



Havering

L O N D O N B O R O U G H

AUDIT COMMITTEE AGENDA

7.00 pm	Tuesday 9 May 2017	Committee Room 3B - Town Hall
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Members 6: Quorum 3

COUNCILLORS:

**Conservative
(2)**

Viddy Persaud
(Chairman)
Frederick Thompson

**Residents'
(1)**

Julie Wilkes (Vice-
Chair)

**East Havering
Residents' (1)**

Clarence Barrett

**UKIP
(1)**

David Johnson

**Independent
Residents'
(1)**

Graham Williamson

**For information about the meeting please contact:
James Goodwin 01708 432432
james.goodwin@OneSource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – receive.

3 DISCLOSURE OF INTERESTS

Members are invited to declare any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the meeting held on 1st March 2017 (attached) and authorise the Chairman to sign them.

5 ANNUAL REPORT OF THE AUDIT COMMITTEE 2016/17 (Pages 9 - 20)

Report attached.

6 CORPORATE RISK REGISTER UPDATE (12 MONTHS) (Pages 21 - 34)

Report attached.

7 AUDIT PLAN (Pages 35 - 46)

Report attached.

8 ANNUAL FRAUD PLAN UPDATE (Pages 47 - 56)

Update attached.

9 TREASURY MANAGEMENT UPDATE QTR.4 (Pages 57 - 68)

Report attached.

10 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

**Andrew Beesley
Committee Administration
Manager**

Public Document Pack Agenda Item 4

MINUTES OF A MEETING OF THE AUDIT COMMITTEE Town Hall, Main Road, Romford 1 March 2017 (7.00 - 8.15 pm)

Present:

COUNCILLORS:

Conservative Group	Viddy Persaud (in the Chair) and Frederick Thompson
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson
Independent Residents Group	Graham Williamson

Apologies were received for the absence of Councillor Julie Wilkes.

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

22 DISCLOSURE OF INTERESTS

11. INTERNAL ASSURANCE REPORT QTR.3.

Councillor Frederick Thompson declared a Personal interest as his wife, Councillor Wendy Brice-Thompson was a Governor of Royal Liberty School. He took no part in the discussion on the audit report relating to Royal Liberty School.

23 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 29 November 2016 were agreed as a correct record and signed by the Chairman.

24 MATTERS ARISING FROM THE MINUTES

Further to minute 20 of the meeting held on 29 November 2016 officers advised the Committee that the number of 'no recourse to public funds' cases varied greatly across the three oneSource boroughs. Newham were currently supporting 77 cases and Bexley 99 cases. The number supported by Havering was understood to be far fewer. The London Borough of Bexley had a budget of £1.2m to deal with these cases whilst Havering's budget was £260k.

Included in the Audit Plan and Fraud Plan for 2017/18 was provision for an audit of the processes and an investigation, if necessary, in to specific cases. At Bexley Counter Fraud work had seen the number of cases being supported reduced from around 130 to 99, representing a saving of £350k.

The Committee thanked officers for the feedback.

25 **EXTERNAL AUDIT PLANS 2016/17: LONDON BOROUGH OF HAVERING AND HAVERING PENSION FUND**

(a) London Borough of Havering.

The Council's external auditor's Ernst & Young presented their audit plan for the Council.

The Audit Plan covered the work they planned to perform to provide the Council with:

- Their audit opinion on whether the financial statements of London Borough of Havering gave a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- Their conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

The audit would also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

This year, for the first time, the Council would prepare Group Accounts consolidating the transactions and balances of its wholly owned subsidiary company Mercury landholdings. Ernst & Young were assessing the significance of the component entity to the group. Their planned involvement in the work of Mazars, as auditors to Mercury Land Holdings, would depend on that assessment.

The scale fee for this year's audit would be £151,844 for the audit opinion and VFM conclusion and £16,178 for the certification of claims and returns. The work with the auditors of Mercury Land Holdings was likely to attract a variation to the scale fee.

The Committee **noted** the report.

(b) Havering Pension Fund

The Council's external auditor's Ernst & Young presented their audit plan for the Havering Pension Fund.

The Audit Plan covered the work they planned to perform to provide the Committee with:

- Their audit opinion on whether the financial statements of the Havering Pension Fund (the Pension Fund) gave a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017; and

- Their opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of the London Borough of Havering Council.

The indicative fee for the audit of the Pension Fund was £21,000.

The Committee **noted** the report.

26 **AUDIT COMMITTEE BRIEFING**

The Council's external auditors Ernst & Young delivered a briefing on issues which might have an impact on the Council, the Local Government sector, and the audits they undertake.

The briefing identified key issues such as Social Care Precept and New Homes Bonus, the Local Government Funding Settlement, Financial Stability of Schools, Highways Network Assets, Priorities for social care in 2017 and Sustainability and Transformation Plans, all of which could have an impact.

The briefing posed questions which the Committee should ask itself. These were:

- Had the authority made a decision on whether or not to opt into the PSAA sector-led arrangements for the local appointment of auditor's from 2018/19? Yes the Council had opted in to the PSAA sector-led arrangements.
- Has the authority decided whether they would use the revised flexibility on the social care precept for 2017/18 and 2018/19? Yes the Council had agreed to a 2% increase in 2017/18.
- How confident was the authority about its preparation for the introduction of Highways Network Assets? Had there been discussions with the external audit team on the key issues and plans for implementation? The Council had made significant progress in this matter.
- Had the authority engaged positively with health and other partners in the development of Sustainability and Transformation Plans? Yes
- Has the authority put plans in place to meet the faster close requirements for 2017/18? Yes.

With regard to the social care precept the Committee asked what extra steps Councils had to take if they had decided to agree the maximum increase of 3%. Officers advised that they had just received details from the Treasury and were assessing the paperwork. They would advise members of the differences.

27 **2015/16 AUDIT REPORT OF GRANTS CLAIMS AND RETURNS**

Officers submitted an overall summary of the 2015/16 audited grants claims for 2015/16 compared to 2014/15. There had been just one claim which required auditing in 2015/16 similar to 2014/15. This was in respect of Housing and Council Tax Benefits. This had been certified by Ernst & Young with no amendments. This represented a good performance on behalf of the Council.

The value of the grant for 2015/16 had been £96m and the fee was £15,080, compared to £21,570 in 2015/15. **Page 3**

In addition to the grants which required certification three grant funding bodies had published a requirement for grantees to engage an external auditor to report audit compliance or assurance for their 2015/16 funding.

These three grants were:

- Teachers Pensions – assurance required against £43m total contributory salary which included £10.6m teachers pensions contributions;
- DCLG Pooling of Housing Capital receipts – Certification of £8.5m Housing Capital receipts;
- GLA Housing Compliance audit – compliance re £0.5m spend re GLA grant funding.

Grant Thornton had been engaged to perform the certification of the Teachers Pensions at a cost of £3,350 plus vat. They had concluded that the End of Year Certificate had been prepared in accordance with the regulations.

Grant Thornton had also been engaged to undertake the certification of the Housing Capital receipts at a cost of £1,340 plus vat. This work had been unqualified with one amendment which had no monetary effect.

The final piece of work had been undertaken by Mazars at a cost of £1,800 plus vat.

In total the additional audit fees had cost £6,490 plus vat.

The Committee **noted** the report.

28 CLOSURE OF ACCOUNTS TIMETABLE 2016/17

Officers had submitted a report advising the Committee of the progress to date in preparing for the closure of the 2016/17 Accounts.

As previously advised the statutory deadline for having the accounts available for audit had been brought forward. Furthermore, the amount of time available to the auditors to complete their assurance work was being reduced by a third. The changes are summarised below.

	FY 2016/17	FY 2017/18
Draft Accounts prepared by	30 th June 2017	31 st May 2017
Accounts Audited by	30 th September 2017	31 st July 2017

The Committee were advised that in order to speed up the year-end closedown process, it would be necessary to introduce a greater level of estimation to finalise the year end position. This might apply to a number of activities but would certainly include requesting data earlier from external partners relating to:

- The valuation of Assets including Property Plant and Equipment, and Infrastructure assets to determine for example, impairment charges; and

- The valuation of year end pension liabilities from Pension Fund actuaries.

Preparations for earlier closure had commenced in 2015/16 by bringing forward timetable deadlines for Services. With exceptions, Services had achieved the earlier deadlines; in particular, schools data had been consolidated into the accounts ahead of the timetable, and the Pension Fund accounts had been available by the end of May.

As previously reported this gain had been lost due to:

- the launch of the finance transformation review in April 2016 which had led to resources being re-directed to that process at key points in the closedown programme, and
- a delay in the Capital closedown programme as a consequence of additional testing requirements associated with an upgrade in the Asset Register and staff vacancies in the capital accounting team. Capital remained the most complex year end procedure and had a major impact on the financial statements.

Officers advised that in addition to bringing forward the timetable, there were a number of further risks arising from the need to embed recent Service reviews.

Finance had undergone a major restructure involving staff from Bexley, Havering and Newham Councils. The new structure had been completed in December 2016 and went live on 9th January 2017. Interim arrangements were being implemented to cover posts currently not filled. Closure of the 2016/17 accounts was being managed by the interim oneSource Chief Accountant across the three authorities reporting to the Head of Finance (Financial Control and Corporate Business Systems) and handover arrangements were in place to support the preparation of the 2016/17 accounts.

The auditors, Ernst and Young, were aware of the changes in management structure, and would be meeting with both the outgoing Head of Corporate Finance, and Head of Finance as part of handover arrangements.

The Collection Fund impacted on all of the prime statements. In 2015/16 there had been a delay in receiving NNDR data and if other deadlines could be met for 2016/17, any delay in the availability of Collection Fund data could have a detrimental impact on the critical path.

The Committee were advised of other issues which could have an effect. The first was the fact that Ernst & Young were auditors for both Havering and Newham and would be asked to harmonise audit processes across both boroughs where possible, particularly since both boroughs now operate the same instance of 1 Oracle, and share support staff for common transactional services.

It had been intended that, from 1st April 2016, local authorities would be required to include Highways Infrastructure on their balance sheets at an estimate of the current cost, as opposed to the depreciated balance of past expenditure as at present. This had now been deferred pending confirmation by CIPFA LASAAC, but was anticipated to be in financial year 2017/18.

The change would have a very major impact on the value of net assets reported for all authorities, but would have no impact on usable resources or the council tax requirement. Infrastructure assets had not been valued on the required basis and

the related data had been used to provide the Government with information required in Whole of Government Accounts.

The 'Telling the Story' review introduced a new note to the Code, the expenditure and funding analysis, which aimed to provide a direct and accessible reconciliation between the way local authorities were funded and prepare their budget and the comprehensive income and expenditure statement. Local authorities were now required to report their comprehensive income and expenditure statement on the same basis as they were organised rather than in accordance with the Service Reporting Code of Practice (SeRCOP). This would include the restatement of prior year figures for the purposes of comparison.

With the setting up of Havering's wholly owned subsidiary - Mercury Land Holdings Ltd - it would be necessary to complete group accounts for 2016/17. This should not be a major issue for 2016/17 due to limited operations. However, as Mercury Land Holdings expanded its activities it would become a significant consolidation risk in the future. Additional allocation had been built into the timetable to allow necessary review process for the group consolidation activity.

Ernst and Young had presented their Annual Audit Letter to Audit Committee on 29 November 2016. The purpose of the Letter was to communicate to Members and external stakeholders, including members of the public, the key issues arising from their work which they considered should be brought to the attention of the Council.

The issues identified as requiring attention had included:

- The valuation of investment property and property, plant and equipment

The Council had not assessed whether there had been any significant movement in the valuation of council dwellings between the valuation date of 1 April 2015 and the balance sheet date of 31 March 2016. Additional work had been undertaken by the valuer, which had identified that there had been an upward movement in values of around 10%. As a result, it had been estimated that the value for council dwellings in the accounts had been understated by £44 million. The accounts had been amended to reflect this updated valuation.

- The medium term financial plan and key assumptions

Work was ongoing to address the budget gaps in 2017/18 and 2018/19, whilst maintaining reserves at the Council's recommended minimum levels. The Council had established a process for the identification of savings and income generation proposals for 2017/18 and 2018/19, but would need to consider its approach towards the identification of savings in 2019/20 and beyond. This was being addressed as part of the budget strategy for 2017/18 and beyond.

- Written Instructions to Valuers

The Council had used an internal valuer to undertake the valuation of certain property assets in 2015/16, but had not issued formal instructions. This had been addressed in closing the 2016/17 accounts to ensure that valuation work was undertaken in accordance with relevant guidance and statutory requirements.

- Social Care System Reconciliations

When testing expenditure, the auditors had noted that the transactions recorded in adult social care system had not been reconciled to the general ledger. They had noted that the Council had now addressed this issue and

reconciliations of transaction data to the general ledger in relation to adult social care had commenced in 2016/17.

The Committee **noted** the report.

29 **ACCOUNTING POLICIES 2016/17**

The Committee had been advised that the CIPFA Better Governance Forum had produced a tool-kit for local authority Audit Committees that had recommended that members review accounting policies on an annual basis.

The report before the Committee set out the revised accounting policies that would be applied during the financial year 2016/17 in preparation of the Council's financial statements. The full policies were shown in appendix A to the report and would be included in the Statement of Accounts. The policies had been prepared under the International Financial Reporting Standards (IFRS). The Committee were invited to note these policies and make comment. Reviewing of accounting policies by Members ensured that the Council and Audit Committee followed the CIPFA Better Governance Forum toolkit for local authority Audit Committees.

Unless there were major changes to accounting rules and regulation, accounting policies did not change significantly between years because the accounts would not be comparable from one year to the next.

The draft audited Statement of Accounts for 2016/17 would be presented to the September 2017 Audit Committee for approval. The accounting policies statement would be included within the accounts and any changes made during the course of the closedown programme and/or audit would be highlighted and explained by officers.

Details of the proposed amendments were listed in the report and included in the Statement attached as Appendix 'A' to the report.

The Committee **noted** the report.

30 **ANNUAL FRAUD PLAN UPDATE**

Officers withdrew this report and would resubmit to the next meeting as it would work well with the reports on Risk and the Audit Plan.

31 **INTERNAL ASSURANCE REPORT QTR.3**

The Head of Assurance had submitted a report detailing the work undertaken by the assurance team during the period 3rd October to 31st December 2016.

At the previous meeting the Head of Assurance had given his opinion that based on the work undertaken in quarter 2 he could give a reasonable assurance that the internal control environment was operating adequately. Based upon the work undertaken since the last update no material issues had arisen which would impact on that opinion. There had been four limited assurance reports, details of which were provided for member's information.

16 reports had been issued in quarter three. One of these had a Substantial Assurance, 11 received a Moderate Assurance and 4 a Limited Assurance. All four Limited Assurance reports related to schools' triennial reviews. Officers advised that they would be arranging follow up audits for all four schools which received a Limited Assurance. In all cases the recommendations had been accepted by the Head teacher and an Action Plan drawn up.

The Investigation Team had recovered two properties with a notional value of £36,000 and had seen seven Right to Buy applications withdrawn, with a notional value of £608,926.

Officers advised the Committee that the oneSource Assurance Service had been shortlisted for the Innovation In Internal Audit Public Finance award. This related to the team's work on the schools' audit programme.

The Committee **noted** the report.

32 **MIKE BROAD**

The Committee placed on record their appreciation for the work Mike Board had undertaken over the years in supporting the Committee and wished him well in his retirement.

Chairman

AUDIT COMMITTEE

09 05 2017

Subject Heading:	Annual Report of the Audit Committee
CMT Lead:	Jane West, Managing Director oneSource
Report Author and contact details:	Stuart Moore, Deputy Head of Assurance oneSource Tel: 01708 434506 Email: stuart.moore@bexley.gov.uk
Policy context:	The Annual report on the work of the Audit Committee.
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[X]
People will be safe, in their homes and in the community	[X]
Residents will be proud to live in Havering	[X]

SUMMARY

In accordance with the best practice the Committee submits an annual report to the Council on the work of the Committee. The draft report is attached at Appendix 1.

RECOMMENDATIONS

1. To comment on the draft report.
2. To agree the final report should be presented to the next appropriate Council Meeting.

REPORT DETAIL

The report covers the period April 2016 to March 2017 and outlines:

- Introduction;
- Background;
- The Audit Structure;
- Audit Committee Coverage;
- Key issues arising;
- Work to ensure effectiveness of Committee; and
- Priorities and work plan for the forthcoming year.

Key highlights from the report are:

- The Committee maintained its usual work plan based on its Terms of Reference.
- The Committee received briefings on Statement of Accounts, Treasury Management and Role of Audit Committee.
- The Committee approved accounts compiled in accordance with the International Financial Reporting Standards.
- The Committee approved the Annual Governance Statement.
- Appendix A of the report details agenda items considered at each meeting.
- Appendix B details Audit Specific Assurances.
- Appendix C outlines members training and
- Appendix D contains a forward plan.

IMPLICATIONS AND RISKS

Financial implications and risks:

None directly arising from this report, however the existence of an effective Audit Committee is fundamental in ensuring the Council maintains a robust system of internal control. Failure of the Audit Committee to undertake its duties in an effective manner may result in issues that arise not being addressed.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None

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**ANNUAL REPORT ON THE
WORK OF
THE AUDIT COMMITTEE**

APRIL 2017

1. Introduction

1.1 This report covers the period April 2016 to March 2017 and outlines:-

- Information relating to the Audit Committee;
- The coverage of work undertaken by the Audit Committee;
- Key issues arising;
- Actions taken during the year, including training, to ensure the effectiveness of the Audit Committee; and
- Future planned work and challenges.

2. Background

2.1 The Audit Committee has been in place for a number of years. The Committee's terms of reference list the responsibilities and authorities delegated in the Council's Constitution, which comprise:

Internal control

- To consider and monitor the adequacy and effectiveness of the Authority's risk management and internal control environment and to make recommendations to full Council where necessary.

External audit

- To monitor the adequacy and effectiveness of the External Audit Service and respond to its findings.

Internal audit

- To support the Director of Finance (Section 151 Officer) with his or her delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.
- To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual internal audit plan from the audit manager.
- To approve the Annual Statement of Accounts, including the Annual Governance Statement, and to recommend as necessary to the Governance Committee regarding the committee's responsibilities to monitor corporate governance matters generally.
- To monitor proactive fraud and corruption arrangements.

3. The Audit Structure (as at April 2017)

Audit Committee: Cllr Viddy Persuad (Chair)
Cllr Julie Wilkes (Vice Chair)
Cllr Frederick Thompson
Cllr Clarence Barrett
Cllr David Johnson
Cllr Graham Williamson

Internal Auditors: oneSource

External Auditors: Ernst & Young (EY)

4. Audit Committee coverage

4.1 The Audit Committee has received the reports as set out in Appendix A. The coverage can broadly be categorised as regular and specific. More information on both is set out below.

4.2 Regular Work

The Committee has regularly reviewed:

- Progress against the audit plan and performance;
- Key findings/issues arising from each audit undertaken;
- Progress against implementation of the recommendations;
- Anti-fraud and corruption activity, including frauds investigated and outcomes;
- Treasury Management activity; and
- The Accounts closedown timetable and progress reports.

4.3 Specific Review / Reports

There were several during the year including a review and approval of:

- the Statement of Accounts;
- the Annual Governance Statement; and
- the Annual Audit Plan.

The Committee also received assurances via:

- Annual Report from Internal Audit that includes the Annual Assurance Statement; and
- The work of External Audit (EY).

5. Key issues arising

5.1 Appendix B includes details of the audit assurances and recommendations provided for each audit area within the plan.

5.2 The Committee have been updated on the Audit, Risk and Fraud Teams which were restructured during 2016/17 as part of the oneSource service integration and joining of a third partner, The London Borough of Bexley.

6. Priorities and work plan for the forthcoming year

6.1 The Audit Committee is currently planned to meet on four occasions over the next municipal year. There are specific reports planned throughout the year, running through a mix of quarterly progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's external auditor.

6.2 Officers will continue to ensure all members on the Committee, and their nominated substitutes, are adequately trained.

- 6.3 The Committee will continue to oversee the effectiveness of the audit team and wider fraud resources in accordance with Public Sector Audit Standards Audit and Accounts Regulations 2015.
- 6.4 The Committee will focus on the embedding of the Risk Management arrangements agreed in the revised Risk Management Policy and Strategy.
- 6.5 Fraud prevention and detection will continue to be high on the Audit Committees agenda going forward.
- 6.6 The Committee will continue to focus on ensuring Value for Money and challenging weak areas that have been highlighted by the work of Internal Audit.
- 6.7 A draft forward plan and training plan are detailed in Appendix C.

APPENDIX A

AUDIT COMMITTEE AGENDA ITEMS - FROM APRIL 2016 TO MARCH 2017

June 2016

- Internal Audit Annual Report 2015/16
- Annual Governance Statement 2015/16
- Committee Forward Plan
- Member Training Plan
- Accounts Closure Update
- Treasury Management Annual Report

September 2016

- Approval of annual Statement of Accounts 2015/16 (with AGS)
- Report to those charged with Governance (External Audit)
- Response to Auditors' Report to those charged with Governance (Finance)
- Treasury Management Update Q1
- Internal Assurance Report Q1
- Governance update (6 months)
- Corporate Risk Register Update (6 months)

November 2016

- Annual Audit Letter
- Closure of Accounts Timetable
- Treasury Management Update Q2
- Internal Assurance Report Q2

March 2017

- 2015/16 Audit Report of Grant Claims and Returns
- External Audit Plan 2016/17
- Accounting Policies 2016/17
- Closure of Accounts Timetable 2016/17
- Internal Assurance Report Q3

May 2017

- LB Havering Audit Plan 2017/18
- Internal Audit Strategy and Charter 2017
- Annual Report of the Audit Committee

APPENDIX B

AUDIT COMMITTEE SPECIFIC ASSURANCES

The table below shows the reports submitted to Audit Committee during the year (up until the end of quarter three) and identifies the title of the audit and shows the audit opinion given. The audit opinion options are:

- **Substantial:** There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- **Moderate:** Whilst there is basically a sound system of control within the areas reviewed, a need was identified to enhance controls and/or their application and to improve the arrangements for managing risks.
- **Limited:** There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

The table also shows the number of recommendations made and the category. Recommendations are categorised into three priority levels which indicate the level of risk the identified weakness poses on the control environment. The key below defines these priorities.

- **High:** *(Immediate Implementation):* Action is imperative to ensure that risks are managed to an acceptable level.
- **Medium:** *(Implementation within 1 – 3 months):* Requires action to further enhance controls and improve arrangements for managing risk.
- **Low:** *(Implementation within 6 months):* Action to enhance control or improve operational efficiency – merits attention.

Report	Assurance	Recommendations			
		High	Med	Low	Total
Systems Audit					
Direct Payments	Limited	5	9	0	14
Disaster Recovery	Substantial	6	8	0	14
Talent Link Application	Substantial	0	5	0	5
Service Manager Follow Up	Substantial	N/A	N/A	N/A	N/A
PARIS Follow Up	Substantial	N/A	N/A	N/A	N/A
Catering	Moderate	0	6	0	6
NEPRO	Moderate	0	4	0	4
Schools Capital	Moderate	1	0	0	1
SWIFT	Substantial	0	0	0	0
Cheque Processing	Moderate	0	2	0	2
Pool Car	Moderate	1	0	0	1
Troubled Families (Claim window 1)	Substantial	0	0	0	0
NNDR Valuation & Liability (oneSource audit covering LB Newham and LB Havering)	Moderate (overall)	3	3	0	6

Report	Assurance	Recommendations			
		High	Med	Low	Total
Deactivated ID Cards	Substantial	0	0	1	1
Payment in Error	Limited	5	3	0	8
Schools Audit					
Dame Tipping Primary	Moderate	2	5	5	12
Langtons Infants	Substantial	1	5	0	6
Marshalls Park	Moderate	2	8	1	11
Royal Liberty	Moderate	1	4	4	9
Newtons Primary	Moderate	3	7	1	11
Mead Primary	Limited	3	13	2	18
Parsonage Farm Primary	Moderate	1	5	9	15
Royal Liberty Secondary	Moderate	1	4	4	9
St Ursulas Junior	Moderate	0	4	3	7
Gaynes Secondary	Moderate	0	9	1	10
Sanders Secondary	Limited	6	17	2	25
Broadford Primary	Limited	2	7	1	10
Wykeham Primary	Limited	13	12	0	25

APPENDIX C

AUDIT COMMITTEE – DRAFT FORWARD PLAN / TRAINING

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
June 2017	<ul style="list-style-type: none">• Internal Audit Annual report 2016/17• Assurance Progress Report Q4• Annual Governance Statement 2016/17• Committee Forward Plan• Member Training Plan• Accounts Closure Update• Treasury Management Annual Report	Review of Training Needs for Year & Horizon scanning
September 2017	<ul style="list-style-type: none">• Annual Statement of Accounts• Report to those charged with Governance• Response to Auditors Report to those charged with Governance• Assurance Progress Report Q1• Treasury Management Update Q1	Accounts
November 2017	<ul style="list-style-type: none">• Annual Audit Letter• Closure of Accounts Timetable• Assurance Progress Report Q2• Governance Update• Annual Review of Fraud & Corruption• Annual Review of Risk Management• Treasury Management Update Q2	Fraud Risks
February 2018	<ul style="list-style-type: none">• Audit Report of Grant Claims and Returns 2016/17• External Audit Plan 2018/2019• Update of Corporate Risk Register• Internal Audit Draft Plan and Strategy.• Internal Audit Charter and Terms of Reference• Assurance Progress Report Q3• Annual Review of Audit Committee Effectiveness• Treasury Management Update Q3• Closure of Accounts Timetable 2017/18• Accounting policies 2017/18	Procurement
April 2018	<ul style="list-style-type: none">• Treasury Management Update Q4• Outstanding Audit Recommendations• Annual Report of Audit Committee	Risk Management



Havering
LONDON BOROUGH

0 AUDIT COMMITTEE 9 MAY 2017

Subject Heading:	Corporate Risk Register
CMT Lead:	Debbie Middleton
Report Author and contact details:	Stephen Stuchbury, 020 3045 4984, stephen.stuchbury@bexley.gov.uk
Policy context:	Supports policy governance arrangements
Financial summary:	There are no financial implications arising from this report

The subject matter of this report deals with the following Council Objectives

Communities making Havering	<input type="checkbox"/>
Places making Havering	<input type="checkbox"/>
Opportunities making Havering	<input checked="" type="checkbox"/>
Connections making Havering	<input type="checkbox"/>

SUMMARY

This report provides members with an opportunity to review the latest version of the Council's corporate risks register.

RECOMMENDATIONS

Members are invited to note the contents of the corporate risk register.

REPORT DETAIL

This report is an annual report providing members with an opportunity consider the Council's corporate risk register. Risks are managed by individual officers and those which present the highest risk to the Council's objectives are included in the corporate risk register.

The Senior Leadership Team reviews the corporate risk on a quarterly basis. As part of that review process the Senior Leadership Team recently undertook a risk review workshop to refresh the corporate risk register.

The results from that review have been incorporated into the risk register and an updated version is appended at Appendix A.

IMPLICATIONS AND RISKS

Financial implications and risks: There are no financial implications arising from this report which is for information only. Failure to effectively manage risk could lead to significant financial implications for the Council. Preparation and regular review of a corporate risk register is a key part of the Council's approach to risk management.

Legal implications and risks:

There are no apparent risks in noting the content of the risk register.

Some of the risks mentioned within the register involve legal issues and these have been taken into account in the drafting of the register.

Human Resources implications and risks: There are no human resources implications.

Equalities implications and risks: There are no equalities risks.

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	Control Owner	Controlled Assessment of Risk			
			Current controls in place						With ALL controls 100% in place			
			Impact	Likelihood	Risk Rating				Impact	Likelihood	Risk Rating	
CR1	Failure to manage statutory and/or regulatory responsibilities. Lack of appropriate governance / information governance arrangements in place, IT failure	Decisions taken are not robust enough to withstand challenge leading to reputational damage, legal action, financial penalties, cost of corrective action, data breaches, loss of critical services	3	2	6	Andrew Blake-Herbert	Governance and assurance board meet quarterly and overseas key aspects of the governance framework, risk management and assurance functions - monitoring compliance and reporting by exception to Senior Leadership Team on issues and risks	Sarah Homer	3	1	3	
							Constitution is regularly reviewed	Daniel Fenwick				
							Robust procedures for decision-making and training on the decision-making process is provided	Daniel Fenwick				
							Reviews to reduce bureaucracy planned	Sarah Homer				
							Overview and Scrutiny committees are embedded into governance framework and a Overview and Scrutiny Board established to oversee arrangements	Leader				
							Local and Corporate Health and Safety Groups operate reviewing incidents and near misses for lessons learned. Health and Safety training provided where deemed necessary	Director of Asset Management (oneSource)				
CR2	Failure of alternative service delivery (ASD) models. (Replaces G3, R2 & R3) Lack of appropriate governance arrangements in place, poor contract management, poor partnership arrangements, lack of business continuity/emergency planning	Council objectives not achieved, reputational damage, financial penalties, cost of corrective action, poor service delivery and resilience	2	3	6	SLT	Robust legal process delivers signed contracts or memorandum of understanding	Daniel Fenwick	2	1	2	
							Robust governance arrangements in place and roles and responsibilities clearly defined	Andrew Blake-Herbert				
							Corporate contract monitoring approach defined and guidance and support for all contract managers available	Jane West				
							Risks of the Alternative Service Delivery clearly outlined during the decision-making process	Sarah Homer				
							Horizon scanning of opportunities across London and neighbouring areas including watch on strategic and partnership agenda	Andrew Blake-Herbert				
							Retention of good working relationships with neighbouring Leaders	Leader				
							oneSource:- Ongoing review and update of Scheme of Delegation	Daniel Fenwick				
							oneSource:- Induction and training for oneSource managers	Jane West				
							oneSource:- Personal Development Reviews and 1:1s regulary undertaken and monitored	Caroline Nugent				
							oneSource:- Ongoing review and update of governance arrangements (see also R1).	Daniel Fenwick				
							Public Health:- Shared / integrated strategies for health	Susan Milner				

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	Control Owner	Controlled Assessment of Risk			
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			Impact	Likelihood	Risk Rating				Impact	Likelihood	Risk Rating	
24	Potential harm to people we owe a duty of care						Safeguarding practices are robust	Barbara Nicholls				
	The risk is that adult social care fails in its duty of care, particularly to the vulnerable in society, and a service user is harmed or dies as a result of those failures. • Increased amount of DOLS work, leading to vulnerable adults being inappropriately deprived of their liberty.						Deprivation of Liberty Safeguards capacity is appropriate	Barbara Nicholls				
	• Individuals who lack capacity or who have insufficient ability to manage their own finances do not have their finances appropriately safeguarded.						Workforce measures	Barbara Nicholls				
	• Pressures in the NHS have a knock on impact on community						Multi agency working	Barbara Nicholls				
		• Safeguarding issues occur - individuals are placed at risk of harm or					Provider engagement	John Green				

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	Control Owner	Controlled Assessment of Risk			
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			Impact	Likelihood	Risk Rating				Impact	Likelihood	Risk Rating	
CR3	services meaning that discharges aren't safe. • Growing demands for services can lead to waiting lists meaning that people have to wait longer for assessment and thus for support services. • Workforce recruitment and retention issues and high staff turnover impact on the quality of care assessments which thus impacts on care decisions. • Provider capacity or instability means that services cannot be put in place when needed. . • Provider quality leads to safeguarding concerns. • Advocates are not provided when there is a need for independent representation meaning the indivual voice is not heard.	abuse. • Individual wellbeing not considered. • Increased complaints. • Legal challenge. • Reputational damage. • Financial risk. Legal challenge. Reputational damage. Financial risk	4	2	8	Barbara Nicholls			3	2	6	
CR4	Balanced Budget The Council has a statutory requirement to set and deliver a balanced budget on an annual basis. It is also necessary to achieve financial sustainability	Worst case scenario, statutory intervention by the s151 Officer via the issue of a s114 notice to Council under the LG Act 1972. Triggering statutory process resulting in loss of financial control by the SLT,involvement of External Audit and DCLG in the financial recovery of the organisation.	4	3	12	Debbie Middleton	Bi-annual review of the Medium Term Financial Strategy is undertaken to update and refine forecast expenditure, income and funding projections. The identification of legislative changes, financial pressures, risks and opportunities and the development of strategies to manage future service and financial delivery Each Senior Leadership Team member to individually manage their directorate budgets on an on-going basis Each Senior Leadership Team member to individually manage and monitor the delivery of agreed savings initiatives to realise agreed savings. Collectively review and challenge the monthly financial monitoring, savings tracker and forecasting reports for revenue and capital expenditure Quarterly in depth review of financial monitoring, forecasting and financial health indicators	Debbie Middleton Debbie Middleton	4	2	8	

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	Control Owner	Controlled Assessment of Risk			
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	over the medium term.	Measures to achieve a balanced budget may result in: - Reduction or cessation of service delivery - Resident dissatisfaction - Failure to deliver other statutory responsibilities - Reputational damage					Operate the corporate annual budget development cycle to develop options for savings and income generation to balance the budget over the medium term to align with the delivery of the Corporate Plan. Establish corporate standards for financial implications within strategic decision making reports. Establish and enforce corporate process for input and clearance of decision making reports to ensure appropriate input by legal, finance and HR and technical professionals.	Andrew Blake-Herbert Paul Thorogood				
CR5	Page 26 Failure to appropriately manage and deliver organisational change. (Replaces R1) Lack of appropriate governance arrangements in place, pace of change	Council objectives not achieved, reputational damage, financial penalties, cost of corrective action, poor service delivery and resilience, insufficiently skilled workforce capacity, demotivated staff, unable to deliver key projects, programmes or services, reduced productivity.	3	3	9	Sarah Homer	Robust governance arrangements in place and roles and responsibilities clearly defined Robust programme and project management system in place and being used appropriately Robust legal process delivers signed contracts or memorandum of understanding Corporate contract monitoring approach defined and guidance and support for all contract managers available Horizon scanning of opportunities across London and neighbouring areas including watch on strategic and partnership agenda Retention of good working relationships with neighbouring Leaders Ongoing review and update of Scheme of Delegation Risks of the Alternative Service Delivery clearly outlined during the decision-making process	Andrew Blake-Herbert Andrew Blake-Herbert Andrew Blake-Herbert Andrew Blake-Herbert Andrew Blake-Herbert Sarah Homer	3	2	6	

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CR6	Major system failure or natural disaster. Lack of effective business continuityplans/emergency planning, poor defences in place (e.g. flooding)	Failure to provide a minimum service level to the Borough, it's residents and staff.	4	3	12	Sarah Homer	Business continuity plans in place, regularly monitored and tested	Sarah Homer	4	2	8	
							Robust Emergency Plans in place, regulary monitored and tested	Sarah Homer				
							Borough Resilience Forum	Sarah Homer				
							Havering Community Safety Partnership	Andrew Blake-Herbert				
							Borough Risk Register reviewed and maintained with partner organisations	Sarah Homer				
							Plans are ongoing to incorporate activation and escalation of ICT systems with resilient 24/7 maintenance, especially in the identification of single points of failure and criticality	Priya Javeri				
							Plans to incorporate the communications systems linked through ICT ensuring resilience is maintained.	Priya Javeri				
							Project ongoing to moved shared ICT areas to a different platform to increase reslieince and provide offsite backup to cloud.	Priya Javeri				
CR8	Potential harm ot children we owe a duty of care The risk is that Childrens Social Care fails in its duty of care to children and a child is haremd or dies as a result of those failures	Safeguardiung issues occur, children are placed at risk of harm or abuse. Increased complaints. Legal challenge. Reputational damage. Financial Risk	4	4	12	Tim Aldridge	Effective and robust multi-agency safeguarding processes are inplace via the Multi-AgencySafeguarding Hub (MASH)	Tim Aldridge	4	2	8	
							Quality assurance, case supervision and audit activity takes places regularly	Tim Aldridge				
								Kate Dempsey				
							Workforce Development and Retention plans in palce					
							Havering Safeguarding Board provides oversight through partnerhsip	Tim Aldridge				
							Financial Recovery plans and are being monitored	Tim Aldridge				
							Ofsted Improvement plan agreed and is rgularly monitored	Tim Aldridge				

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Page 28												

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Page 32												

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			Current controls in place						With ALL controls 100% in place			
			Impact	Likelihood	Risk Rating				Impact	Likelihood	Risk Rating	

AUDIT COMMITTEE

9 May 2017

Subject Heading:	Audit Plan 2017/18
CMT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	Stuart Moore, Deputy Head of Assurance. Tel: 0203 0454947 E-mail: Stuart.moore@bexley.gov.uk
Policy context:	To inform the Committee of the proposed audit plan for 2017/18
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	[x]
People will be safe, in their homes and in the community	[x]
Residents will be proud to live in Havering	[x]

SUMMARY

The Public Sector Internal Audit standards refer to the need to produce a risk-based Internal Audit Plan. This should take into account the requirement to produce an annual internal audit opinion and report that can be used by each Council to inform the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work.

The report sets out the approach to producing the draft Internal Audit plan and invites comment from Members.

RECOMMENDATIONS

1. To approve the 2017/18 audit plan and Internal Audit Strategy & Charter.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) or guidance.

Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a simple framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the system's owner
- Third line – independent assurance (Internal audit forms the Council's third line of defence)

An independent internal audit function will, through its risk-based approach to work, provide assurance to each Council's Audit Board/Committee and senior management on the riskier and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

Officers of the Assurance Service have been involved in work with the Section 151 Officer and with senior management to update the Corporate Risk Register. Horizon scanning work had already taken place with Heads of Audit, and through the Croydon Framework to identify common risk and audit themes. These, along with manager requests and audit cumulative knowledge and experience, have formed the basis of the plan. Combined plans were compiled for the three oneSource member councils. These identified target resources and some common audit themes. These allow for some efficiency to be driven by utilising acquired skills across boroughs where there are common risks. However each borough has its own unique objectives and approach to achieving these and these will be audited individually.

The plan is exclusive of Counter Fraud investigations but there is provision for Internal Audit staff to support Counter Fraud work across the 3 authorities on system related work. It should be noted that it is a statement of intent and can be revised or amended

at any time should higher priority risks or issues be identified, and there is provision to address emerging risk.

The work of the oneSource Internal Audit Team is underpinned by the Audit Charter and Strategy. This has been revised and updated. This is shown as Appendix 2.

Appendix 1 Internal Audit Plan for LB Havering

Appendix 2 Internal Audit Strategy & Charter

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks and ultimately good governance. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated.

Legal implications and risks:

There are no apparent risks in noting the content of the report. Failure to effectively manage risks is likely to have legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

Public Sector Internal Audit Standards
Risk Registers for oneSource, LB Newham, LB Havering & LB Bexley
Horizon Scanning – Challenges and Opportunities 2016 Mazars

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oneSource Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which 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".

From April 2013, organisations in the UK public sector are required to adhere to the Public Sector Internal Audit Standards (the Standards).

The Standards require that the Chief Audit Executive (Head of Assurance) "establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals". When completing these plans, the Head of Internal Audit should take account of the organisation's risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation's business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal opinion and assurance framework.

This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

The expectation of the public for services provided by the public sector has never been greater; yet the money that is available for these services will continue to be reduced. All public sector organisations are looking at how these services can be transformed; what worked in the last decade may not meet new challenges. The use of, and dependency on, IT for service delivery will only increase further; this brings rewards but also carries its own risk.

The Internal Audit function has a key role in helping management fully understand their risks and in designing effective and efficient controls that mitigate these risks to an acceptance level; a consistent application of a quality internal audit opinion assists the organisation to develop alternative and new delivery solutions that will deliver the service required.

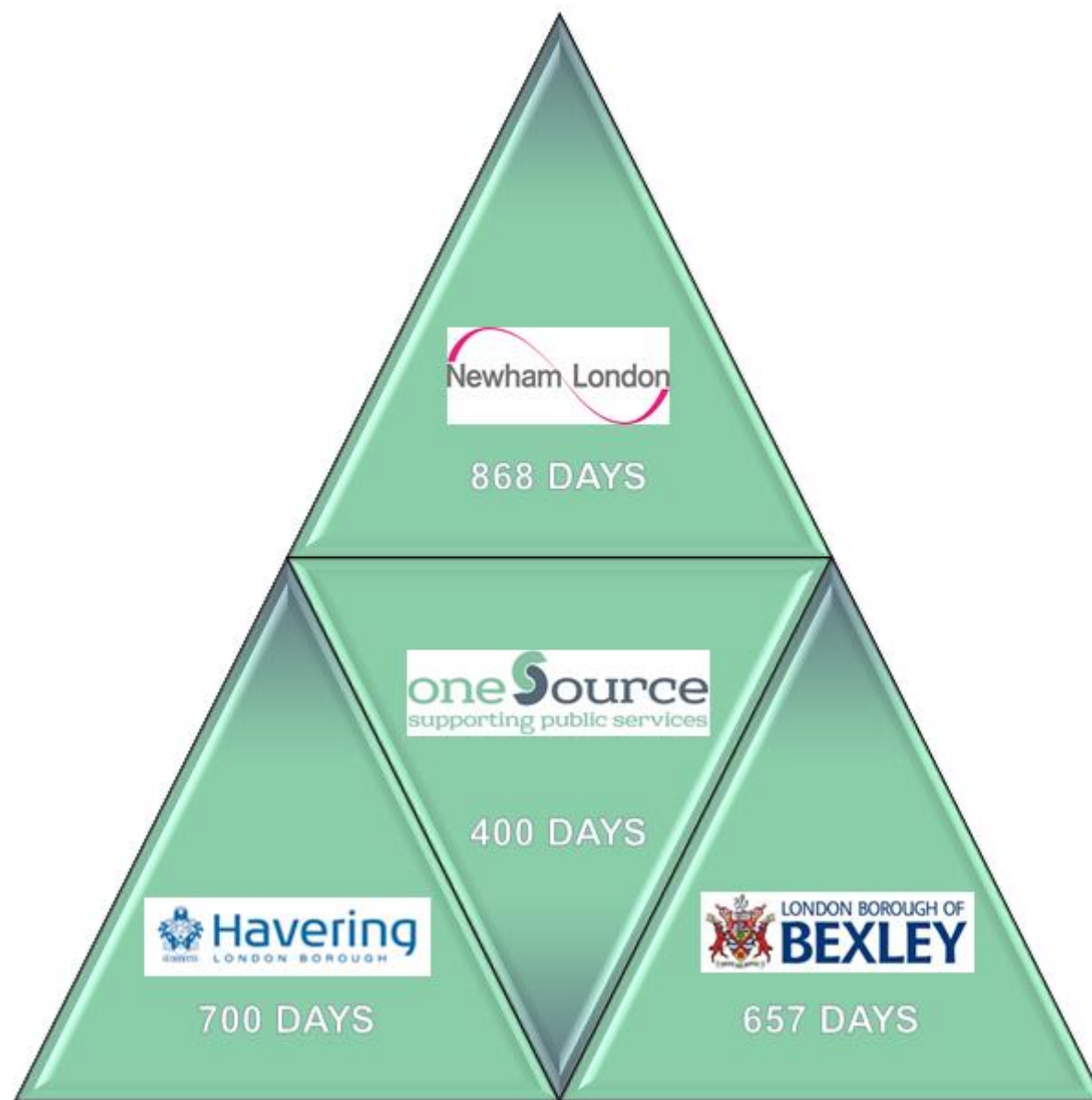
The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, it must be recognised that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. **The plan is therefore a statement of intent** – our liaison meetings with senior management will enable us to firm up audit activity during the year.

The oneSource Internal Audit plan coverage for **2017/18** includes 2,700 direct days in line with the pre restructure business case. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authorities and, to this end, it will be regularly reviewed, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months to ensure it continues to reflect the key risks and priorities of the oneSource Councils given the significant changes across the public sector. In order to allow greater flexibility, the Internal Audit Plan includes a contingency to allow for unplanned work.



Havering
LONDON BOROUGH

The Audit Plan for Havering includes 700 days for Havering, and 400 days for oneSource Services. There is also a provision of 75 days across the three councils for Internal Audit support of Proactive and Counter Fraud work.



Appendix 1

Council	Directorate /Service	Audit name	Days v1	Objective or Rationale
oneSource	Exchequer & Transactional Services (oneSource)	NNDR - debt recovery and write offs	25	To confirm that there are robust arrangements to ensure that NNDR income is maximised.
oneSource	Exchequer & Transactional Services (oneSource)	Establishment controls	30	Review the adequacy of controls and processes relating to the staff establishment
oneSource	Exchequer & Transactional Services (oneSource)	Housing Benefit - new claims or changes in circumstances	30	Review to be scoped in consultation with Director of Exchequer and Transactional Services
oneSource	Exchequer & Transactional Services (oneSource)	Staff Vetting	30	Compliance checks on ID check, right to work, and criminal records clearance
oneSource	Exchequer & Transactional Services (oneSource)	Debt Recovery	30	To confirm that there are robust arrangements to ensure that income is maximised.
oneSource	Exchequer & Transactional Services (oneSource)	Northgate (Revs & Bens) application review	15	Review to confirm availability, integrity and confidentiality of data
oneSource	Exchequer & Transactional Services (oneSource)	Enforcement Agents	25	To confirm compliance with the Taking Control of Goods (Fees) Regulations 2014
oneSource	Finance	Budget Monitoring / Savings Programme	40	Although a national risk, bringing together three council's processes requires a review of controls. Failure of oneSource to meet financial targets is already considered in each council's risk register.
oneSource	Finance	Treasury Management	25	Key financial system bringing together three council's processes requires a review of controls.
oneSource	Finance	Pension Fund governance	25	Ensure governance standards are made and include preparation for investment vehicles
oneSource	Finance	1Oracle	30	Health check and follow up of recommendations from prior year audit
oneSource	Human Resources/Organisational Development	Off payroll engagement / IR35	20	Review of authority arrangements to review and record status of temporary agency staff, personal service companies and consultants under new HMRC requirements
oneSource	ICT	Cyber security	30	Review against GCHQ cyber security guidance
oneSource	Procurement	Serious and Organised Crime	15	Raise awareness of the findings from Organised Crime Procurement Pilot reports and carry out Audit following Home Office Guidance

Appendix 1

oneSource	Procurement	Procurement - including compliance with Public Contract Regulations 2015	30	Review to establish compliance with Council rules and regulations, use of Capital Esourcing and checkpoint governance or equivalent.
oneSource	Total presented to Audit Board/Committee		400	
Council	Directorate /Service	Audit name	Days v1	Objective or Rationale
Pro-Active and Counter Fraud	Cross cutting	Proactive and counter fraud support by Internal Audit	75	Contingency outside of counter fraud work. This provision is across all three Boroughs.
Fraud	Total presented to Audit Board/Committee		75	
Council	Directorate /Service	Audit name	Days v1	Objective or Rationale
Havering	Adults' services	Care packages	15	Confirm that care packages meet the client's needs and are value for money
Havering	Adults' services	Reablement service	15	Confirm that the service is effective and efficient
Havering	Adults' services	Care Act 2014 - Safeguarding	15	Compliance with the Council's safeguarding policies and procedures in line wit the Care Act 2014
Havering	Adults' services	Health and Social Care Integration - Hospital Discharges	15	Ensure that arrangements between the Council and NHS Trust is effective and efficient
Havering	Children's services	Troubled Families programme	10	Grant certification in accordance with Terms and Conditions
Havering	Children's services	No Recourse to Public Funds (NRPF)	15	Fraud prevention systems review. Issues identified at other authorities.
Havering	Community and Resources	Client Finance deputyship and appointees	15	Carry out spot checks of client files and review compliance with revised administration of records
Havering	Community and Resources	Fairkytes	15	Review of financial and management information system
Havering	Cross cutting	Accounts payable service payment teams in directorates	15	Services supply information which interface with Oracle. Review controls in operation.

Appendix 1

Havering	Cross cutting	Information Governance / Data Protection	15	Review arrangements prior to regulations (GDPR) coming in to force. Significant penalties may be incurred for non-compliance. Increasing volumes of data also raises risk. Also consider compliance with retention schedules
Havering	Cross cutting	Contract Management: Client checking of contractor works	15	Confirm that contract management arrangements are operating effectively.
Havering	Cross cutting	Corporate Culture	20	Ethics review. To include, for example, declarations of interest and gifts and hospitalities
Havering	Cross cutting	Compliance with new Report Approval Processes	12	To ensure that corporate processes for input and clearance of decision making reports are applied consistently
Havering	Cross cutting	Alternative delivery models	20	Governance arrangements and process of adopting alternative delivery models
Havering	Crosscutting (Adults/Children)	Children's and Adults' disability service	20	Confirm that service is operating effectively and efficiently
Havering	Housing	Homelessness - Housing Tenancy Arrangements	15	Confirm that the service is effective and efficient
Havering	Housing	Private Sector Leasing scheme - Liberty Housing	20	Post implementation of new system
Havering	Housing	Housing and Planning Act 2016	20	Ensure that the Council is operating in accordance with the Act
Havering	oneSource ICT	Data warehouse security	15	Confirm that confidential and personal data is protected and access to it controlled
Havering	Schools	Branfil Primary	5	Review of systems and procedures including: ♦ Purchasing and payments ♦ Taxation ♦ Income/bank reconciliation ♦ Petty cash/cheque reimbursements ♦ School inventory ♦ Payroll ♦ Budgetary controls management ♦ Computer and information security ♦ School voluntary fund
Havering	Schools	Crownfield Infant	5	
Havering	Schools	Crownfield Junior	5	
Havering	Schools	Engayne Primary	5	
Havering	Schools	Gidea Park Primary	5	
Havering	Schools	Harold Court Primary	5	
Havering	Schools	Scargill Infant	5	
Havering	Schools	Squirrels Heath Infant	5	
Havering	Schools	Squirrels Heath Junior	5	
Havering	Schools	St Alban's RC Primary	5	

Appendix 1

Havering	Schools	St Mary's RC JM&I	5	
Havering	Schools	Towers Junior	5	
Havering	Schools	Whybridge Junior	5	
Havering	Schools	Health checks (30)	75	Requested and funded by Schools
Havering	Governance	Consultancy and advice to directorates	20	Contingency for advice / guidance contribution to corporate projects
Havering	Governance	Schools' consultancy	20	Advice and Guidance includes development and management of programme
Havering	Governance	NFI - Counter Fraud support	10	Provision to assist counter fraud team with NFI issues
Havering	Governance	External Grants	10	Contingency for certification requests that may arise
Havering	Governance	Monitoring arrangements (council awarded grants)	10	Council awarded grants
Havering	Governance	Follow up and implementation of higher priority recommendations	40	Ensuring implementation of recommendations
Havering	Governance	Provision of training	10	Training courses on control risk or corporate governance
Havering	Governance	External liaison with other authorities and agencies	10	Effective contributions to regional or national initiatives
Havering	Governance	Corporate Governance (inc. audit committee and s.151 support)	15	Advice/guidance to Members/Senior Management
Havering	Governance	Attendance at Assurance and Governance Boards or equivalent	10	Provision for meetings and preparation
Havering	Governance	Annual Report & Internal Audit Plan	10	Strategic evaluation of outcomes and trends to advice Management leading to effective planning and prioritisation of resources for current and future years
Havering	Governance	Contingency allowance and provision for assurance work on emerging risk	93	Work to be commissioned following risk assessment and agreement by Senior Management
Havering	Total presented to Audit Board/Committee		700	
		Total	1175	

AUDIT COMMITTEE

9 May 2017

Subject Heading:

Annual Fraud Plan 2017/2018

Report Author and contact details:

Emma Vick: Deputy Head of Assurance
(Proactive Audit and Counter Fraud)

Emma Vick oneSource Fraud Manager
02033739793;

Email: emma.vick@newham.gov.uk

Policy context:

To advise the Committee of the proposed plan of Counter Fraud Activity by the Council's Corporate Fraud team

Financial summary:

This report details information on the Council's Annual Fraud Plan, designed to aid prevention and minimise loss through fraud

The subject matter of this report deals with the following Council Objectives:

Clean, safe and green borough	[X]
Excellence in education and learning	[X]
Opportunities for all through economic, social and cultural activity	[X]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[X]

SUMMARY

This report advises the Committee of the proposed Annual Fraud Plan of the Corporate Fraud Team for 2017/18.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of the officers where required with regards to the Annual Fraud Plan of the Corporate Fraud Team for 2017/18.

1. Introduction

The counter fraud section has a work plan annually which details the broad areas of work that will take place. The plan has to be responsive to demand as it is not possible to predict precisely the areas that will require investigation. In developing the plan consideration is given to the national fraud picture both in terms of estimated fraud losses, the areas of emerging fraud risks and the local control environment.

The counter fraud team carries out investigations to a criminal standard with the aim of applying a suitable sanction and enabling the council to recover any losses. The audit service also has a role to play in assisting in providing assurance over the control framework and may carry out specific pieces of work that support the counter fraud agenda.

2. Emerging fraud trends

Historically, the Audit Commission produced more detailed work covering local government in their publications around Protecting the Public Purse. Unfortunately the Audit Commission team has been disbanded and the survey used to populate Protecting the Public Purse is no more. However CIPFA has published a document called CIPFA Fraud and Corruption Tracker, based on survey responses from a large number of local authorities.

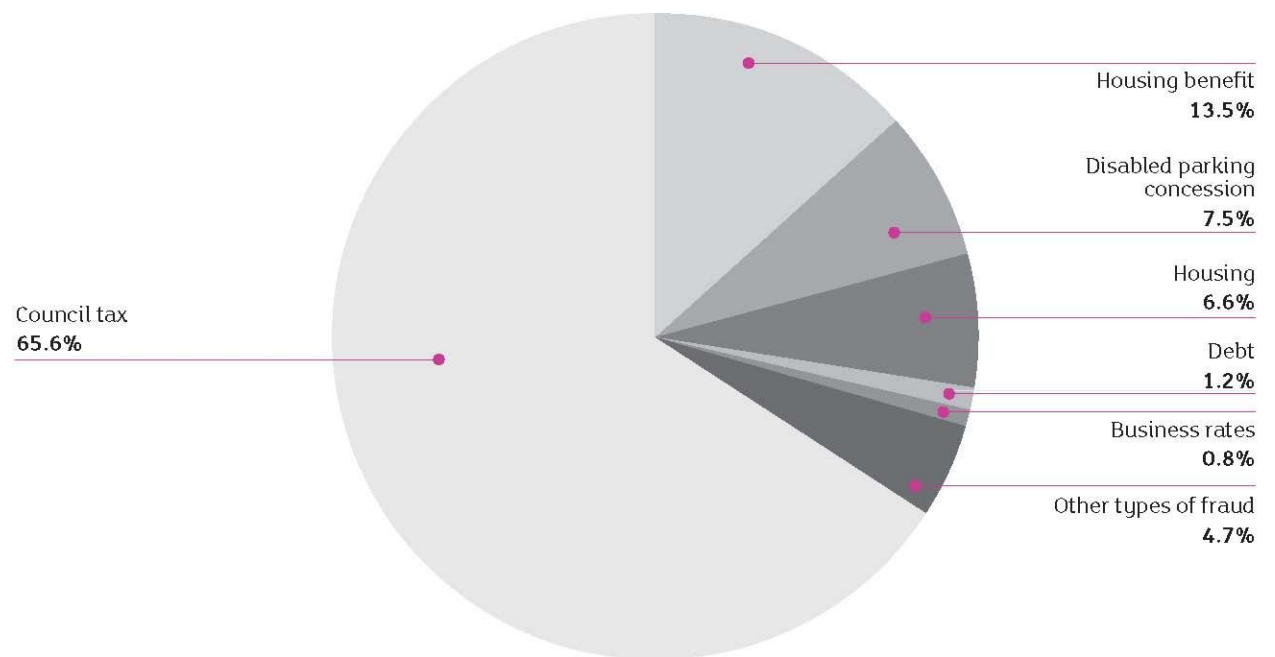
The largest type of fraud according to value is Housing related. This is evident with the Borough and the Housing Tenancy Counter Fraud project is delivering real results in this area.

The largest source of fraud in pure numbers of attempt relates to Council Tax discounts and Housing Benefits. As Members are aware in recent years, councils have shifted their focus from benefit fraud to non-benefit fraud due to the transfer of all benefit investigation from councils to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions.

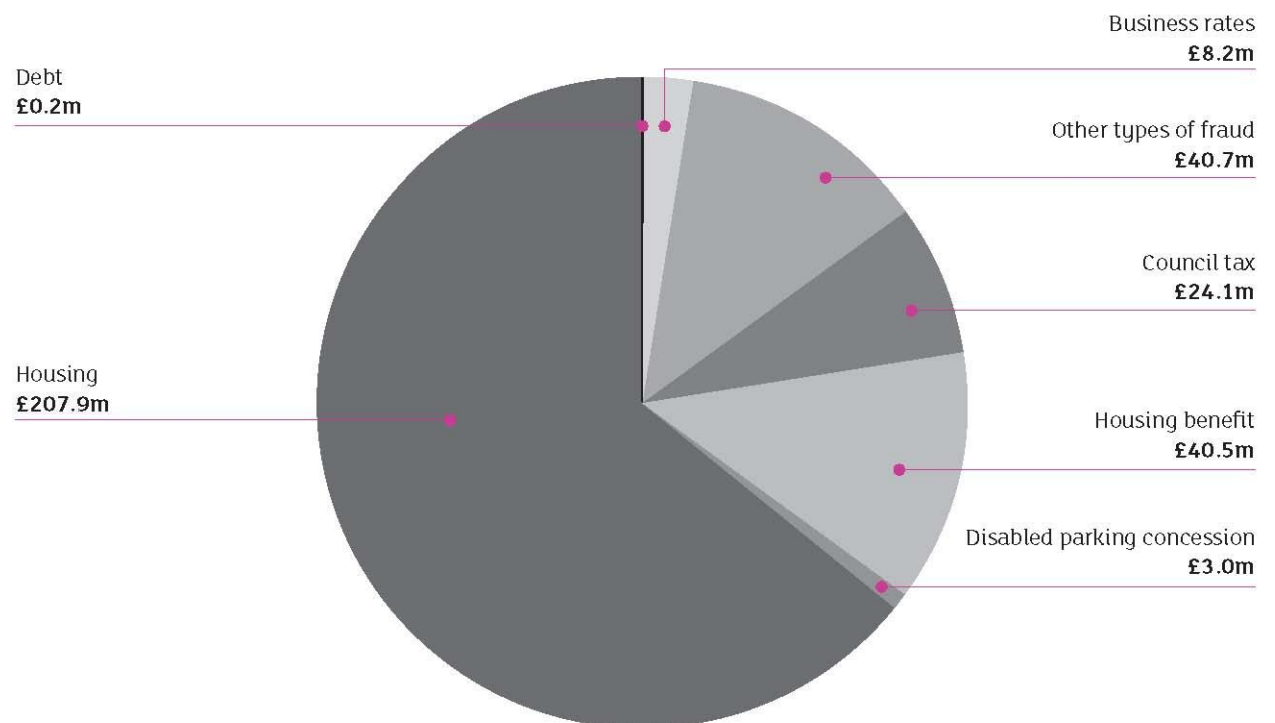
3. CIPFA Recommendations and Findings

Based on responses to the 2016 survey the tables below show CIPFA's findings and advice to Local Authorities in combating and preventing Fraud.

Detected fraud type by volume



Estimated value of fraud detected



The table below lists the types of fraud reported in the survey, and extrapolated figure estimating the number of cases across the UK based on the cases reported in the survey and an estimate of the cost incurred in 2015/16. They give an estimated value per case.

Types of fraud	Fraud cases	% of the total	Value £m	% of the total value	Average £'000
Council Tax	57,681	65.70	24.1	7.40	0.42
Housing Benefit	11,902	13.50	40.5	12.5	3.41
Disabled Parking Concession	6,578	7.50	3.0	0.90	0.45
Housing	5,823	6.60	207.9	64.1	35.71
Debt	1,053	1.20	0.2	0.10	0.23
Business Rates	706	0.80	8.2	2.50	11.55
Welfare Assistance	616	0.70	0.1	0.02	0.12
Procurement	613	0.70	6.2	1.92	10.19
Insurance Claim	382	0.43	5.3	1.62	13.76
Adult Social Care	323	0.37	2.9	0.90	9.09
No Recourse to Public Funds	251	0.29	8.7	2.67	34.51
Mandate	216	0.25	7.2	2.22	33.31
School	182	0.21	0.9	0.26	4.71
Payroll	163	0.19	0.3	0.10	1.98
Recruitment	143	0.16	0.7	0.23	5.21
Pensions	89	0.10	0.6	0.18	6.42
Economic and Voluntary Sector	61	0.07	1.5	0.47	25.10
Expenses	50	0.06	0.5	0.15	9.78
Children's Social Care	29	0.03	0.3	0.09	9.86
Manipulation of Data	24	0.03	na	na	na
Investments	1	0.00	0.2	0.07	221.00
Other	983	1.12	5.3	1.65	5.44

Source: CIPFA 2016

CIPFA recommends the following:

Public sector organisations should carry out fraud assessments regularly and have access to appropriately qualified counter fraud resources to help mitigate the risks and effectively counter any fraud activity.

All organisations should undertake an assessment of their current counter fraud arrangements.

In line with the Fighting Fraud and Corruption Locally Board suggestion, local authorities should examine and devise a standard and common methodology for measuring fraud and corruption. Once it has been agreed, local authorities should use the measure to estimate levels of fraud and corruption.

It is as important to prevent fraud that has no direct financial interest, such as data manipulation and recruitment, as it is high value fraud

Organisations should develop joint working arrangements where they can with other counter fraud professionals and organisations.

Public bodies should continue to raise fraud awareness in the procurement process, not only in the tendering process but also in the contract monitoring element

Authorities should ensure that anti-fraud measures within their own insurance claims processes are fit for purpose and that there is a clear route for investigations into alleged frauds to be undertaken.

A copy of the CIPFA document is attached at Appendix 2 for reference

4. The 2017/18 plan

We are now in year 3 of the Fraud Team being a oneSource shared service and the Fraud Plan for 2016/17 saw a new partner join the team in the form of London Borough of Bexley.

This will bring extra resources into the team and the added benefit of sharing best practice across all the partners building on the experience of sharing across Newham and Havering we have built up over the past year

The plan for 2017/18 at Appendix 1 encompasses the three themes taken from the government's fraud strategy *Fighting Fraud Locally* and takes account of the estimated fraud losses and emerging fraud trend. The three themes are:

- *Acknowledge - Assessing and understanding fraud risks, committing support and resource to tackling fraud, maintain a robust anti-fraud response.*
- *Prevent - Making better use of information technology, enhancing fraud controls and process, developing a more effective anti-fraud culture.*
- *Pursue - Prioritising fraud recovery and the use of civil sanctions, collaborating across local authorities and with local law enforcement agencies.*

Counter fraud resources will be stretched again in 2017/18 although we have now recruited to the agreed establishment and have been utilising temporary workers where necessary. The sections resources are organised to enable data matching and data analysis to take place to try to detect frauds at the earliest stage possible. This year will see us uploading data sets from Havering's data warehouse onto a system known as IDIS and performing matching exercises from this data to offer a level of assurance as well as an investigative pool of work.

Most of the resources are devoted to carrying out investigations to a criminal standard. The team also has capacity for financial investigations which are undertaken in accordance with the Proceeds of Crime Act and can enable the council to claw back funds from criminals in certain circumstances.

Fraud risk	Counter fraud plan 2017/18	Theme
All fraud risks	<ul style="list-style-type: none"> • Robust anti fraud and corruptions policies that are reviewed annually • Provide support to HR and the whistle blowing policy reviews • Regular staff updates to remind them of the policies • Publicity of successful cases to act as a deterrent • Fraud awareness training is available to all staff via breeze. • Additional fraud awareness modules are available for benefits staff. • Face to face training can be provided which includes document authentication training. • Governance training covering topics such as declarations of interest, gifts and hospitality and IT security are available and reviewed annually. • The intranet is regularly updated and contains policies, hints and tips and details of fraud loss estimates to help managers deal with the risk of fraud. • Investment in the fraud hub to help prevent and detect fraud. • Investment in additional investigative tools to improve efficiency in some areas such as bank account analysis. • Employee vetting / identity checking. • Consider the use of POCA for all suitable cases 	<p>Acknowledge/ Prevent/Pursue</p> <p>Acknowledge</p> <p>Acknowledge</p> <p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent/Pursue</p> <p>Prevent/Pursue</p> <p>Pursue</p> <p>Prevent</p> <p>Pursue</p>

Council tax discounts	<ul style="list-style-type: none"> • Work with the service to investigate cases generated from their data matching. • Data matching as part of NFI • Data matching using IDIS • Investigate any good quality referrals 	<p>Pursue</p> <p>Pursue</p>
Business rates	<ul style="list-style-type: none"> • Data matching as part of NFI • Data matching using IDIS • Investigate any cases that come out of Audit • Investigate any good quality referrals 	<p>Pursue</p> <p>Acknowledge/ Prevent/Pursue</p>
Right to buy	<ul style="list-style-type: none"> • Investigate cases referred by RTB team and the public • Use POCA if appropriate. • Generate publicity to act as a deterrent. • Continue to assist the front line in deterring and refusing applications 	<p>Acknowledge / Prevent</p> <p>Pursue</p> <p>Pursue</p> <p>Pursue</p> <p>Acknowledge/ Prevent/Pursue</p>
Abuse of position	<ul style="list-style-type: none"> • Fraud awareness training • Investigate cases • Regular publicity of successful cases • Promote whistle blowing alongside HR. • Ensure adequate governance training is provided. 	<p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent/Pursue</p> <p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent</p>
Social care fraud - Direct Payments	<ul style="list-style-type: none"> • Encourage the use of ID3 Global and the Hub to verify who is controlling service user's funds. • Data matching as part of NFI. • Data matching using IDIS • Identify and promote opportunities for using the fraud hub to prevent and detect fraud. • Provide advice and investigation of cases. 	<p>Acknowledge/ Prevent</p> <p>Pursue Prevent/Pursue</p> <p>Prevent/Pursue</p>
Social Care Fraud – No recourse to public funds	<ul style="list-style-type: none"> • To support the service in undertaking Hub and ID3 Global checks on current claims and investigate any cases found • To provide fraud awareness training to staff • To oversee an awareness campaign in conjunction with 	<p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent Acknowledge/ Prevent</p>

	<p>Internal Communications</p> <ul style="list-style-type: none"> • To provide advice on and investigate any new claims that appear fraudulent • To work with the service by offering to have a dedicated officer available on site on specified days 	<p>Prevent/Pursue</p> <p>Prevent/Pursue</p>
Payroll, pensions and expenses	<ul style="list-style-type: none"> • Data matching as part of NFI. • Investigating cases. • Joint working with the Asylum and Immigration service. • Supporting the service to use ID3 Global to maximum benefit. • Document authentication training for staff handling documents. • Developing a Chip Scan verification programme for all existing staff 	<p>Pursue</p> <p>Pursue</p> <p>Pursue</p>
Employee Applications	<ul style="list-style-type: none"> • Document authentication training for staff handling documents • Investigating cases. • Supporting the service to use ID3 Global to maximum benefit. • Providing a Chip Scan to both internal HR and the agencies and providing guidance on how to use it 	<p>Acknowledge/Prevent</p> <p>Pursue</p> <p>Prevent/Pursue</p>
Disabled parking blue badges	<ul style="list-style-type: none"> • Data matching as part of NFI 	<p>Pursue</p>
Housing tenancy fraud	<ul style="list-style-type: none"> • Data matching as part of NFI and locally commissioned exercises. • Investigating cases. • Using POCA as appropriate. • Working with the Tenancy audit team to recover properties. • Generating publicity as a deterrent. • Work with the service to continue the use of the fraud hub • Develop an SLA and work with registered social landlords to assist with tenancy fraud 	<p>Pursue</p> <p>Pursue</p> <p>Pursue</p> <p>Pursue</p> <p>Acknowledge/Prevent/Pursue</p> <p>Prevent/Pursue</p> <p>Acknowledge/Pursue</p>

False insurance claims	<ul style="list-style-type: none"> • Fraud awareness training • Investigate cases identified in conjunction with the relevant insurers and claims handlers • Regular publicity of successful cases • Encourage the use of ID3 Global and The Hub within the insurance team to help identify an individual's true circumstances 	Prevent Pursue
Debt Avoidance	<ul style="list-style-type: none"> • Investigate cases that may be as a result of any fraud linked to the avoidance of a debt to the organisation including, but not limited to: council tax liabilities rent arrears; false declarations; false instruments of payment or documentation 	Acknowledge /Pursue

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	Item 9
Audit Committee 09 05 2017	REPORT
Subject Heading:	Treasury Management Update Quarter 4 2016/17
CMT Lead:	Debbie Middleton Interim Chief Financial Officer
Report Author and contact details:	Miriam Adams Interim Treasury Manager 01708 432733
Policy context:	The code of practice on treasury management 2009 recommends treasury activities to be reported to a scrutiny committee on a quarterly basis
Financial summary:	There are no direct financial implications from the report

The subject matter of this report deals with the following Council Objectives

Communities making Havering	<input checked="" type="checkbox"/>
Places making Havering	<input type="checkbox"/>
Opportunities making Havering	<input type="checkbox"/>
Connections making Havering	<input type="checkbox"/>

SUMMARY

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function to full Council at least twice yearly (mid-year and at year end). This report provides an additional quarterly update to be reviewed by the Audit Committee.

The Authority 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. This report covers treasury activity and the associated monitoring and control of risk.

RECOMMENDATIONS

- To note the treasury management activities detailed in the report

REPORT DETAIL

1. Investments

The average level of funds available for investment purposes has decreased from £235m in quarter 3 to £201m in quarter 4.

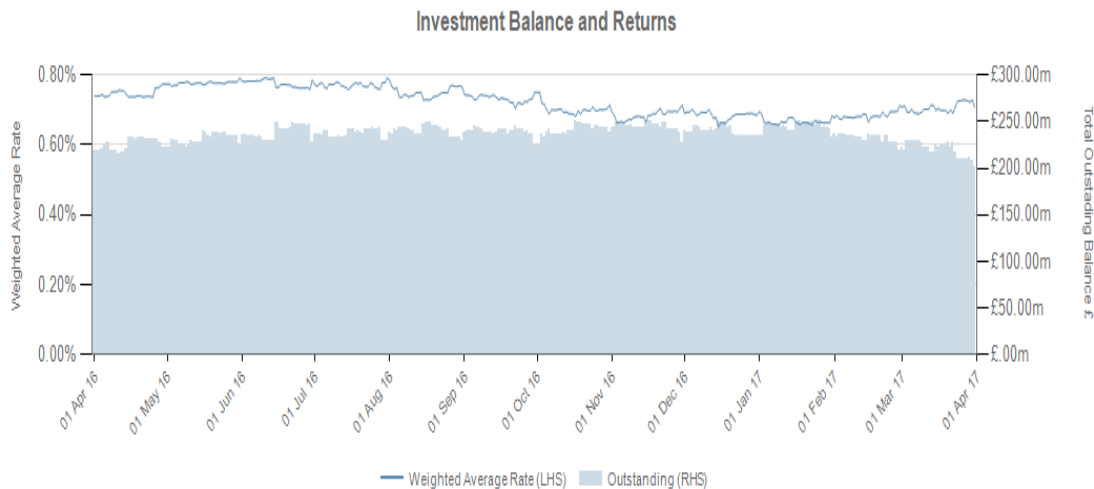
A full breakdown of the Authority's deposits at 31 March 2017 can be found as appendix A.

Table A: Investment performance for quarter ending 31 March 2017

Benchmark	Benchmark Return 3 month LIBOR %	Budgeted Rate of Return %	Actual Rate of Return %	Investment Interest Earned to Period End £
Quarter 1	0.58	0.60	0.77	236,741
Quarter 2	0.51	0.60	0.76	477,873
Quarter 3	0.47	0.60	0.69	922,569
Quarter 4	0.44	0.60	0.72	1,411,654

*** excludes interest from Mercury Land Holding Investments

Graph 1: 2016/17 Monthly Investment Balance and Returns



At the August Bank of England MPC meeting, the UK Bank Rate was reduced to 0.25% and as a result short-term money market rates dropped considerably with many institutions withdrawing from the market for deposits. This can be seen by the reduction of 3 month LIBOR which in Quarter 2 was 0.51% and Quarter 3 0.47%, closing at 0.44% at 31 March 2017.

As illustrated in table A above, the Authority outperformed LIBOR in the fourth quarter by 28bps. This was achieved by locking into longer term deposits to negate the effect of a falling 3 month LIBOR whilst maintaining security on its deposits.

The Authority has also outperformed its budgeted rate of return by 12bps which in addition to a higher cash position has led to excess interest earned to 31 March 2017 of £0.275m.

It was expected early in the financial year that 3 month LIBOR would drop further and as maturing deposits were replaced with new investments at lower rates the excess interest was not declared within the Council's overall revenue position.

To achieve reasonable yield in 2017/18, the Council will further consider investing additional cash in secure liquid investments with duration exceeding 364 days after discussions with Arlingclose.

In addition, the S151 Officer will ensure that for all investments, security and liquidity is paramount before yield. The budget for investment income in 2017/18 is 0.60% (£0.765m).

Table B: Average Monthly Balances in 2016/17

Year	Quarter	Month	Date	Days	Average Balance	Weighted Average Rate
2016/2017	1	April	April average	30	£225,778,705.31	0.74663%
		May	May average	31	£231,368,391.85	0.77670%
		June	June average	30	£238,976,399.31	0.77540%
			2016/2017 Q1 average	91	£232,033,772.37	0.76661%
	2	July	July average	31	£237,221,516.71	0.77122%
		August	August average	31	£240,432,998.40	0.74930%
		September	September average	30	£239,591,245.57	0.73210%
			2016/2017 Q2 average	92	£239,076,384.08	0.75101%
	3	October	October average	31	£240,394,144.64	0.70208%
		November	November average	30	£244,632,454.38	0.68442%
		December	December average	31	£240,359,298.91	0.68442%
			2016/2017 Q3 average	92	£241,764,460.67	0.69034%
	4	January	January average	31	£244,921,840.64	0.66661%
		February	February average	28	£232,576,840.97	0.68362%
		March	March average	31	£220,156,185.06	0.70570%
			2016/2017 Q4 average	90	£232,550,781.60	0.68465%
			2016/2017 average	365	£236,389,044.78	0.72309%

2. Current Investment Opportunities

From time to time the Council is made aware of long term investment opportunities by other oneSource Councils, brokers or investment advisers.

These investments may require quick due diligence/assessment and decision making. It is anticipated that amendments will be required to be made to the Council's 2017/18 treasury management strategy to facilitate a process for urgent decision making.

Examples of such investments are: investments in Solar bond with returns of 4% per annum for years 1 to 4 and 6% in year 5. As well as a 10 year deposit at gilts plus 50bps secured on a segregated pool of Local Authority loans selected by the investor.

3. New borrowing

Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead, referred to as internally borrowing.

Due to the above no long term borrowing was undertaken during the quarter but this will be kept under continuous review as capital spending is monitored and new opportunities emerge in the market.

The Council has also not borrowed in advance of need during the 4th quarter of 2016/17.

New borrowing opportunities available in the markets during the period which may provide borrowing rates at less than equivalent PWLB duration become available from time to time.

Where available the S151 Officer will consider the cost of carry before making a decision to borrow in advance of need or forward fixing borrowing rates. Such opportunities could be used by the Council after careful consideration to fund Council's Prefunding of Pension Fund past service cost.

4. Debt Rescheduling

Debt rescheduling opportunities have been almost non-existent in the current economic climate and consequent structure of interest rates following increases in PWLB new borrowing rates in October 2010.

The possibility of debt rescheduling is regularly discussed with our treasury advisers and is a regular agenda item at the quarterly treasury meeting held between the treasury department, the S151 officer and the lead Member.

The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

5. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) were included and approved by full Council as part of the Treasury Management Strategy Statement (TMSS) in February.

During the financial year, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

5.1 Interest Rate Exposures

This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

Table C: Interest rate exposure

	2016/17 %	2017/18 %	2018/19 %
Upper limit on fixed interest rate exposure*	100	100	100
Actual	98.1		
Upper limit on variable interest rate exposure	25	25	25
Actual	1.9		

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

Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local Authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure.

5.2 Maturity Structure of Borrowing

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

Table D: Maturity structure of borrowing

	Upper %	Lower %	Actual %
Under 12 months	40	0	1.1
12 months and within 24 months	40	0	0
24 months and within 5 years	60	0	0.5
5 years and within 10 years	75	0	1.9
10 years and above	100	25	96.5

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

5.3 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum for investments greater than 1 year invested to final maturities beyond the period end will be:

Table E: Investments longer than 364 days

	2015/16 £m	2016/17 £m	2017/18 £m
Limit on principal invested beyond year end	75	50	£50
Actual	28.8	48.8	21.1

5.4 Liquidity Treasury Indicator

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments overnight and within a rolling three month period without additional borrowing.

Table F: Liquidity

	Target £m	Actual £m
Total cash available by the next working day	5	6.9*
Total cash available within 3 months	30	46

*The level of instant access cash increased slightly due to additional cash made available to ensure that there was funding in place for all year end creditor expenditure.

5.5 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement (CFR) for the current and next two financial years. This is a key indicator of prudence.

Table G: Gross Debt and CFR

	31.03.16 Actual £m	31.03.17 Actual £m	31.03.18 Estimate £m
Long Term Debt	210.2	210.2	278.3
CFR	235	251	306

Total debt is expected to remain below the CFR during the year.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

5.6 Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Table H: Operational Boundary

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	210.2	276.3	310.6
Other long-term liabilities	2.0	2.0	2.0
Total	212.2	278.3	312.6
Long Term Debt	210.2	210.2	210.2
Headroom	n/a	68.1	102.4

5.7 Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table I: Authorised limit

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	284.6	303.9	341.7
Other long-term liabilities	2.0	2.0	2.0
Total Debt	286.6	305.9	343.7
Long Term Debt	210.2	210.2	210.2
Headroom	76.4	95.7	133.5

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications from this report.

Legal implications and risks:

There are no apparent legal implications or risks from noting this Report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report

BACKGROUND PAPERS

None

Appendix A

Detail of Deposits as at 31st March 2017

Class	Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Deposit	Fixed	3256	07/09/16	06/09/17	DBS Bank Ltd	Maturity	0.5000%	-2,000,000.00
Deposit	Fixed	3260	03/10/16	03/04/17	Commonwealth Bank of Australia	Maturity	0.4000%	-5,000,000.00
Deposit	Fixed	3263	07/10/16	07/04/17	Commonwealth Bank of Australia	Maturity	0.4000%	-5,000,000.00
Deposit	Fixed	3264	10/10/16	10/10/17	Lloyds Bank plc	Maturity	1.0000%	-3,000,000.00
Deposit	Fixed	3265	13/10/16	12/10/17	Rabobank Nederland	Maturity	0.6000%	-5,000,000.00
Deposit	Fixed	3266	17/10/16	17/10/17	Lloyds Bank plc	Maturity	1.0000%	-4,000,000.00
Deposit	Fixed	3267	17/10/16	13/04/17	Nationwide Building Society	Maturity	0.4300%	-5,000,000.00
Deposit	Fixed	3268	18/10/16	17/10/17	Rabobank Nederland	Maturity	0.6400%	-5,000,000.00
Deposit	Fixed	3270	20/10/16	19/07/17	Highland Council	Maturity	0.3500%	-2,000,000.00
Deposit	Fixed	3271	20/10/16	20/04/17	Nationwide Building Society	Maturity	0.4200%	-3,000,000.00
Deposit	Fixed	3272	01/11/16	01/11/18	Northumberland County Council	Maturity	0.5500%	-5,000,000.00
Deposit	Fixed	3273	04/11/16	03/11/17	Eastleigh Borough Council	Maturity	0.4400%	-5,000,000.00
Deposit	Fixed	3274	08/11/16	08/05/17	Coventry Building Society	Maturity	0.3800%	-5,000,000.00
Deposit	Fixed	3275	15/11/16	15/11/18	Lancashire County Council	Maturity	0.5700%	-5,000,000.00
Deposit	Fixed	3276	16/11/16	16/11/20	Northumberland County Council	Maturity	1.0000%	-5,000,000.00
Deposit	Fixed	3277	16/11/16	16/11/21	Northumberland County Council	Maturity	1.1000%	-5,000,000.00
Deposit	Fixed	3278	29/11/16	31/05/17	Highland Council	Maturity	0.3500%	-5,000,000.00
Deposit	Fixed	3279	05/12/16	28/04/17	Goldman Sachs International	Maturity	0.4900%	-5,000,000.00
Deposit	Fixed	3280	13/12/16	23/06/17	Goldman Sachs International	Maturity	0.5200%	-5,000,000.00
Deposit	Fixed	3227	07/04/16	06/04/17	Bank of Montreal	Maturity	0.7700%	-4,000,000.00
Deposit	Fixed	3229	11/04/16	10/04/17	Oversea-Chinese Banking Corp	Maturity	0.7800%	-5,000,000.00
Deposit	Fixed	3236	03/05/16	02/05/17	Rabobank Nederland	Maturity	0.8050%	-5,000,000.00
Deposit	Fixed	3239	16/05/16	15/05/17	Oversea-Chinese Banking Corp	Maturity	0.8000%	-4,000,000.00
Deposit	Fixed	3247	15/07/16	14/07/17	Lloyds Bank plc	Maturity	1.0500%	-4,000,000.00
Deposit	Fixed	3249	22/07/16	24/07/17	Lloyds Bank plc	Maturity	1.0500%	-5,000,000.00
Deposit	Fixed	3250	01/08/16	31/07/17	Australia and New Zealand Banking Group Limited	Maturity	0.5300%	-3,000,000.00
Deposit	Fixed	3194	04/11/15	05/11/18	Lancashire County Council	Maturity	1.3000%	-5,000,000.00
Deposit	Fixed	3199	29/02/16	26/02/21	Newcastle upon Tyne City Council	Maturity	1.8000%	-5,000,000.00
Deposit	Fixed	3202	26/04/16	26/04/21	London Borough of Islington	Maturity	1.7500%	-5,000,000.00
Deposit	Fixed	3145	19/06/15	19/06/18	Lancashire County Council	Maturity	1.2000%	-5,000,000.00
Deposit	Fixed	3283	11/01/17	11/07/17	Nationwide Building Society	Maturity	0.4200%	-5,000,000.00
Deposit	Fixed	3284	16/01/17	15/01/18	Lloyds Bank plc	Maturity	0.9000%	-5,000,000.00
Deposit	Fixed	3288	01/02/17	01/11/17	North Lanarkshire Council	Maturity	0.4800%	-5,000,000.00
Deposit	Fixed	3290	27/01/17	27/04/17	Goldman Sachs International	Maturity	0.5000%	-5,000,000.00
Deposit	Fixed	3292	03/02/17	02/02/18	Lloyds Bank plc	Maturity	0.9000%	-3,000,000.00
Deposit	Fixed	3291	17/02/17	22/11/17	Highland Council	Maturity	0.4800%	-5,000,000.00
Fixed Total							0.7494%	-162,000,000.00
Deposit	Call - 95 days notice	3186	30/09/15		Santander UK plc	Maturity	0.4475%	-20,175,640.45
Deposit	Call - 95 days notice	3282	09/01/17	26/06/17	Goldman Sachs Int Bank (95 Days)	Maturity	0.5200%	-3,000,000.00
Call - 95 days notice Total							0.4569%	-23,175,640.45
Deposit	MMF	3287	20/01/17		HSBC Global Liquidity Sterling G	Maturity	0.2310%	-6,920,000.00
MMF Total							0.2310%	-6,920,000.00
Deposit	Bond	3178	14/10/15	12/04/18	Yorkshire Building Society	Maturity	1.2999%	-5,000,000.00
Bond Total							1.2999%	-5,000,000.00
Deposit	Floating Rate Note	3255	31/08/16	08/07/19	Santander UK plc	Maturity	0.6490%	-1,006,116.20
Deposit	Floating Rate Note	3254	31/08/16	29/05/18	Santander UK plc	Maturity	0.5622%	-2,802,186.77
Floating Rate Note Total							0.5851%	-3,808,302.97
Deposit Total							0.7084%	-200,903,943.42

Appendix B

Regulatory Update

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) protects most deposits at UK banks, building societies and credit unions in the event of default.

The main exceptions relate to deposits made by local authorities with annual budgets exceeding €500,000 and deposits by other financial institutions.

On 30th January 2017, the FSCS increased the deposit compensation limit by £10,000 to £85,000. The Prudential Regulation Authority will normally review the protection limit every five years in order to factor in exchange rates fluctuations, as the limit is based on the €100,000 specified in the EU Deposit Guarantee Schemes Directive. However, the large fall in sterling since the EU referendum has led to an interim change.

Deposits covered by the FSCS are also exempt from bail-in, and eligible depositors are therefore fully protected against bank failure up to the £85,000 limit.

Deposits by individuals and SMEs of more than £85,000 have some additional protection against bank insolvency or bail-in, as they are considered preferred creditors. They would therefore only be bailed-in after all other unsecured creditors have been wiped out. In order to qualify as an SME, a company must meet at least two of the following criteria: (i) balance sheet assets of below €12.5m, (ii) net turnover of below €25m, and (iii) average number of employees during the year of fewer than 250.

Local authorities with annual budgets above €500,000 and all financial institutions remain excluded from both FSCS protection and treatment as preferred creditors. Their deposits are classified as senior unsecured creditors and are therefore exposed to losses in the event of a bank failure, along with bondholders and other creditors.

Money Market Fund Regulatory Reform

On-going European Money Market Fund regulatory reform process is heading toward its last phase before implementation. The detail of the 'Regulation of the European Parliament and European Council on Money Market Funds' has been agreed by the relevant EU policymaking bodies and is now subject to final approval. The key features of the regulation include:

MMF Structure Options

Public Debt Constant Net Asset Value (CNAV) MMFs – must invest 99.5% of their assets into government debt instruments

Low Volatility Net Asset Value (LVNAV) MMFs – are permitted to maintain a constant dealing Net Asset Value, providing that the fund's market Net Asset Value does not deviate from the dealing NAV by more than 20 basis points, alongside other criteria.

Variable Net Asset Value MMFs – assets are marked to market, meaning the dealing NAV will fluctuate.

Liquid Asset Ratios

Requirements to hold minimum levels of daily and weekly liquid assets differ between type of fund structure.

Implementation Timeline

An implementation of 18 months has been set out for existing funds, commencing from the date of publication of the regulation in the Official Journal of the European Union. This publication is currently expected to happen in the first half of 2017.

It is expected that most of the short-term MMFs the Council currently invests in will convert to the LVNAV structure but it remains to be seen how each fund manager reacts to the final regulation. It would not be surprising to see some industry consolidation.

The Council will continue to adhere to the principles of Security, Liquidity and Yield.

The Council's treasury management adviser - Arlingclose will continue to scrutinise MMFs on an ongoing basis and have discussions with each of the funds on their credit and investment approach. The Council will immediately suspend the use of any fund should there be concerns.

Recent changes by the Debt Management Office (DMADF)

The Debt Management Office on 24th February 2017 changed the interest rate for DMADF deposits with **immediate effect**. The interest rate for deposits from overnight to six months is now **0.10%**. The previous rates were 0.15% for overnight to three month deposits, and 0.10% for four month to six month deposits.

MiFID II

This EU directive tightens the regulation of financial markets, including the client classification of local authorities, taking effect from January 2018.

The existing MiFID I allows all local authorities to be classed as professional clients with wider market access and cheaper fees than individuals and SMEs classed as retail clients. The new MiFID II will class all local authorities as retail clients with the ability to opt up to professional client status providing they meet certain thresholds. The FCA has some leeway over what thresholds are applied in the UK and proposed a £15m minimum investment balance, a history of 40 relevant transactions a year, and one year's experience in the financial sector.

There was extensive lobbying from across the local authority and pension fund communities against these suggestions. While the FCA is used to financial service firms asking for less regulation, they will have been surprised to hear so many customers arguing against it too. It is anticipated that some changes will be made to the thresholds, although the final outcome will not be known until early July.