the risk of fraud is documented within the Annual Governance Statement which is approved by the Committee.</p>	
<p>Values of Good Governance</p>	<p>Knowledge of the Seven Principles of Public Life.</p> <p>Knowledge of the authority’s key arrangements to uphold ethical standards for both members and staff.</p> <p>Knowledge of the whistleblowing arrangements in the authority.</p>	<p>The Committee members draw on this knowledge when reviewing governance issues and the Annual Governance Statement.</p> <p>Oversight of the effectiveness of whistleblowing is part of the committee’s terms of reference.</p> <p>The Committee members are aware to whom concerns should be reported i.e the Monitoring Officer and/or the Chief Internal Auditor.</p>	

Core areas of knowledge	Details of core knowledge required	How the Audit and Governance Committee member is able to apply the knowledge	Score 1 - 4
Treasury Management (only if it is within the terms of reference of the committee to provide scrutiny)	<p><i>Effective Scrutiny of Treasury Management</i> is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are:</p> <ul style="list-style-type: none"> <li>regulatory requirements</li> <li>treasury risks</li> <li>the organisation’s treasury management strategy</li> <li>the organisation’s policies and procedures in relation to treasury management.</li> </ul>	<p>Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.</p> <p>The Committee receives awareness briefings and training regarding the treasury management arrangements as required.</p>	

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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>11<sup>th</sup> March 2019</b>
<b>Subject:</b>	<b>Audit and Governance Committee Annual Report 2018/19</b>		
<b>Report Of:</b>	<b>Chair – Audit and Governance Committee</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer - Head of Audit Risk Assurance</b>		
	<b>Email:</b>	<b>Tel: 01452 396338</b>	
	<a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		
<b>Appendices:</b>	<b>A: Audit and Governance Committee Annual Report 2018/19</b>		

**FOR GENERAL RELEASE**

**1.0 Purpose of Report**

- 1.1 The Annual Report summarises the activities of the Audit and Governance Committee during 2018/19 and sets out its plans for the next twelve months.
- 1.2 This report provides the Council with an independent assurance that the Council has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains.

**2.0 Recommendations**

- 2.1 Audit and Governance Committee is asked to:
  - a) **RESOLVE** to agree the Audit and Governance Committee Annual Report 2018/19; and
  - b) **RECOMMEND** to Council the Annual Report is approved.

**3.0 Background and Key Issues**

- 3.1 Gloucester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is responsible for putting in place the proper arrangements for the governance of its affairs.

- 3.2 A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the Council takes decisions and leads and controls its functions to achieve stated objectives and priorities. It thereby provides an opportunity to demonstrate the positive elements of the Council's business and to promote public confidence.
- 3.3 Audit Committees are widely recognised as a core component of effective governance. Their key role is independently overseeing and assessing the internal control environment, comprising governance, risk management and control and advising the Council on the adequacy and effectiveness of these arrangements.
- 3.4 In response to the above, the Audit and Governance Committee was established in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This guidance recommends that audit committees should prepare an annual report to the full Council, which sets out the Committee's work on how they have discharged their responsibilities.
- 3.5 The Annual Report attached at **Appendix A** details the work and achievements of the Audit and Governance Committee during 2018/19 and sets out its plans for the next twelve months.

#### **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 Consideration has been given to not producing an Annual Report, however this has been discounted because recommended practice from both the public and private sectors indicates that an audit committee should report directly to the governing body of the organisation. In the case of a local authority, this is the full Council.

#### **6.0 Reasons for Recommendations**

- 6.1 The Audit and Governance Committee's terms of reference includes the accountability arrangement '*to providing an annual report to Council that its systems of governance are operating effectively, which includes the Committees performance in relation to the terms of reference*'. The Audit and Governance Committee's Annual Report meets this requirement and assists in Audit and Governance Committee independence from the executive and scrutiny functions, and in addition provides status and clarity to the Committee's role.

#### **7.0 Future Work and Conclusions**

- 7.1 In accordance with best practice, the Audit and Governance Committee will continue to present an Annual Report to the full Council.

#### **8.0 Financial Implications**

- 8.1 There are no direct financial costs arising out of this report.

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

## **9.0 Legal Implications**

9.1 Nothing specific arising from the report recommendations.

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

## **10.0 Risk and Opportunity Management Implications**

10.1 Audit committees are a key component of an authority's governance framework. The Audit and Governance Committee's Annual Report is part of the overall internal control arrangements and risk management process. By examining and evaluating objectively the adequacy of the control environment through the reports it receives the Committee can, in turn, provide assurances to Council on its governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that inform the Annual Governance Statement.

## **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 in this report.

### Sustainability

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

### Staffing & Trade Union

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

**Background Documents:** [Audit and Governance Committee meeting minutes 2018/2019](#)

[Constitution: Audit and Governance Committee Terms of Reference](#)

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# Audit and Governance Committee Annual Report

2018-2019



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## Statement from the Chairman of the Audit and Governance Committee

The Committee takes its remit very seriously. It discharges it in several ways. The Committee, for example, challenges and questions both members of staff and other Councillors in a non-partisan way.

I'm grateful to all Councillors who serve on the Committee for the conscientious way in which they take their membership of this Committee. And I'm grateful to the members of staff who give us the assurances which we require and courteously answer our questions.

Effective corporate governance is a fundamental feature of any successful public sector organisation. The trend for strengthening governance arrangements has resulted in the joint Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authorities Chief Executives (SOLACE) good practice publication / guidance '*Delivering Good Governance in Local Government – 2016 Edition*'.

Being well managed and well governed are important attributes in helping the Council to improve performance and to reduce the risk of failing to achieve our objectives and providing good services to our community.

Audit Committees are widely recognised as a core component of effective governance, their key role is to independently oversee and assess the internal control environment, comprising governance, risk management and control and advise the Council on the adequacy and effectiveness of these arrangements.

In response to the above, the Council established an Audit and Governance Committee in line with CIPFA's guidance '*Audit Committees – Practical Guidance for Local Authorities and Police – 2013 Edition*'. However the Committee is currently reviewing its effectiveness against the revised CIPFA guidance 2018. The Committee's priorities are to maintain and improve our governance procedures and we are a major source of providing assurance on the Council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance. As Chairman, I also consider training a key priority for members in order for us to undertake our roles effectively.

The Committee undertakes a substantial range of activities and works closely with the Monitoring Officer, Chief Financial Officer (Section 151 Officer) and both internal and external auditors, in achieving our aims and objectives. We have developed and implemented a work plan for the year to enable key tasks to be considered, undertaken and delivered and to summarise, through our work plan we have:

- provided independent assurance on the adequacy of the governance, risk management framework and associated control environment;
- provided independent scrutiny of the Council's financial and non financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and
- overseen the statutory financial reporting process.

In conclusion, the Committee has continued to make a positive contribution to the Council's overall governance and control arrangements, including risk management and is satisfied that the Council has maintained an adequate and effective internal control framework through the period covered by this report.

**Councillor Andrew Gravells**  
**Chairman of the Audit and Governance Committee**

## **Background**

Gloucester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is responsible for putting in place the proper arrangements for the governance of its affairs.

A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the Council takes decisions and leads and controls its functions to achieve stated objectives and priorities. It thereby provides an opportunity to demonstrate the positive elements of the Council's business and to promote public confidence. Audit Committees are widely recognised as a core component of effective governance.

The Audit and Governance Committee is responsible for overseeing the Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in Council's Constitution.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively<sup>1</sup>. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. The key benefits to the Council of operating an effective Audit and Governance Committee are:

- Maintaining public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and any other similar review process;
- Providing a focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial governance arrangements operating within the Council;
- Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable;
- Providing additional assurance through a process of independent and objective review, via the Internal Audit function;

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<sup>1</sup> CIPFA – Practical Guidance for Local Authorities and Police, 2013



- Raising awareness within the Council of the need for governance, including ethical governance, internal control and the implementation of audit recommendations; and
- Providing assurance on the adequacy of the Council's risk management arrangements, including the risk of fraud and irregularity.

## Membership and Meetings

The Committee has enjoyed the benefit of a reasonably settled membership over the last two years. This has helped to build and retain the expertise within the Committee, which has led to the Committee being able to demonstrate that they are operating within a best practice framework.

There are eight Members of the Audit and Governance Committee namely:

- Councillor Andrew Gravells (Chair)
- Councillor Dawn Melvin (Vice-Chair)
- Councillor Laura Brooker
- Councillor David Norman MBE
- Councillor Deborah Smith
- Councillor Kevin Stephens
- Councillor Declan Wilson
- Councillor Hannah Norman (ex-Officio)

During the 2018/19 Civic Year, the Audit and Governance Committee has met on five occasions, in accordance with its Programme of Work:

- 23<sup>rd</sup> July 2018
- 17<sup>th</sup> September 2018
- 19<sup>th</sup> November 2018
- 21<sup>st</sup> January 2019
- 11<sup>th</sup> March 2019

The Committee is also supported by Council Officers, principally the Monitoring Officer, Chief Financial Officer (S151 Officer), Head of Audit Risk Assurance (Chief Internal Auditor) and the Council's External Auditors (Deloitte).

## Work Programme

During this period, the Committee has assessed the adequacy and effectiveness of the Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors (Audit Risk Assurance) and the external auditors (Deloitte).

The Committee has sought assurance that action has been taken, or is otherwise planned by management to address any risk related issues that have been identified by the Committee themselves and the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors and between the auditors and management. The specific work undertaken by the Committee during 2018/2019 is set out below.

## Internal Audit Activity

With effect from May 2016, the Internal Audit service is provided by Audit Risk Assurance under a shared service agreement. The Committee has continued to monitor the work of Internal Audit and has:

- considered the effectiveness of the Audit Risk Assurance Shared Service;
- contributed towards, received and approved the Internal Audit Plan for 2018/19. The plan ensures that internal audit resources are prioritised towards those systems, processes and areas which are considered to be deemed high risk, or which contribute most to the achievement of the Council's corporate objectives;
- monitored the delivery of the annual Internal Audit Plan through regular update reports presented by the Head of Audit Risk Assurance;
- received, considered and monitored the results of internal audits performed and high risk activity identified, in respect of specific areas where a limited opinion on the control environment has been provided, e.g. Code of Conduct for Employees, and monitored the progress made by management, during the period, to address identified control weaknesses;
- considered the Council's overall counter fraud arrangements and response in the light of national guidance Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016 – 2019 which is supported by CIPFA Counter Fraud Centre;
- received updates on the outcomes of special investigations undertaken by Internal Audit, along with progress made in the investigation of queries arising as a result of the National Fraud Initiative (NFI) data matching exercise; and
- considered the Internal Audit Annual Report of the Head of Audit Risk Assurance, which provided a satisfactory opinion on the effectiveness of the Council's internal control environment and summarised the internal audit activity upon which that opinion was based. The Committee can therefore take reasonable assurance that there is a generally sound system of internal control in place at the Council.

## Activity relating to Treasury Management

During the year, the Audit and Governance Committee:

- approved the half yearly Treasury Management activity reports and received, considered and recommended to full Council for approval the Treasury Management Strategy, the Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2019/20. These reports set the Council's prudential indicators for 2019/20 – 2020/21 and the treasury strategy for these periods. This is a key area for the Committee to monitor and they continue to consider and recommend to full Council for approval amendments to the investment strategy in response to constantly changing market conditions.

## External Audit Activity

KPMG were the City Council External Auditors for the financial year 2017/2018 with Deloitte being appointed for the financial year 2018/19. The Committee has monitored the work of the Council's external auditors and has:

- considered and approved the External Audit Plan 2018/19 which sets out external audit's work to be undertaken on the accounting statements and to provide a value for money opinion. It reported on risks they have identified which would receive attention during the audit, the results of interim work, which did not reveal any material weaknesses, and the dates for the completion of the audit;
- considered the External Audit Report 2017/2018 i.e. 'Report to those charged with Governance' in accordance with the requirements of International Standard on Auditing 260 (ISA) which summarises the key findings arising from their audit work in relation to the Council's financial statements and work to support the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money (VFM) conclusion). The audit concluded with an unqualified opinion on the financial statements and VFM conclusion;
- considered and approved the Statement of Accounts for 2017/18 of the Council and received KPMG's audit opinion. The S151 Officer together with the Chairman of the Committee signed a letter of representation on behalf of the Committee and Council to KPMG, to enable the 'unqualified' opinion to be issued;
- considered and accepted the Annual Audit Letter 2017/18. This letter summarises the outcome from audit work at the Council during this period;
- received and considered the Internal Audit / External Audit Joint Working Protocol; and
- received and considered regular external audit progress reports.

## Risk Management Activity

During the year the Committee has:

- received regular risk management update reports (including the review of the strategic risk register), and being presented with the actions taken by the Council to identify and address strategic risks.

## Corporate Governance

In relation to corporate governance the Committee:

- considered and approved the Council's 2017/2018 Annual Governance Statement and Local Code of Corporate Governance. The Committee also reviewed the progress made by management to address the significant issues identified in the 2017/18 Annual Governance Statement Improvement Plan; and
- Considered and approved the Council's refreshed Confidential Reporting Procedure (Whistleblowing Policy).

## Other

In addition, the Committee considered:

- the report from the Corporate Director regarding the update on the Amey Street Care contract;
- the report by the Head of Policy and Resources summarising the Business Rates Pool outturn position for the 2017/18 financial year; and
- a management update on the allocation of Disabled Facilities Grants (DFGs) funding.

## Training

The following training was made available to Members of the Audit and Governance Committee in 2018/19 to support the Committee in discharging its responsibilities:

- 121 Officer briefings to Chair and Vice Chair of the Audit and Governance Committee as required throughout 2018/2019; and
- Risk Management training provided by Zurich Municipal during 2018/19.

## Future Work

During 2019/20, the Audit and Governance Committee will continue with the existing aim of being an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

In particular, they will continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations and continue to monitor any actions arising from the Annual Governance Statement action plan 2018/2019, to ensure the Council's governance arrangements are effective.

In addition, with risk management being a key contributor to good governance the Committee will be seeking independent assurance from internal audit that risk management continues to be embedded within the Council's key business processes.

During 2019/20 the Audit and Governance Committee will review their effectiveness against the revised CIPFA guidance on Audit Committees – Practical Guidance for Local Authorities and Police 2018.

## Conclusion

The Audit and Governance Committee has had a successful year in providing the Council with assurances on the strength of its governance and stewardship arrangements and in challenging those arrangements.

The Committee's work programme is a dynamic programme and will continue to be reviewed to ensure the Committee maximises its contribution to the governance and control framework at the same time managing agendas to ensure that all meetings are focused on the key issues.

Details of all reports as noted within this report can be found at <http://democracy.gloucester.gov.uk/ieListMeetings.aspx?CId=487&Year=0>.

**Gloucester City Council**  
**Audit and Governance Work Programme 2018-2019**  
**(Updated 22 January 2019)**

Item	Format	Committees	Lead Officer	Comments
<b>11 March 2019</b>				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee
2. Treasury Management Strategy	Written Report	Audit and Gov Cabinet Council	Head of Policy and Resources	Part of the Committee's annual work programme
3. Annual Risk Management Report 2018/19	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
4. Internal Audit Activity 2018/19 – progress report.	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
5. Internal Audit Plan 2019-20	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
6. Review of the Effectiveness of the Audit and Governance Committee	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
7. Annual Report of the Audit and Governance Committee	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
8. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item

**22 July 2019**

1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee
2. Position Statement on Statement of Accounts	Verbal report	Audit and Gov	Head of Policy and Resources	Part of the Committee's annual work programme
3. Internal Audit Activity 2019/20 – Progress Report	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
4. Treasury Management Six Monthly Update 2017/18	Written Report	Audit and Gov	Head of Policy and Resources/Accountancy Manager	Part of the Committee's annual work programme
5. Members appointed to outside bodies by the Council	Scoping Document	Audit and Gov	Corporate Director	Requested by the Committee
6. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item

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

- Regulation of Investigatory Powers Act 2000 (RIPA) – Annual Review of Procedural Guide
- Review the Amey Street Scene Contract