

## Audit Committee

**Thursday 27th June 2019**

**10.00 am**

**Main Committee Room,  
Council Offices, Brympton Way,  
Yeovil, BA20 2HT**

(disabled access and a hearing loop are available at this meeting venue)



The following members are requested to attend the meeting:

**Chairman:** Martin Carnell  
**Vice-chairman:** Mike Hewitson

Mike Best  
Dave Bulmer  
Malcolm Cavill

Louise Clarke  
Brian Hamilton  
Paul Maxwell

Robin Pailthorpe  
William Wallace

If you would like any further information on the items to be discussed, please contact the Case Services Officer (Support Services) on 01935 462038 or [democracy@southsomerset.gov.uk](mailto:democracy@southsomerset.gov.uk)

This Agenda was issued on Tuesday 18 June 2019.

**Alex Parmley**, *Chief Executive Officer*



This information is also available on our website  
[www.southsomerset.gov.uk](http://www.southsomerset.gov.uk) and via the mod.gov app

## **Information for the Public**

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

### **Internal Audit Activity**

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

### **External Audit Activity**

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

### **Regulatory Framework**

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

### **Financial Management and Accounts**

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;

14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

### **Overall Governance**

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at [www.southsomerset.gov.uk](http://www.southsomerset.gov.uk)

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

### **Members questions on reports prior to the Meeting**

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

### **Recording and photography at council meetings**

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

# Audit Committee

**Thursday 27 June 2019**

## Agenda

### *Preliminary Items*

**1. Minutes**

To approve as a correct record the minutes of the previous meeting held on 28 March 2019.

The draft minutes of the last meeting can be viewed at:

<http://modgov.southsomerset.gov.uk/ieListMeetings.aspx?CId=135&Year=0>

**2. Apologies for absence**

**3. Declarations of Interest**

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

**4. Public question time**

**5. Date of next meeting**

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Thursday 25<sup>th</sup> July in the Main Committee Room, Brympton Way, Yeovil.

### *Items for Discussion*

**6. Internal Audit Annual Activity Report 2018/19** (Pages 5 - 20)

**7. Internal Audit Annual Report and Opinion 2018/19** (Pages 21 - 40)

**8. 2018/19 Treasury Management Activity Report** (Pages 41 - 56)

**9. Review of Effectiveness of Internal Audit 2018/19** (Pages 57 - 60)

**10. Appointment of an Independent Person to the Audit Committee** (Pages 61 - 64)

**11. Audit Committee Forward Plan** (Pages 65 - 66)

# Agenda Item 6

## **Internal Audit Annual Activity Report 2018/19**

*Head of Service:* David Hill, Chief Executive – SWAP  
*Lead Officer:* Alastair Woodland - Assistant Director  
*Contact Details:* Alastair.Woodland@swapaudit.co.uk

### **Purpose of the Report**

To update members on the Internal Audit Plan 2018-19 Outturn and bring to their attention any significant findings identified through our work. The report aims to provide assurance to the Audit Committee regarding the effectiveness of the control environment operated by and on behalf of the council and highlight any significant matters to be addressed by management.

### **Recommendation**

Members are asked to note progress made in delivery of the 2018/19 internal audit plan and the significant findings since the previous update.

### **Background**

The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit Committee over the effectiveness of internal controls, governance and risk management. The 2018-19 Annual Audit Plan was approved by the Audit Committee at its March 2018 meeting and is to provide independent and objective assurance on SSDC's Internal Control Environment and this work will support the Annual Governance Statement.

### **Financial Implications**

There are no financial implications associated with these recommendations.

***Background Papers:*** None

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# South Somerset District Council

## Report of Internal Audit Activity

2018-19 Outturn Report June 2019

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## The contacts at SWAP in connection with this report are:

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Role of Internal Audit

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Internal Audit Work

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Approved Changes to the Audit Plan

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Appendix C – Summary of Relevant Findings

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## Internal Audit Plan Outturn 2018/19

### Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

### Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter which was approved by the Audit Committee at its meeting in March 2018.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Governance Audits
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Leadership Team. The 2018-19 Audit Plan was reported to this Committee and approved at its meeting in March 2018.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.



## Internal Audit Plan Outturn 2018/19

### Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

### Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in **Appendix A**.

All audits from the 2018-19 plan have been completed to final report stage with the exception of Disaster Recovery Arrangements and Risk Management. Disaster Recovery was scheduled to commence at the end of March and is now drawing to conclusion. The Risk Management Audit was ‘Advisory’ on providing challenge to the new framework that is being developed and is scheduled to be completed by the end of June 2019.

### **Partial Assurance / No Assurance Audits**

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since the previous update there is one ‘Partial Assurance’ review I need to bring to your attention, this being Lone Working. This audit was focusing on the lone working processes in place across the Council. We identified that there was no corporate approach to managing lone workers and different approaches were being used across and within teams. Further details can be found in **Appendix C**. A significant amount of work has been undertaken in this area by SSDC since the original audit to improve the controls. We will be undertaking a follow up Audit in 2019/20 to assess the work undertaken to date.

## Internal Audit Plan Outturn 2018/19

### Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

### Internal Audit Work Programme Continued

#### 'High' Corporate Risk

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place we re-evaluate the risk, based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention.

Since our previous update there are no 'High' risks that I need to bring to your attention from our work. Whilst Lone Working returned a Partial Assurance, the Council does have a lone working policy in place and there are some controls in place to manage the lone workers even though there is no consistent approach. For this reason, the risk assessment at a corporate level returned a 'Medium' assessment rather than 'High'.

## Internal Audit Plan Outturn 2018/19

We keep our audit plans under regular review so as to ensure that we audit the right things at the right time.

### Approved Changes to the Audit Plan

The audit plan for 2018/19 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to South Somerset District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Manager and the Section 151 Officer.

Since the previous update the following changes have been made:





- The Benefits Realisation review has been moved to the 2019/20 plan to enable this work to be undertaken at a more suitable time as some changes are still bedding in. This will also allow for more evidence to be available to ascertain if benefits have been realised and services are running as expected.
- The Procurement/Contract audit was replaced by a special investigation. The risk around not covering this area will be taken into account with the 2019-20 plan and future audit plans.

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

### Audit Framework Definitions

### Control Assurance Definitions

<b>Substantial</b>		I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>		I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>		I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>None</b>		I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

**Non-Opinion/Advisory** – In addition to our opinion based work we will provide consultancy services. The "advice" offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

### Audit Framework Definitions


#### Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.


- Priority 1: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Findings that require attention.

#### Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 =		3 =	Comments
						Major		Minor	
						Recommendation		1	
FINAL									
Cross cutting, Governance, Fraud and Corruption	Bank and Cash Procedures at Octagon and Westlands	1	Final	Advisory	0	0	0	0	
Annual Accounts Certification	Boden Mill	1	Final	Advisory / Certification	0	0	0	0	
Annual Accounts Certification	Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory / Certification	1	0	0	1	
Cross cutting, Governance, Fraud and Corruption	Data Protection Query	1	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	EU General Data Protection Regulations Common Findings	1	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Financial Resilience/Contract Monitoring	2	Final	Partial	3	1	1	1	
Operational	LED Leisure Contract Compliance	2	Final	Reasonable	1	0	0	1	
Key Financial Controls	Treasury Management and Bank Reconciliations	3	Final	Substantial	0	0	0	0	
Key Financial Controls	Payroll	3	Final	Substantial	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Lone Working Arrangements	3	Final	Partial	5	0	4	1	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
						Recommendation			
						1	2	3	
Cross cutting, Governance, Fraud and Corruption	Commercial Strategy/Income Generation	3	Final	Reasonable	4	0	1	3	
Key Financial Controls	Cash Receipting	3	Final	Substantial	1	0	0	1	
Key Financial Controls	Accounts Receivable	3	Final	Reasonable	1	0	1	0	
Key Financial Controls	Main Accounting, Budgetary Control and Capital Accounting	3	Final	Reasonable	3	0	1	2	
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Re-engineering workshops	1,2,3	Final	Advisory	0	0	0	0	
IT Audit	<b>New:</b> Cyber Security Follow Up	3	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Petters Way Front of House	1,2,3	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Benefit Realisation Strategy	1,2,3	Final	Advisory	0	0	0	0	
Key Financial Controls	Accounts Payable	4	Final	Reasonable	2	0	0	2	
Special Investigation	<b>New:</b> Special Investigation	4	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Housing Benefit Subsidy Claims	4	Final	Reasonable	6	0	0	6	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 =		3 =	Comments
						Major		Minor	
						Recommendation			
IN PROGRESS									
Cross cutting, Governance, Fraud and Corruption	Risk Management	4	In Progress	Advisory work - due to finish end of June 2019					
IT Audit	Disaster Recovery	4	In Progress						
Deferred/Removed									
IT Audit	Agile Working	1,2,3			Replaced by Cyber Security				
Operational	S106/CIL	4			Moved to 2019-20 plan due to staff absence in service area.				
Cross cutting, Governance, Fraud and Corruption	Transformation Benefits Realisation	4			Moved to 2019-20 plan for timing purposes				
Cross cutting, Governance, Fraud and Corruption	Procurement/Contract	4			Replaced with special investigation				



These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

### Summary of Audit Findings and High Priority Service Finding

The following information provides a brief summary of each audit review finalised since the last Committee update in January 2019. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the January 2019 update there is one Partial Assurance audit opinion that I need to bring to your attention.

### Governance, Fraud and Corruption Audits

The Governance, Fraud and Corruption Audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will enable SWAP to provide management with assurance that key controls are in place. SWAP will use the findings of these reviews to support the assurance that is required as part of the Council's Annual Governance Statement; it will also provide assurance to the External Auditor on areas that they have requested specific assurance.

### Lone Working – Partial Assurance

The law requires employers to consider carefully, and then deal with any health and safety risks for people working alone. Our reason for awarding partial assurance is that:

- 59% of Risk Assessments were overdue for review which could result in offices being unprepared for new risks;
- 57% of lone workers had not received training which could result in officers not knowing how to deal with a dangerous situation;

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

### Governance, Fraud and Corruption Audits Continued

- Systems used are not consistent across service areas – this could mean that some officers are not being suitably protected by the system they are using;
- 64% of lone workers who should have access to the dangerous persons register do not have access, which could result in them unknowingly putting themselves into avoidable dangerous situations.

These weaknesses increase the potential risks to lone workers. The impact of transformation will no doubt change the way staff are working and how many staff are lone working. We note that the Lone Working Policy is out of date and now would be a reasonable time to review this policy to reflect the changes in the structure and to ensure the policy reflects the '*ways of working*' at SSDC within the new structure. It was positive to see that Managers are aware of their roles & responsibilities for lone working, which includes the new localities Manager. Updating the Lone Working Policy will ensure that a new and consistent approach to lone working is rolled out across the organisation and further enhance some of the good steps already being taken such as rolling out the use of Skyguard, a lone working protection system.

### June 2019 Update – Lone Working

A new draft policy has been prepared, following feedback from managers and the Safety Panel, this now requires final consultation and agreement by SLT. New target date end of July 2019. The four priority 2 recommendations from the review are listed below together with an update as at the beginning of June 2019.

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
<b>Lone Working</b>					
1	Risk assessments are not reviewed annually.	Risk assessments may not assess the correct risks officers face, resulting in inadequate control measures being in place to safeguard staff. Should an incident occur the Council would be open to legal recourse, finance loss and reputational damage.	We recommend that the Leadership and Management Team ensures risk assessments are updated and reviewed annually. An annual check should be carried out to ensure all have been reviewed and updated to show the date of review.	The risk assessments in place are likely to include a high degree of duplication. A review of these will be undertaken by end February in advance of a more rigorous approach to reviewing all risk assessments at least annually being developed by end March 2019.	March 2019
<b>Update June 2019:</b> A preliminary review of service-based risk assessments for lone working has been completed, which has confirmed a high degree of duplication. It is proposed that only three generic risk assessments are needed, in support of the lone working policy. The new risk assessments will be available shortly for further consultation / training within teams. Limiting the number of risk assessments will allow a focus on the key actions necessary to prevent or minimise the risk or harm to a lone worker. In future these risk assessments will be reviewed annually. Reports of near misses or other events are reviewed regularly by the Health & Safety working group. Target date end of July 2019.					
2	Training is not provided to all Lone workers.	An officer is injured due to insufficient lone working training resulting in legal, financial and reputational damage to the Council.	We recommend that the People Managers Forum ensures that the lone working training programme is reviewed and updated, and that all lone workers are complete this regardless of length of service. Annual refreshers should be carried out to update on any changes in protocols that have occurred and ensure the correct processes are being followed.	The people Managers' Forum will review and update the lone working training programme by end March. All lone workers will be asked to complete this training by end April 2019	April 2019
<b>Update June 2019:</b> No formal 'corporate' refresher training has been offered as yet as the content requires the reviewed policy & risk assessments. However, managers have been reviewing risk assessments and agreeing operating practice (including use of the Skyguard tool) within individual teams					

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
	where lone working takes place in the higher risk areas is identified (eg Locality, Specialists, Customer Focus). Training will be included in the new health induction & refresher training and made available through the Learning Management System. Target date end of July 2019.				
3	There is no consistency in lone working systems used across teams.	Multiple systems are not sufficiently monitored resulting in staff unsupported in dangerous situations resulting in injury to the officer and financial, legal and reputational damage to the Council.	We recommend that the Lead Specialist Strategic Planning ensures that: <ul style="list-style-type: none"> <li>the need to use Skyguard is clearly communicated to all lone workers and their Managers;</li> <li>training is provided on its use to all lone workers;</li> <li>the method of raising the alarm is considered and communicated to all lone workers and their Managers.</li> </ul>	Skyguard training will be included in the lone worker training being provided and undertaken by all lone workers by end April 2019.  The method of raising the alarm to be agreed and communicated by end March 2019.	April 2019
	<b>Update June 2019:</b> All lone workers will use Skyguard. See recommendation 2 for further information.				
4	Not all officers have access to a register of dangerous persons or properties list.	A lone worker is assaulted resulting in injury to them and legal, financial and reputational damage to the Council.	We recommend that the Lead Specialist Environmental Health and the Specialist Service Manager ensures that a register of dangerous persons is produced and made available to all officers who may have to deal with customers on their own.	A register of dangerous persons to be produced and provided to all lone workers.	April 2019

# Agenda Item 7

## **Internal Audit Annual Report and Opinion 2018/19**

*Head of Service:* David Hill, Chief Executive - SWAP  
*Lead Officer:* Alastair Woodland - Assistant Director  
*Contact Details:* Alastair.Woodland@southwestaudit.co.uk

### **Purpose of the Report**

This report provides an update on the position of the Internal Audit Plan at the end of 2018/19 and also provides Internal Audit's overall Opinion on the systems of internal control at South Somerset District Council.

### **Recommendation**

Members are asked to note the Annual Opinion on the effectiveness of the internal control environment in the delivery of SSDC objectives.

### **Background**

The Audit Committee agreed the original 2018/19 Internal Audit Plan at its March 2018 meeting, with progress updates provided during the year.

This report summarises the work of the Council's Internal Audit Service and provides:

- A summary of the key risks that were identified during the 2018-19 financial year.
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

The Audit Opinion for 2018/19 is contained within the attached SWAP Internal Audit Annual Opinion Report.

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# South Somerset District Council

## Report of Internal Audit Activity

### Annual Opinion Report 2018/19

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## The contacts at SWAP in connection with this report are:

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## Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



### Purpose

The Accounts and Audit Regulations (England) 2015 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual opinion report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment;
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- compare the work undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.



## Summary

### Three lines of defence

To ensure the effectiveness of an organisation's risk management framework, the Audit Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line of defence – functions that own and manage risk.
- the second line of defence – functions that oversee or specialise in risk management, compliance.
- the third line of defence – functions that provide independent assurance.

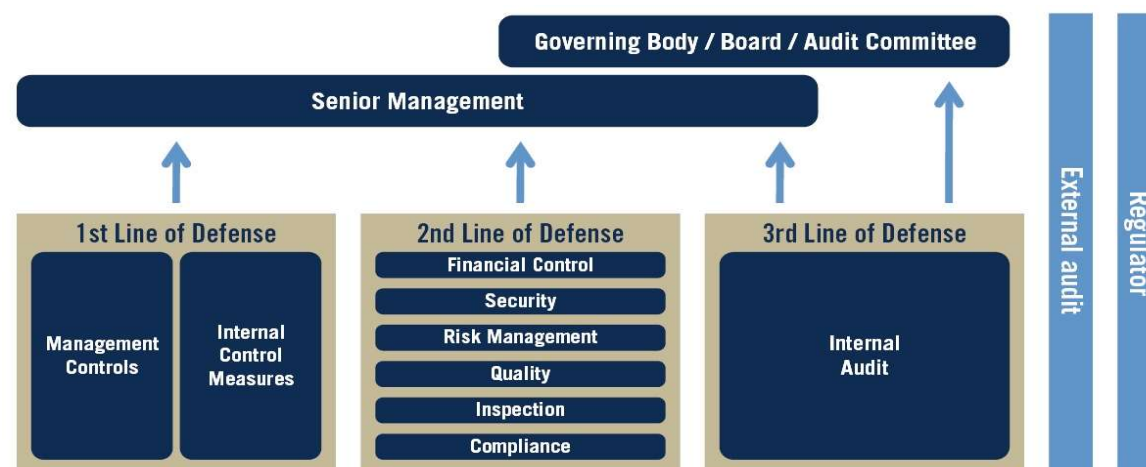


### Background

The Internal Audit service for South Somerset District Council is provided by SWAP Internal Audit Services. The Team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of our work against the 2018/19 Internal Audit Plan. The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

### The Three Lines of Defence Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

## Internal Audit Annual Opinion 2018/19

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



### Annual Opinion

This Annual Report gives the opinion of the Assistant Director (Head of Internal Audit) on the adequacy and effectiveness of internal control, governance and risk management within South Somerset District Council. Internal Audit has not reviewed all risks and assurances relating to South Somerset District Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix B**, and as such it is one source of assurance on the adequacy of the internal control environment.

Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success—to knowingly take risk rather than be unwittingly exposed to it.

In the 2018-19 audit plan for South Somerset District Council there were 25 reviews to be delivered. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed' as the need to respond to new and emerging risks was identified. Change can be seen from **Appendix B**.

Out of the 23 revised reviews to be delivered, all except two are at report stage. Of those at final report stage, two (12.5%) received Partial Assurance. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports. It is also worth noting the number of 'Advisory' audits during 2018-19. Given the level of change within the Authority, Internal Audit has a role to play in being the 'Trusted Advisor', and as such we have been involved in a number of key areas of organisational change and risk management. Although no opinion is offered with this work, the work is used to assist in forming our overall opinion on the adequacy of internal control, governance and risk management.

## Internal Audit Annual Opinion 2018/19

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



### Annual Opinion Continued

When forming this 'opinion' I have considered the major transformational change that the Authority is undergoing. The backdrop to 2018-19 was one of uncertainty for staff due to the organisational wide change. Despite this uncertainty and the scale and speed of change we have been encouraged by how well staff have adapted. Based on the balance of audit work, the assurance levels provided and outcomes together with the response from Senior Management and our Advisory work I feel I can offer '**Reasonable Assurance**' on the internal control framework in place. The pace and extent of change is not without risk but there is evidence that appropriate steps have been taken to address the most significant areas of risk, although this might come at a short-term financial cost and there will be some disruption to services over the short-term.

The Annual Opinion is made based on the following sources of information:

- Completed audits (during the year 2018/19) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regs.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

## Summary of Audit Work 2018/19

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Transformation
- Grant/Certification
- Follow-up



### Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2018-19 and the final outturn for the financial year. In total, 23 will be delivered. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 23 reviews in the revised 2018-19 audit plan, they are broken down as follows:

Type of audit	2018-19 original plan	2018-19 revised plan
• Operational Audits	2	1
• Key Control	6	6
• Governance, Fraud & Corruption	10	8
• Information Systems	2	2
• Grant/Certification	2	2
• Transformation	3	3
• Special Investigation	0	1
• TOTAL	25	23

As would be expected some audits were 'exchanged' or 'removed' as the need to respond to changes and emerging risks that arise during the year. Due to the need to be flexible with transformation work a number of reviews have been exchanged throughout the year.

In addition to the 2018-19 annual Audit Plan, we have also undertaken a number of benchmarking and comparison pieces of work during the year that are summarised in the 'added value' section of this report.



## Summary of Audit Work 2018/19

### Definitions of Corporate Risk

#### High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

#### Medium Risk

Issues which should be addressed by management in their areas of responsibility.

#### Low Risk

Issues of a minor nature or best practice where some improvement can be made.



### Significant Corporate Risks

We provide a definition of the three Risk Levels applied within audit reports under **Appendix A**. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

No risks were assessed as high.

During 2018-19 there have been two Partial Assurance Audits. Our assessment at a corporate level of these weaknesses are assessed as follows:

- Supplier Financial Resilience/Contract Monitoring – Medium Risk
- Lone Working – Medium Risk

## Summary of Audit Work 2018/19

### SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- No Assurance

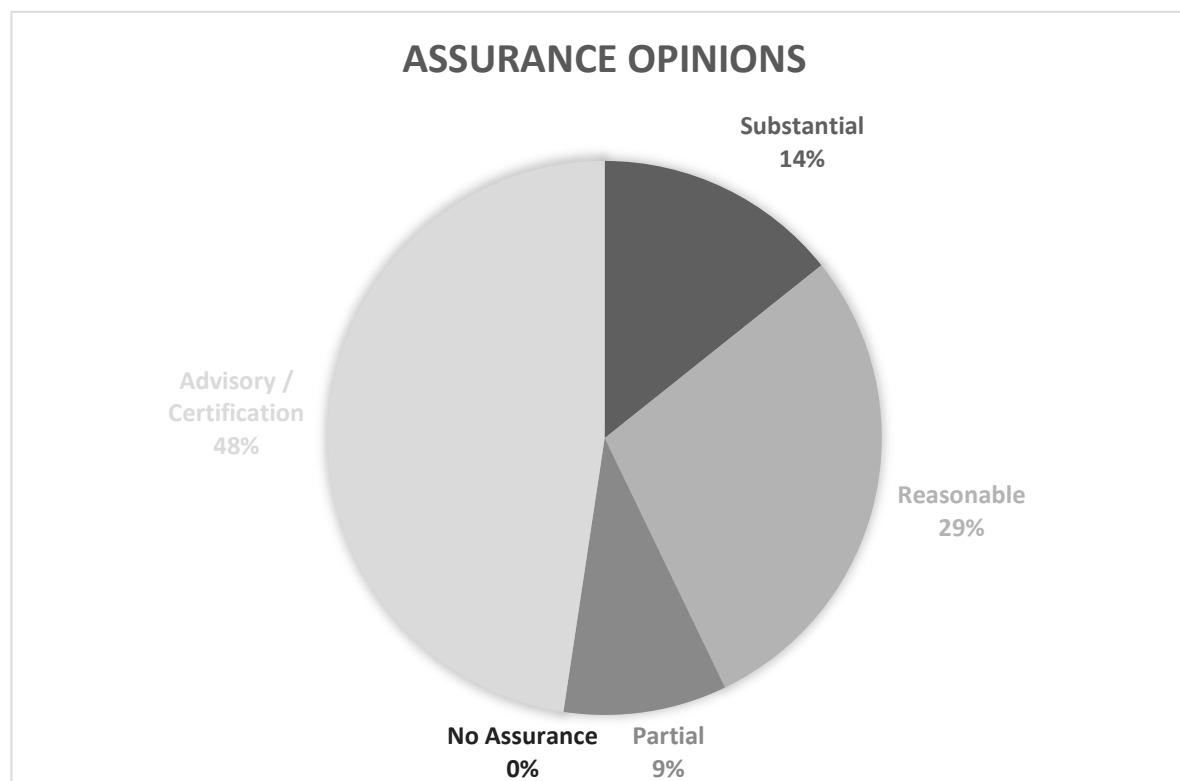
We also undertake 'Advisory / Non-Opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern.

Where we follow up on a previous adverse audit opinion the opinion is stated as 'follow up'.



### Summary of Audit Opinion

Taking only the finalised reviews into account, the breakdown is summarised below. Definitions for each assurance category can be found in [Appendix A](#).



## Summary of Audit Work 2018/19

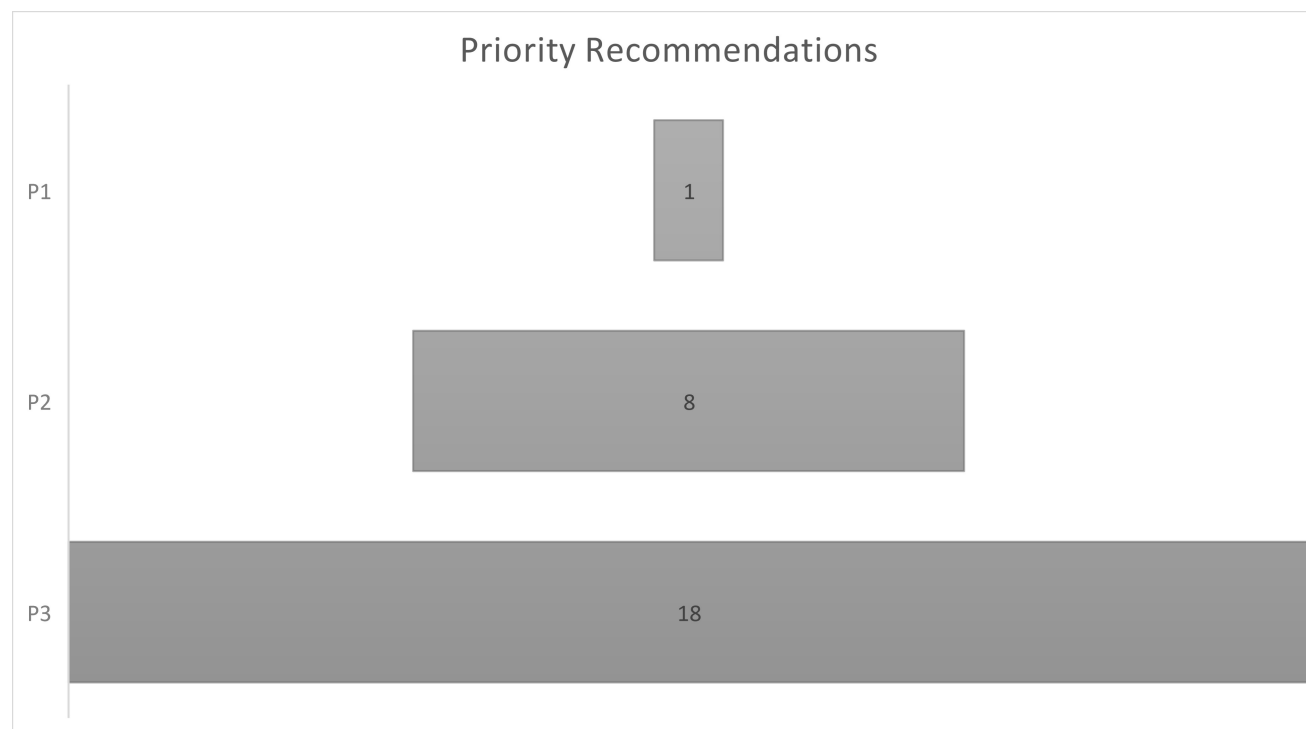
### SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 1 being areas of major concern requiring immediate corrective action to 3 being minor or administrative concerns.



### Priority Actions

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 1 recommendations being more important than priority 3. All recommendations as currently contained in [Appendix B](#) are summarised below.



### Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



### Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to audits undertaken in [Appendix B](#), where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where SSDC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- **Partners Newsletters** – We also produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies.
- **Building Control** – A comparison was completed on how the Councils maintain and plan to expand their current market share of statutory Building Control business within their geographic area.
- **B&B VAT Charges** – A comparison was made on how Councils manage the change in VAT rules for B&B stays over 28 days.



### Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cos.



### Added Value Continued

- **Business Continuity Management** – compared the Business Continuity processes in place for the local authorities and identified any areas of best practice.
- **Car Parking Benchmarking** – a comparison was undertaken on the charging for car parks across local authorities at hourly, and daily rates and permit holder rates. They also compared the alternative use of the car parks and how enforcement is managed.
- **Gifts and Hospitality** – A request was received from Devon County Council to provide information on how gifts and Hospitality were managed, recorded and what guidance was available for these.
- **Electoral Registration Practice** - a benchmarking exercise was undertaken to identify any areas in which improvements to the effectiveness and efficiency of the process used to implement this process.
- **Procurement** - a questionnaire was sent to all our partner sites to ascertain the approach taken to Procurement and Contract Management.
- **Leisure Partnership** – a comparison was undertaken to identify the processes used to award leisure contracts and they types of contracts currently being used.

The Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



### SWAP Performance

SWAP now provides the Internal Audit service for 18 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2018-19 year are as follows;

Performance Target	Average Performance
<b><u>Audit Plan – Percentage Progress</u></b> Final, Draft and Discussion Fieldwork Completed awaiting report In progress	91% 0% 9%
<b><u>Quality of Audit Work</u></b> *Customer Satisfaction Questionnaire	99%*

\*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



### SWAP Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). SWAP has been independently assessed and found to be in conformance with the Standards.

SWAP has been independently assessed and found to be in full conformance to the International Professional Practices Framework and the PSIAS. As a result of the external assessment, a Quality Assessment Improvement Plan (QAIP) was produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

And finally, just like any other company and South Somerset District Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- No Assurance



## Audit Framework Definitions

### Control Assurance Definitions

<b>Substantial</b>	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>No Assurance</b>	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

**Non-Opinion/Advice** – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



### Audit Framework Definitions

#### Categorisation of Recommendations


When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.


- Priority 1: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.


#### Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of Senior Management and the Audit Committee.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 =		3 =	Comments
						Major		Minor	
						Recommendation			
						1	2	3	
FINAL									
Cross cutting, Governance, Fraud and Corruption	Bank and Cash Procedures at Octagon and Westlands	1	Final	Advisory	0	0	0	0	
Annual Accounts Certification	Boden Mill	1	Final	Advisory / Certification	0	0	0	0	
Annual Accounts Certification	Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory / Certification	1	0	0	1	
Cross cutting, Governance, Fraud and Corruption	Data Protection Query	1	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	EU General Data Protection Regulations Common Findings	1	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Financial Resilience/Contract Monitoring	2	Final	Partial	3	1	1	1	
Operational	LED Leisure Contract Compliance	2	Final	Reasonable	1	0	0	1	
Key Financial Controls	Treasury Management and Bank Reconciliations	3	Final	Substantial	0	0	0	0	
Key Financial Controls	Payroll	3	Final	Substantial	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Lone Working Arrangements	3	Final	Partial	5	0	4	1	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major		3 = Minor	Comments
						Recommendation			
						1	2	3	
Cross cutting, Governance, Fraud and Corruption	Commercial Strategy/Income Generation	3	Final	Reasonable	4	0	1	3	
Key Financial Controls	Cash Receipting	3	Final	Substantial	1	0	0	1	
Key Financial Controls	Accounts Receivable	3	Final	Reasonable	1	0	1	0	
Key Financial Controls	Main Accounting, Budgetary Control and Capital Accounting	3	Final	Reasonable	3	0	1	2	
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Re-engineering workshops	1,2,3	Final	Advisory	0	0	0	0	
IT Audit	<b>New:</b> Cyber Security Follow Up	3	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Petters Way Front of House	1,2,3	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Transformation Programme - Benefit Realisation Strategy	1,2,3	Final	Advisory	0	0	0	0	
Key Financial Controls	Accounts Payable	4	Final	Reasonable	2	0	0	2	
Special Investigation	<b>New:</b> Special Investigation	4	Final	Advisory	0	0	0	0	
Cross cutting, Governance, Fraud and Corruption	Housing Benefit Subsidy Claims	4	Final	Reasonable	6	0	0	6	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 =		3 =	Comments
						Major		Minor	
						Recommendation		1	
IN PROGRESS									
Cross cutting, Governance, Fraud and Corruption	Risk Management	4	In Progress	Advisory work programmed to finish end of June 2019					
IT Audit	Disaster Recovery	4	In Progress						
Deferred/Removed									
IT Audit	Agile Working	1,2,3			Replaced by Cyber Security				
Operational	S106/CIL	4			Moved to 2019-20 plan due to staff absence in service area.				
Cross cutting, Governance, Fraud and Corruption	Benefits Realisation	4			Moved to 2019-20 plan for timing purposes				
Cross cutting, Governance, Fraud and Corruption	Procurement/Contract	4			Replaced with special investigation				



# Agenda Item 8

## 2018/9 Treasury Management Activity Report

*Director* Netta Meadow, Director – Strategy and Support Services  
*Lead Officer:* Paul Fitzgerald, S151 Officer  
Paul Matravers, Specialist - Finance  
*Contact Details:* Paul.fitzgerald@southsomerset.gov.uk or (01935) 462226  
Paul.matravers@southsomerset.gov.uk or (01935) 462275

### Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the 2018/19 financial year as prescribed by the CIPFA Code of Practice and in accordance with the Council's Treasury Strategy, Annual Investment Policy and Treasury Management Practices.

### Recommendations

2. The Audit Committee is recommended to:
  - Note the Treasury Management Activity for the 2018/19 financial year;
  - Note the position of the individual prudential indicators for the 2018/19 financial year;
  - Note the outlook for the investment performance in 2018/19;
  - Note the council operated within all of the Prudential Indicators during 2018/19;
  - Recommend the 2018/19 Treasury Management Activity Report to full Council

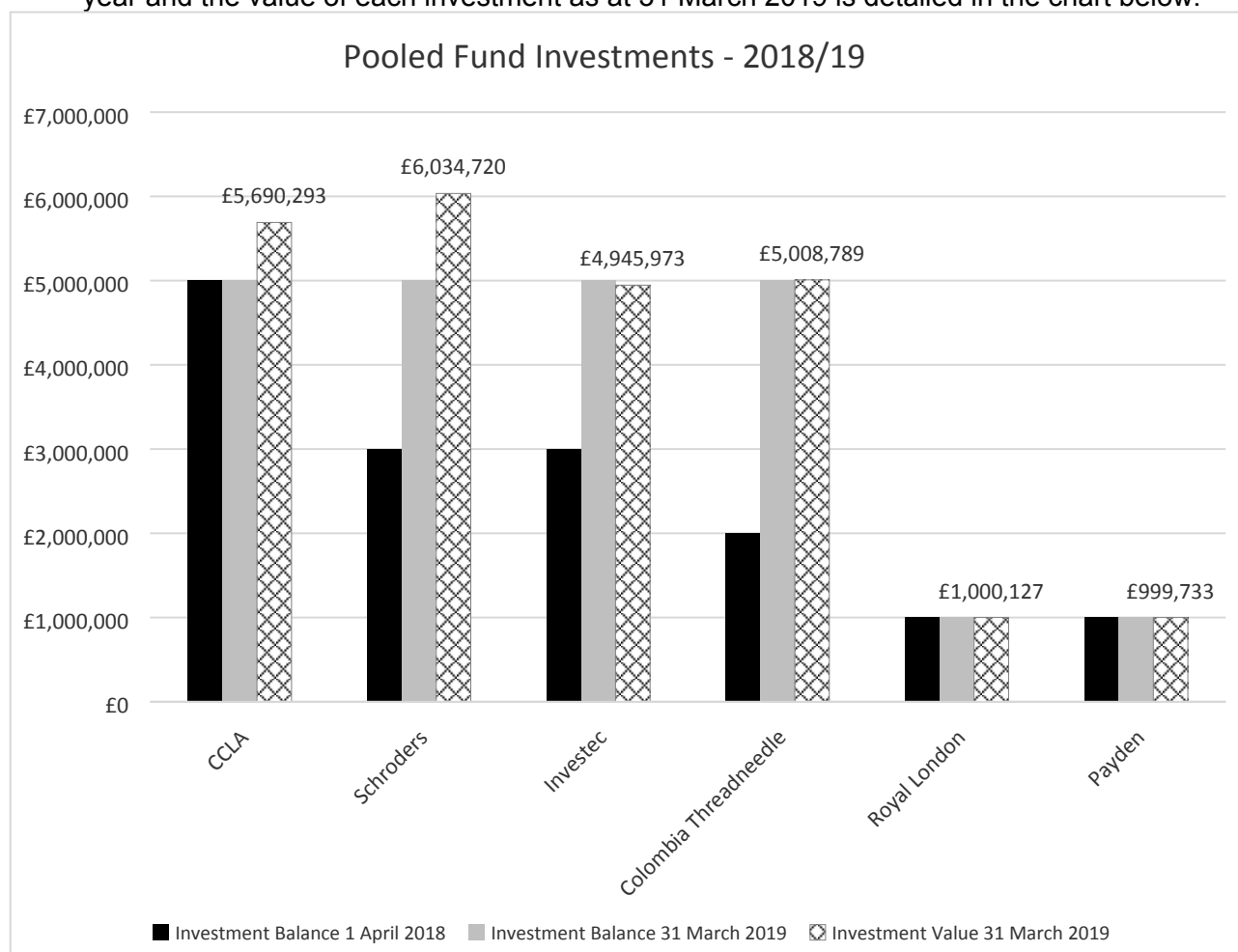
### Background

3. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, produce a six month and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. The Council's Treasury Management Strategy for 2018/19 was approved by Full Council on 22 February 2018. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.
5. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26 February 2019.
6. Overall responsibility for treasury management remains with the Council. The day to day treasury management operation is delegated to the S151 Officer and is undertaken by the Finance function which is part of the Strategy and Support Services directorate. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

7. This report provides information on the performance of the Council's Treasury Investments in 2018/19. The performance of the Council's Commercial Investments which are part of the Commercial strategy are not included in this report.

### Investment Activity

8. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Council's investment balance ranged between £30 million and £50 million.
9. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
10. The Council's best performing investments in 2018/19 were the investments in the Pooled Funds (Strategic Investments). details of the investment balance at the start and end of the financial year and the value of each investment as at 31 March 2019 is detailed in the chart below.



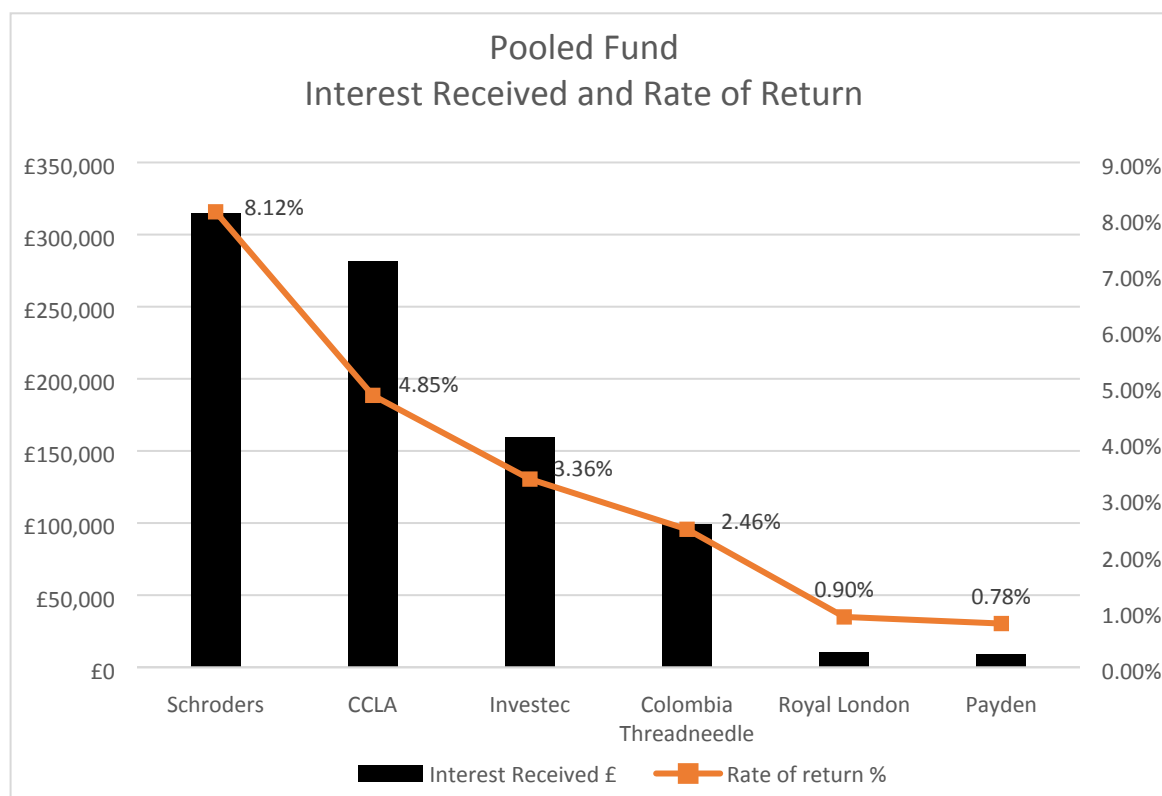
**Note:** Pooled fund investments are revalued at the end of the financial year to reflect the fair value of the investment, the third bar in the graph signifies this value and details the investment value as at 31 March 2019. The first and second bars represent the investment balance in each fund at that date.

### Pooled Fund Investments 2018/19

The table below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year end revaluation.

Investment Type	Investment Balance			Investment Fair Value	
	01-Apr-18	31-Mar-19		01-Apr-18	31-Mar-19
CCLA	£5,000,000	£5,000,000		£5,603,228	£5,690,293
Schroders	£3,000,000	£5,000,000		£2,984,650	£6,034,720
Investec	£3,000,000	£5,000,000		£2,948,061	£4,945,973
Colombia Threadneedle	£2,000,000	£5,000,000		£2,000,000	£5,008,789
Royal London	£1,000,000	£1,000,000		£999,119	£1,000,127
Payden	£1,000,000	£1,000,000		£1,000,713	£999,733
<b>Total</b>	<b>£15,000,000</b>	<b>£22,000,000</b>		<b>£15,535,771</b>	<b>£23,679,635</b>

The income generated from these investments in 2018/19 and the rate of return is detailed in graph and table below.



Fund	Interest Received £	Rate of return %
Schroders	315,013	8.12%
CCLA	281,579	4.85%
Investec	159,202	3.36%
Colombia Threadneedle	99,147	2.46%
Royal London	10,427	0.90%
Payden	9,058	0.78%
<b>Total</b>	<b>874,425</b>	<b>4.21%</b>

11. Pooled funds have no defined maturity date, but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives is

regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

12. In light of their strong performance and the Council's latest cash flow forecasts, investment in these funds has been increased and has proved to be successful during the 2018/19 financial year with capital values increasing overall and a good return on investments achieved.
13. The investment strategy approved in the 2019/20 Treasury Management Strategy Statement recommended that the Council maintains its investments in the secure and higher yielding asset classes given the increasing risk and very low returns from short-term unsecured bank investments.
14. The graph above and table detailing interest received, and the rate of return on investments demonstrates that the approved policy has met the objectives of the investment strategy. It is anticipated that the level of strategic (long-term) investments will remain in the region of £25m in 2019/20 with the possibility of increasing these investments, if cash flow permits, in line with the Council's overall Financial Strategy and income generation targets. The diversification into strategic investments represents a continuation of the strategy adopted in 2017/18.

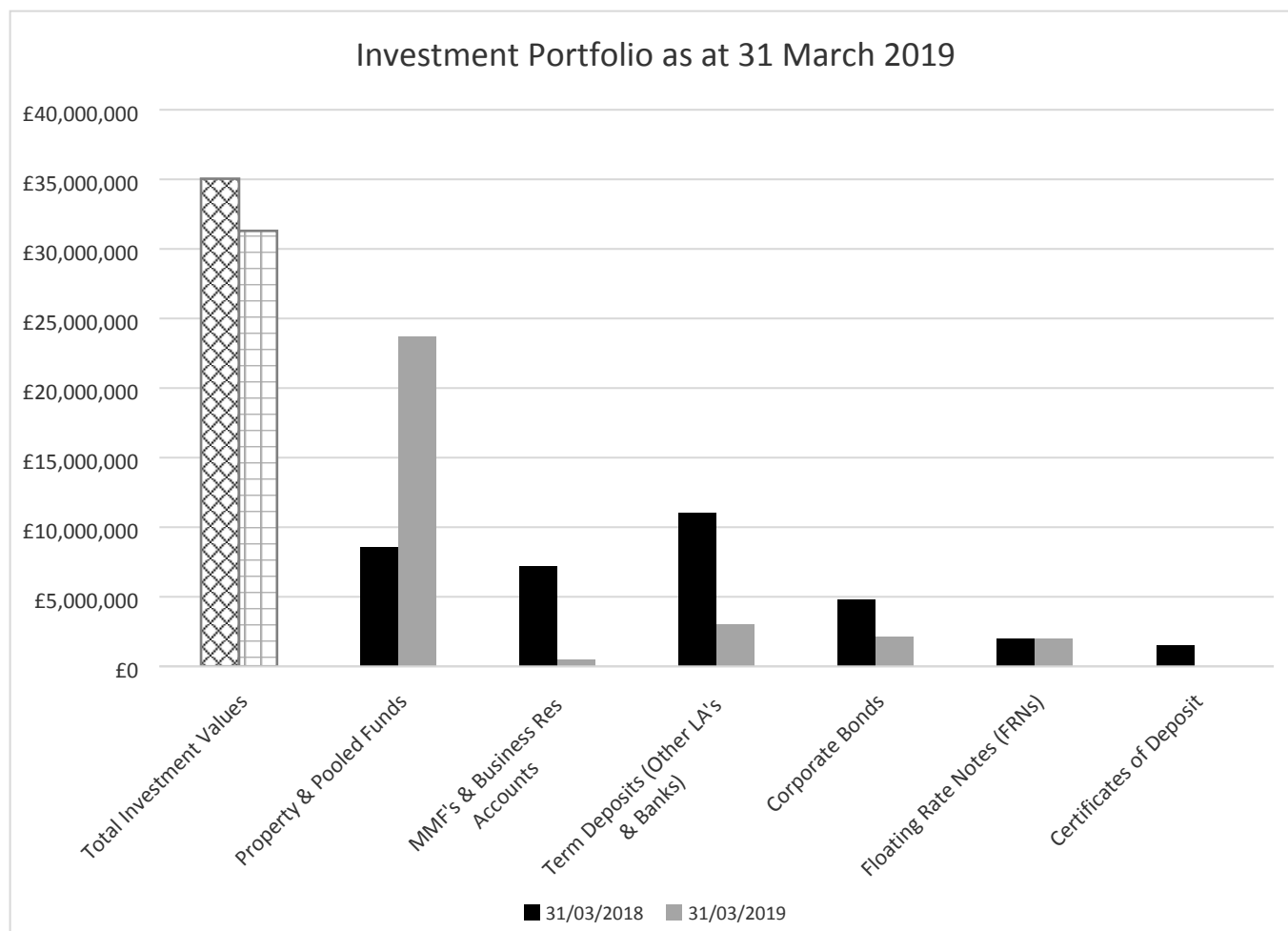
#### Interest Rates 2018/19

15. As detailed in the Arlingclose external context provided in Appendix A, the Bank of England base rate began the financial year at 0.50%, this was increased to 0.75% in August 2018. The Bank of England Monetary Policy Committee has maintained expectations of a slow rise in interest rates over the period included in the table below, but with rates remaining low for the foreseeable future.
16. The Arlingclose central case incorporates the likelihood of the MPC raising interest rates in the first quarter of 2020.

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
Arlingclose Central Case	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.10
Downside risk	0.00	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.77

## Investment Portfolio – Values and Returns

17. The graph below provides a snapshot of the Council's portfolio of investments at the end of the 2018/19 financial year, in comparison to the previous year end position.



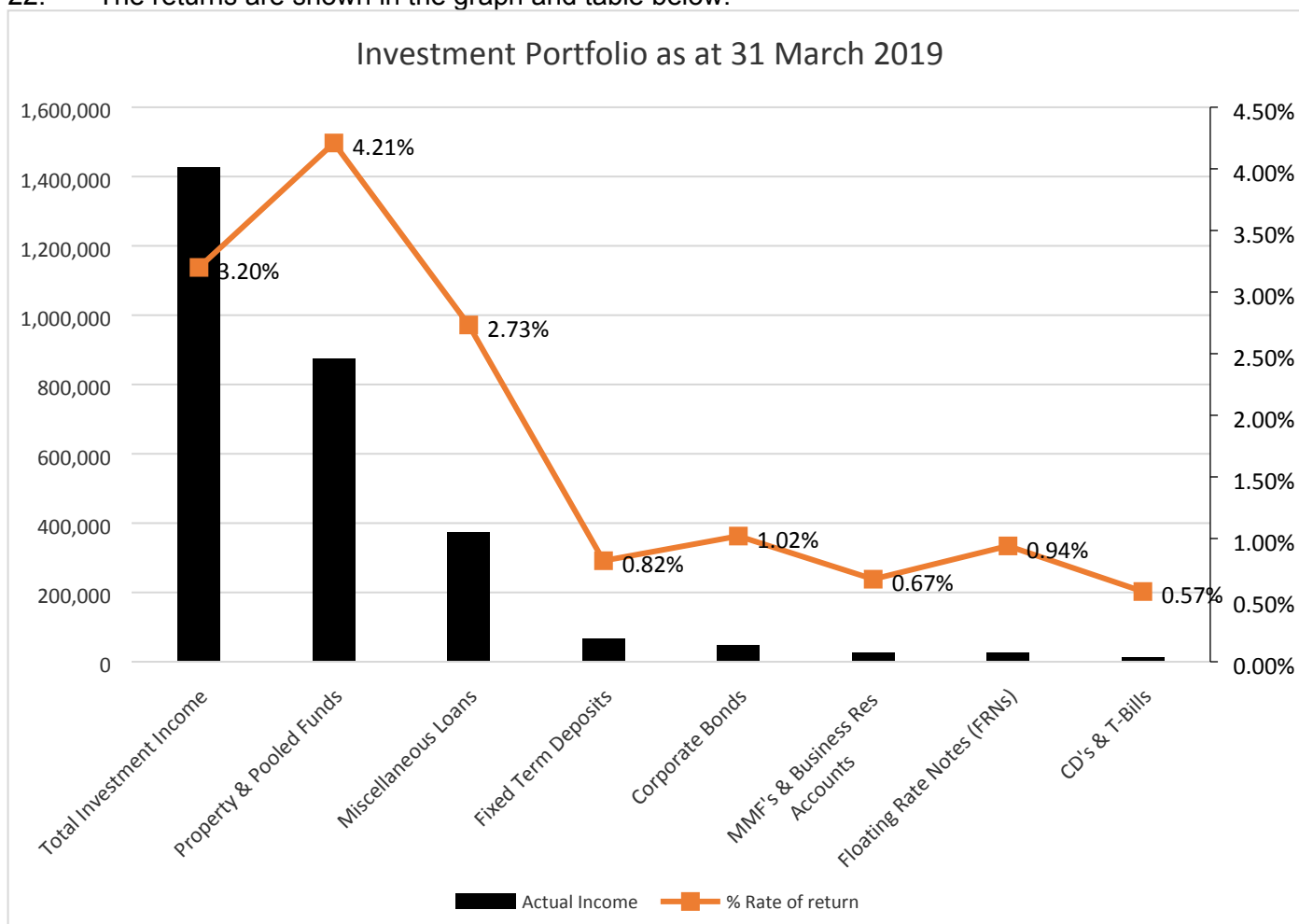
18. The table below provides additional information on the actual value of investments at the start and end of the 2018/19 financial year:

Investment type	Investment Value as at 31/03/2018 £	Investment Value as at 31/03/2019 £	Actual Income £	Rate of return %
Property & Pooled Funds	8,551,289	23,679,635	874,425	4.21%
Money Market Funds & Business Reserve Accounts	7,214,482	479,810	25,772	0.67%
Term Deposits (Other LA's & Banks)	11,000,000	3,000,000	67,138	0.82%
Corporate Bonds	4,767,078	2,129,992	46,684	1.02%
Floating Rate Notes (FRNs)	2,008,716	2,006,968	25,100	0.94%
Certificates of Deposit	1,502,877	0	12,458	0.57%
<b>Total Investment Values</b>	<b>35,044,442</b>	<b>31,296,405</b>	<b>1,039,119</b>	<b>3.20%</b>

19. The Council's year end investments as at 31 March 2019 were £3.75m less than as at 31 March 2018, Investments arise due to timing differences in expenditure being made and income being received, this can mean that the year end investment balance can be slightly less or more than the previous financial year. The reduction in investments is not due to a change in the Council's investment policy.
20. There is a significant difference in the types of investment that the Council held at the 31 March 2018 and 31 March 2019. As mentioned above, the switch to higher yielding, long term strategic investments have resulted in a large portion of the Council's investment being concentrated in the pooled and property fund investment type. Pooled and property fund investments amounted to 76% of the investment portfolio as at 31 March 2019 (24% as at 31 March 2018).
21. The Council has worked closely with Arlingclose on the investment diversification, Arlingclose are comfortable with the percentage of investment that the Council holds in pooled and property funds. The Council continually monitors the performance of the property and pooled funds and is able to withdraw funds at short notice if the fund performance were to deteriorate. Equally, the Council may borrow short term to manage cash flow variations if necessary.

### Returns achieved in 2018/19

22. The returns are shown in the graph and table below:



<b>Investment type</b>	<b>Actual Income £</b>	<b>Rate of return %</b>
Property & Pooled Funds	874,425	4.21%
Miscellaneous Loans	373,279	2.73%
Fixed Term Deposits	67,138	0.82%
Corporate Bonds	46,684	1.02%
Money Market Funds & Business Reserve Accounts	25,772	0.67%
Floating Rate Notes (FRNs)	25,100	0.94%
Certificates of Deposit & T-Bills	12,458	0.57%
<b>2018/19 Treasury Investment Income</b>	<b>1,424,856</b>	<b>3.20%</b>
<b>2018/19 Treasury Income Budget</b>	<b>763,530</b>	
<b>Surplus</b>	<b>661,326</b>	

23. The table above shows investment income for the year compared to the budget. The figures show a significant surplus over budget of £661,326. The original treasury management budget of £763,530 was derived by forecasting an average rate of return of 1.52% based on an average investment portfolio of £48m. The actual average investment return achieved during the year was 3.20%, and the average portfolio balance was £40m.
24. The surplus over budget is as a result of a number of factors, the main factors being:
- Additional interest received due to the diversification into long term strategic investments
  - A new loan for service purposes has been made in year resulting in additional interest.
25. The outturn position is also affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of revenue and capital income and expenditure, and the collection and distribution of council tax and business rates income.

### Treasury Investments

26. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19. The table below lists the investments held on 31 March 2019.

### Breakdown of investments as at 31 March 2019

<b>Date Invested</b>	<b>Counterparty</b>	<b>Nominal Amount</b>	<b>Rate %</b>	<b>Maturity Date</b>
11 Nov 16	Northumberland County Council	1,000,000	1.00	11 Nov 20
09 Feb 17	Liverpool City Council	2,000,000	0.92	11 Nov 19
	<b>Corporate Bonds</b>			
20 Oct 16	Santander UK Plc *Covered*	1,000,000	1.04	14 Apr 21
10 Nov 16	National Australia Bank *Covered*	1,000,000	1.10	10 Nov 21
	<b>Floating Rate Notes (FRN's)</b>			
16 Jan 17	Lloyds Bank Plc *Covered*	1,600,000	0.99	16 Jan 20
16 Jan 17	Lloyds Bank Plc *Covered*	400,000	0.98	16 Jan 20
	<b>Money Market Funds</b>			
	Aberdeen (previously Standard Life)	480,000	0.53	
	<b>Property &amp; Pooled Funds</b>			
	Payden Fund VNAV	1,000,000	0.78	

Date Invested	Counterparty	Nominal Amount	Rate %	Maturity Date
	Royal London Cash Plus Fund	1,000,000	0.58	
	CCLA Property Fund	5,000,000	3.62	
	Investec Diversified Income Fund	5,000,000	2.99	
	Schroder Income Maximiser Fund	6,250,000	5.69	
	Colombia Threadneedle Equity Income Fund	5,000,000	2.15	
	<b>TOTAL</b>	<b>30,730,000</b>		

*Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate*

## Non-Treasury Investments

27. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Council also held £11.24m of such investments in

- Loan to Community Organisation - £0.17m
- Loan to Local Authority Partnership - £1.23m
- Loan for Commercial Activities - £9.84m

## Borrowing

28. The Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
29. In keeping with these objectives, new borrowing was kept to a minimum, with the longest duration being a 69 day period. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
30. As at 31 March 2019 the Council had external borrowing of £19,500,000 as part of its strategy for funding the capital programme and the purchase of commercial property.
31. Details of the borrowing are included in the table below.

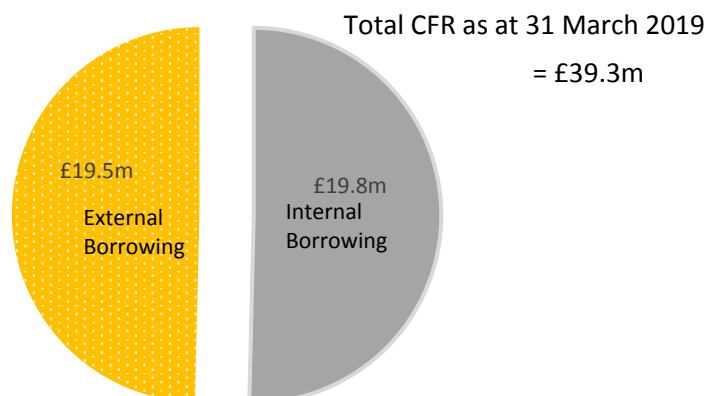
Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £	2018/19 Interest £	Total Interest £
The Vale of Glamorgan Council	22/01/19	01/04/19	69	0.79%	1,500,000	2,240	2,240
Derbyshire County Council Pension Fund	15/02/19	01/04/19	45	0.90%	10,000,000	11,096	11,096
Coventry University	18/03/19	18/04/19	31	0.90%	8,000,000	2,762	6,115
				<b>Total</b>	<b>19,500,000</b>	<b>16,098</b>	<b>19,451</b>



32. With short-term interest rates remaining much lower than long-term rates, the Council considered it to be more cost effective in the near term to use internal resources in parallel with short-term loans.
33. The Council's underlying need to borrow is defined as its 'Capital Financing Requirement (CFR)'. The CFR was £17.4 million at the beginning of 2018/19. Capital expenditure during 2018/19 was funded through a combination of capital receipts, revenue reserves, external contributions (e.g. S106 receipts) and borrowing. As a result, the borrowing requirement (CFR) has increased to £39.3 million. However, we have followed a strategy of using our cash reserves to finance this borrowing requirement in the short term – known as "internal borrowing" – as short term investment returns foregone are currently lower than longer term borrowing rates.

	£millions	%
Internal Borrowing	£19.8m	50.4%
External Borrowing	£19.5m	49.6%
<b>Capital Financing Requirement as at 31 March 2019</b>	<b>£39.3m</b>	

#### Capital Financing Requirement as at 31 March 2019



#### Prudential Indicators – 2018/19

34. In February 2018, through approval of the Treasury Management Strategy Full Council approved the Prudential Indicators for 2018/19, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local Council complies with the Code.

**Prudential Indicator 1 - Capital Expenditure:**

35. The actual capital expenditure incurred for 2018/19 compared to the revised estimate was:

	<b>2017/18 Outturn £'000</b>	<b>2018/19 Revised Estimate £'000</b>	<b>2018/19 Outturn £'000</b>	<b>2018/19 Variance £'000</b>	<b>Reason for Variance</b>
Approved capital schemes	16,424	33,652	28,414	(5,237)	Timing of investment property acquisitions
<b>Total Expenditure</b>	<b>16,424</b>	<b>33,652</b>	<b>28,414</b>	<b>(5,237)</b>	

**Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:**

36. A comparison needs to be made between financing capital costs and the revenue income stream to support these costs. This shows how much of the revenue budget is committed to the servicing of finance.

	<b>2017/18 Outturn £'000</b>	<b>2018/19 Revised Estimate £'000</b>	<b>2018/19 Outturn £'000</b>	<b>2018/19 Variance £'000</b>	<b>Reason for Variance</b>
Financing Costs	(434)	(613)	(1,047)	(434)	Additional investment income from the Pooled Funds
Net Revenue Stream	17,798	16,608	16,348	(260)	
%	<b>(2.4%)</b>	<b>(3.7%)</b>	<b>(6.4%)</b>	<b>(2.7%)</b>	

\*figures in brackets denote income through receipts and reserves

37. The financing costs include interest payable and notional amounts set aside to repay debt less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for the Council but is nevertheless relevant since it shows the extent to which the Council is dependent on investment income.

**Prudential Indicator 3 - Capital Financing Requirement:**

38. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The year-end capital financing requirement for the council is shown below:

	<b>2017/18 Outturn £'000</b>	<b>2018/19 Original Estimate £'000</b>	<b>2018/19 Outturn £'000</b>	<b>2018/19 Variance £'000</b>	<b>Reason for Variance</b>
Opening CFR	9,338	25,499	17,439	(8,060)	
Capital Expenditure	16,926	31,204	28,414	(2,790)	Capital schemes part funded through internal borrowing in 2018/19
Capital Receipts*	(6,337)	(8,325)	(4,560)	3,765	
Grants/Contributions*	(2,319)	(2,879)	(1,711)	1,168	

Minimum Revenue Position (MRP)	(169)	(260)	(221)	39	MRP towards borrowing for commercial investments
Additional Leases taken on during the year	0	0	0	0	
<b>Closing CFR</b>	<b>17,439</b>	<b>45,239</b>	<b>39,361</b>	<b>(5,878)</b>	

\*Figures in brackets denote income through receipts or use of revenue resources.

#### Prudential Indicator 4 – Gross Debt and the Capital Financing Requirement:

39. The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the net external borrowing does not, except in the short term, exceed the total of capital financing requirements over a three year period.

	<b>2017/18 Outturn £'000</b>	<b>2018/19 Revised Estimate £'000</b>	<b>2018/19 Outturn £'000</b>	<b>2018/19 Variance £'000</b>
Borrowing	0	30,000	19,500	(10,500)
Finance Leases	138	100	82	(18)
<b>Total Debt</b>	<b>138</b>	<b>30,100</b>	<b>19,582</b>	<b>(10,518)</b>
Capital Financing Requirement	17,439	45,239	39,361	(5,878)

40. Total debt is expected to remain below the CFR for the foreseeable future.

#### Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

41. The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. For this purpose, term deposits of less than 365 days are deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

<b>Investment</b>	<b>2017/18 Actual %</b>	<b>2018/19 % Limit</b>	<b>2018/19 Actual %</b>
Fixed	20.45	100%	57.14
Variable	79.55	100%	42.86

42. The Council must also set limits to reflect any borrowing we may undertake.

<b>Borrowing</b>	<b>2017/18 Actual %</b>	<b>2018/19 % Limit</b>	<b>2018/19 Actual %</b>
Fixed	0	100%	100%
Variable	0	100%	0

43. The indicator above has been set at 100% to maximise opportunities for future debt as they arise.

**Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:**

44. The Council must also set upper limits for any investments of longer than 364 days. The purpose of this indicator is to ensure that the Council, at any time, has sufficient liquidity to meet all of its financial commitments.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2017/18 Actual (Principal amount) £'000</b>	<b>2018/19 Maximum Limit £'000</b>	<b>2018/19 Actual (Principal amount) £'000</b>
Between 1-2 years	4,000	50,000	6,000
Between 2-3 years	1,000		1,000
Between 3-4 years	2,000		0
Between 4-5 years	0		0
Over 5 years	0		0
<b>Total</b>	<b>7,000</b>	<b>50,000</b>	<b>7,000</b>

45. The table above shows that the Council adopts a policy of safeguarding its investments by minimising investments that are redeemable more than five years ahead.

**Prudential Indicator 7 – Credit Risk:**

46. The Council considers security, liquidity and yield, in that order, when making investment decisions.
47. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:
- Published credit ratings of the financial institution and its sovereign
  - Sovereign support mechanisms
  - Credit default swaps (where quoted)
  - Share prices (where available)
  - Economic Fundamentals, such as a country's net debt as a percentage of its GDP
  - Corporate developments, news articles, markets sentiment and momentum
  - Subjective overlay
48. The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

#### Prudential Indicator 8 - Actual External Debt:

49. This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

<b>Actual External Debt as at 31/03/2019</b>		<b>£'000</b>
Borrowing		19,500
Other Long-term Liabilities (Finance Leases)		
- Vehicles		82
- Photocopiers		0
<b>Total</b>		<b>19,582</b>

#### Prudential Indicator 9 - Authorised Limit for External Debt:

50. This limit represents the maximum amount that the Council may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A borrowing requirement was identified in year to finance the capital programme and further borrowing may be undertaken to fund the agreed plans to acquire investment properties. [Note the borrowing limit has increased during 2018/19]

	<b>2017/18 Actual £'000</b>	<b>2018/19 Original Estimate £'000</b>	<b>2018/19 Actual £'000</b>
Borrowing	0	124,000	19,500
Other Long-term Liabilities	138	1,000	82
<b>Total</b>	<b>138</b>	<b>125,000</b>	<b>19,582</b>

#### Prudential Indicator 10 – Operational Boundary for External Debt:

51. The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt.
52. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

53. The S151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	<b>2017/18 Actual £'000</b>	<b>2018/19 Original Estimate £'000</b>	<b>2018/19 Actual £'000</b>	<b>2018/19 Variance £'000</b>
Borrowing	0	30,000	19,500	(10,500)
Other Long-term Liabilities	138	800	82	(718)
<b>Total</b>	<b>138</b>	<b>30,800</b>	<b>19,582</b>	<b>(11,218)</b>

#### **Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:**

54. This indicator is relevant when we borrow, then we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

<b>Maturity structure of fixed rate borrowing</b>	<b>2018/19 Upper Limit %</b>	<b>2018/19 Lower Limit %</b>	<b>2018/19 Actual %</b>
Under 12 months	100	100	100
12 months and within 24 months	100	100	0
24 months and within 5 years	100	100	0
5 years and within 10 years	100	100	0
10 years and above	100	100	0

#### **Compliance**

55. The council operated within all of the Prudential Indicators during 2018/19.

#### **Background Papers:**

Treasury Management Strategy Statement 2018/19  
Prudential Indicators and MRP Statement 2018/19  
Capital Outturn 2018/19

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## APPENDIX A – Additional commentary from Arlinglose

### External Context

Economic background: After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29<sup>th</sup> March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12<sup>th</sup> April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

**Financial markets:** December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the

year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

**Credit background:** Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.



# Agenda Item 9

## **Review of Effectiveness of Internal Audit 2018/19**

*Director:* Netta Meadows, Director Strategy and Support Services  
*Lead Officer:* Paul Fitzgerald, S151 Officer  
*Contact Details:* Paul.fitzgerald@southsomerset.gov.uk or 07774 335746

### **Purpose of Report**

1. To inform the Audit Committee of the assessment and outcome of the review of the effectiveness of Internal Audit function performed by SWAP (South West Audit Partnership) during 2018/19.

### **Recommendations**

2. Audit Committee notes the findings of the review including the opinion of the S151 Officer regarding the effectiveness of the internal audit function.

### **Background**

3. The South West Audit Partnership (SWAP) is a company that provided the Internal Audit service to 24 public sector organisations, as well as a number of related bodies such as the Somerset Waste Partnership. The company is wholly owned by its local authority partners. Their client base is changing in future as a result of local government restructuring particularly in Taunton/West Somerset and Dorset.
4. Internal audit forms a part of the corporate governance and internal control framework that provides accountability to stakeholders on all areas of the Council Plan. Their opinion on the adequacy and effectiveness of the Council's internal control framework forms a part of the evidence used in preparing the Annual Governance Statement (AGS) for 2018/19. The AGS will be published on the Council's website alongside the audited annual Statement of Accounts in July 2019.
5. There are several statutory requirements regarding Internal Audit, summarised below.
  - 5.1. The Accounts and Audit (England) Regulations 2015 require authorities to review the effectiveness of the system of Internal Audit. They also state: "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."
  - 5.2. Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the proper administration of those affairs." CIPFA has defined "proper administration" in that it should include "compliance with the statutory requirements for accounting and internal audit".
  - 5.3. The CIPFA Statement on the Role of the Chief Finance Officer in Local Government states that the Chief Finance Officer (CFO) must:
    - Ensure an effective internal audit function is resourced and maintained
    - Ensure that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control
    - Support the authority's internal audit arrangements

- Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.
6. Therefore it is important that the findings of the review of the effectiveness of the system of internal audit are considered by the Audit Committee as a part of the consideration of the governance framework. This review has to be carried out by someone independent of SWAP.

### **Compliance with PSIAS and Local Government Application Note**

7. The Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note set out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Standards also refer to the wider elements of the “system of internal audit”, including the importance of the direct relationship between Internal Audit and the Audit Committee. The Standards cover:
- Purpose, authority, and responsibility
  - Independence and objectivity
  - Proficiency and due professional care
  - Quality Assurance and Improvement Programme
  - Managing the Internal Audit Activity
  - Nature of Work
  - Engagement Planning
  - Performing the Engagement
  - Communicating Results
  - Monitoring Progress.
8. The Audit Charter for 2018/19 was approved by the Audit Committee in March 2018 to comply with these requirements. SWAP has a Quality Assessment Improvement Plan in place following a review undertaken independently by the Devon Audit Partnership in 2016. There is a requirement is for a Quality Assessment to be undertaken every 5 years. SWAP is scheduling their next Quality Assessment for later in 2019.

### **The Review of SWAP**

9. The Council’s review of Internal Audit has been carried out by the S151 Officer. Delivery of the Audit Plan and associate audit and governance matters are discussed quarterly with SLT, with the last meeting in April 2019. The performance of the internal audit function is taken into account in drafting the Annual Governance Statement, which was also reviewed at this SLT meeting. The following information is used in the evaluation:
- Annual report and opinion of the Head of Internal Audit
  - Audit plan and monitoring reports
  - Reports on significant findings
  - Key performance measures and service standards
  - Reports by the Council’s External Auditor covering the extent of reliance placed on internal audit work on key financial systems.
10. It was found that overall the function has continued to perform well and that this view was supported by the comments from client satisfaction surveys. The table below shows some measures of the overall performance of the function during the year compared to the previous two years:

<b>Performance Measure</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Levels of satisfaction from feedback questionnaires	81%	87%	99%
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	94% (15 out of 16)	88% (15 out of 17)	91% (21 out of 23)
Total completed audits and reviews	15	17	21
Cost of audit service to SSDC	£94,140	£94,140	£101,670
Number of actions for improvements agreed by managers	42	18	27

11. As shown above, the satisfaction with the audits carried out at SSDC is 99%, which is excellent and well above the target set by the SWAP Board where 80% is 'good'. SWP have worked with the Council's Senior Leadership Team to provide a flexible and adaptable approach to the Audit Plan, reflecting the dynamic nature of the organisation during the implementation of the Transformation Programme and future operating model. The majority – 91% – of the audit plan has been delivered with 21 Final reports issued and two audits in progress at year end.
12. The number of management actions reported is higher than the previous year. This reflects the fact that the audit plan activity in 2017/18 was weighted towards advisory support – reflecting best use of resources to support the Council's transformation programme. SWAP have simplified the risk and ranking of recommendations to High, Medium, Low during the year, which helps management focus on the priority areas for improvement. Only one recommendation was rated as High priority from the delivered audit plan.
13. The cost of the service remained within budget. 2018/19 saw the first increase in audit fee rates charged by SWAP with daily rates being frozen throughout the previous twelve years.

### **Service Standards**

14. In assessing SWAP's performance it is important to review the standards of service and that each authority is afforded the same standards and also senior officer time. The following table outlines the minimum standards and whether these have been delivered for South Somerset District Council:

<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
Attendance by SWAP Assistant Director at Audit Committee	At least 4 times per annum	Yes – attendance at committee to provide regular updates on progress and advice to Members on good governance, control and risk management.
Liaison meetings with S151 Officer and Audit Manager	4 times per annum	Regular liaison occurs during the year with formal updates discussed at quarterly SLT meetings with a governance focus.
Agreement of Audit Plan:		
Prepared for S151 / SLT	By mid-January each year	Yes – draft audit plan reviewed to align with appropriate rolling programme of key control audits and to meet key risk areas identified.
Prepared for Audit Committee	By end March each year	Yes – draft plan completed, and presented to Audit Committee in March 2018

<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
Audit Plan monitoring reports	4 times per annum including Annual Report	Yes – updates provided to Audit Committee in June, October, January and March.
Agreement of Audit Charter	By 31 <sup>st</sup> March prior to reporting year by Audit Committee	Yes – Audit Charter agreed March 2018.
To assist with member/officer training in audit and governance	Once per annum	Audit Committee training provided June 2019. Wider members training provided October 2018 and further training scheduled for October 2019.

## 2018/19 Action Plan

15. The following shows progress against the actions to be completed in 2018/19:

<b>Actions Arising from Last Review</b>	<b>Progress</b>
To update and maintain the Quality Assurance and Improvement Programme	Quality Improvement Programme actions complete from 2016 and reported to the SWAP Board. Next external assessment will be in 2019.
Review new CIPFA Position Statement: Audit Committees in Local Authorities and Police, 2018 edition, and determine opportunities and delivery plan for Audit Committee development	Assessments complete against CIPFA Position Statement. To be discussed with Chair of the Audit Committee.
Prepare training and guidance for Audit Committee member development, to be delivered following district council elections in May 2019.	Audit Committee training provided June 2019.

## Opinion on the Effectiveness of Internal Audit

16. It is the opinion of the S151 Officer that the system of internal audit is effective.

## Actions to be Completed in 2019/20

17. The review of the effectiveness of internal audit has not highlighted any significant issues. The following action(s) are proposed to ensure continuous improvement and effectiveness of the internal function:

<b>Actions Arising from This Review</b>
To support the improvement of the effectiveness of the audit committee in line with CIPFA Guidance and best practice.

## Financial Implications

18. There are no financial implications to SSDC arising from the review of the effectiveness of internal audit. The agreed actions can be delivered within existing SWAP budget.

# Agenda Item 10

## **Appointment of an Independent Person to the Audit Committee**

*Executive Portfolio Holder:* Peter Seib, Finance, Legal and Democratic Services  
*Director:* Netta Meadows, Strategy and Support Services

### **Purpose of the Report**

To seek approval to appoint an independent person to the Audit Committee.

### **Public Interest**

Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

Independent members with appropriate skills and experience supplement those of the elected members and improve the effectiveness of the Audit Committee.

### **Recommendations**

Audit Committee recommended that Council:

1. Approve the appointment of an independent person to sit on Audit Committee for a period of two years
2. Approve the advert, role description, skills and competencies and person specification at Appendix A.

### **Report**

The Audit Committee are requested to consider the appointment of an Independent Person (IP) to the Committee. The IP would be a non-councillor with some experience in the area of audit, similar to those on the Council's Standards Committee. The IP would have not a vote in the same way as councillors do at committee and will be there in an advisory consultative manner.

Suitably qualified and experienced independent member(s) serving on Audit Committees can also bring specialist knowledge and insight to the workings and deliberations of the committee which, when partnered with elected members' knowledge of working practices and procedures, ensure:

- An effective independent assurance of the adequacy of the risk management framework.
- Independent review of the Authority's financial and non-financial performance.
- Independent challenge to and assurance over the Authority's internal control framework and wider governance processes.
- Oversight of the financial reporting process.

It is recommended that recruitment be on a competitive basis following the Council's rules, including an open advertisement and interviews, as currently undertaken for independent members of the Standards Committee. Reasonable travel and other expenses will be paid to the person concerned. A draft person specification for the role is attached as Appendix A.

## **Financial Implications**

Any costs associated with the recruitment, selection, appointment and subsequent disbursements to any independent panel members would need to be contained from within existing revenue service budgets.

## **Legal Implications**

The Council's Audit Committee is defined by the Local Government Act 2000 and its purpose is to give assurance to elected members and the public about the governance, financial reporting and performance of the Council. The appointment of independent members on the committee will assist and promote good governance and scrutiny of the committee.

## **Key Risk**

Subject to adequate vetting procedures and adherence to the Person Specification, this initiative should augment the Audit Committee's independence, provide additional expertise, and provide an opportunity for the community to play an enhanced role in the governance of the Council.

## **Council Plan Implications**

The inclusion of independent members on the Audit Committee could be seen to strengthen the role the community plays in the internal control and governance of the authority.

## **Carbon Emissions and Climate Change Implications**

None

## **Equality and Diversity Implications**

Applications for the position of Independent Person to the Audit Committee will be open to all residents over the age of 18 in South Somerset.

## **Privacy Impact Assessment**

Any personal or sensitive data collected from applicants during the recruitment process will only be used in the recruitment process and will be disposed of confidentially at the conclusion of the appointment. Information will only be processed by SSDC staff and the Chairman of the Audit Committee and will be held as confidential throughout the recruitment process.

## **Background Papers**

Role description, skills and competencies and person specification for Independent Person (attached at Appendix A)

## **Audit Committee – Appendix A**

### **Role Description for Independent Person**

#### **Independent Person of Audit Committee – Role Description**

1. To engage fully in collective consideration of the issues before the Audit Committee, taking into account a full range of relevant factors, including legislation and supporting regulation (e.g. the Accounts & Audit Regulations 2011), professional guidance (e.g. that issued by the Chartered Institute of Public Finance and Accountancy (CIPFA)), and the advice of the Council's Section 151 Officer.
2. To participate fully in the discharge of all Audit Committee functions, as set out in the Audit Committee's terms of reference and the constitution
3. To promote the concept of proportionate, effective risk management and internal control throughout the organisation; and to champion the work of Internal Audit, External Audit and Risk Management.
4. To participate in periodic review of the overall effectiveness of the Audit Committee, and of its terms of reference.
5. To ensure that the minutes of Audit Committee meetings accurately record decisions taken.

#### **Independent Person of Audit Committee – Skills and Competencies**

Indicators:

1. Demonstrates up to date knowledge, skill and a depth of experience in the fields of audit, accounting, risk management and performance management.
2. Operates consistently and without bias.
3. Is an effective role model; supports appropriate behaviours and challenges opinions and advice where appropriate, separating major issues from minor ones.
4. Contributes proactive, proportionate and independent thought, and also collaboration with officers to temper the opinions of Committee members.
5. Works sensitively with people inside and outside committee.
6. Listens to and balances advice.

## **Audit Committee**

### **Person Specification for Independent Person**

<b>Experience</b>	Knowledge / experience in matters of an audit nature.	Essential
	Knowledge / experience of risk management, performance management and financial governance.	Essential
	Working to high behavioural standards, demonstrating honesty, probity and the highest level of integrity in conduct.	Essential
	Experience gained working in a large, or public sector, organisation.	Desirable
	Serving on a committee.	Desirable
<b>Skills</b>	Ability to weigh / sort complex evidence and reach rational conclusions, incorporating appropriate advice.	Essential
	Ability to be objective, independent and impartial.	Essential
	Ability to work in a group.	Essential
	Ability to make reasoned decisions.	Essential
	Strong strategic awareness and ability to identify emerging external factors that may impact on strategy, implementation of plans, or reputation with key stakeholders.	Essential
	A good communicator with excellent interpersonal skills, able to both empower and challenge supportively.	Essential
<b>Knowledge</b>	Knowledge of the locality of Northumberland, and knowledge of its communities.	Desirable
	Knowledge of the Council's strategic priorities and objectives, as set out in the Corporate Plan.	Desirable
	Understanding of the complexity of issues surrounding audit and risk management in local government.	Desirable
	Understanding of committee procedures.	Desirable
<b>Other</b>	Live or work in South Somerset or its surrounding areas.	Essential
	Must not be a serving local government officer or councillor.	Essential
	Must have no personal, legal or contractual relationship with South Somerset District Council (including employees or members or former staff), or any other relationship / activity which might represent a conflict of interest.	Essential
	Able and willing to devote the necessary time to the role.	Essential



# Agenda Item 11

## **Audit Committee Forward Plan**

*Lead Officer:* Kelly Wheeler, Case Services Officer  
*Contact Details:* Kely.wheeler@southsomerset.gov.uk or 01935 462038

## **Purpose of the Report**

This report informs Members of the agreed Audit Committee Forward Plan.

## **Recommendation**

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

## **Audit Committee Forward Plan**

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

***Background Papers:*** None

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## Audit Committee Forward Plan

Committee Date	Item	Responsible Officer
25 Jul 19	Internal Audit Plan Progress Q1 Annual Governance Statement External Audit – Audit Findings Report Approve Annual Statement of Accounts Annual Fraud Programme Update Register of staff interests – annual review	Alastair Woodland (SWAP) S151 Officer S151 Officer (GT) Finance Specialist Legal Specialist Monitoring Officer
24 Oct 19	Internal Audit Plan Progress Q2 Treasury Management Practices Annual Review Treasury Management Mid-Year Performance and Strategy Update – Needs to go on to Full Council Risk Management Update	Alastair Woodland (SWAP) Finance Specialist Finance Specialist  Director – Strategy & Support Services
28 Nov 19	External Audit – Certification of Housing benefit Subsidy Claim External Audit – Annual Audit Letter Annual Fraud Programme Update	Finance Specialist (GT)  Finance Specialist (GT) Legal Specialist
24 Jan 20	Internal Audit Plan Progress Q3 Treasury Management Strategy Statement 20/21 – Needs to go on to Full Council Risk Management Update	Alastair Woodland (SWAP) Finance Specialist  Director – Strategy & Support Services
26 Mar 20	Internal Audit Plan and Charter 2020/21 External Audit Plan for 2019/20 Accounts External Audit Progress Report 2019/20 Accounts Annual Fraud Programme Update Health and Safety Update Report  Civil Contingency update  Whistleblowing update	Alastair Woodland (SWAP) Finance Specialist (GT) Finance Specialist (GT) Legal Specialist Director – Strategy & Support Services Director – Strategy & Support Services Director – Strategy & Support Services