

NORTHAMPTON BOROUGH COUNCIL

AUDIT COMMITTEE

Your attendance is requested at a meeting to be held in the Jeffrey Room on Monday, 8 November 2010 at 6:30 pm.

D Kennedy
Chief Executive

AGENDA

1. APOLOGIES

Please contact Nicola Brindley on 01604 837356 or nbrindley@northampton.gov.uk when submitting apologies for absence.

2. MINUTES

3. DEPUTATIONS / PUBLIC ADDRESSES

4. DECLARATIONS OF INTEREST

5. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED

6. TREASURY MANAGEMENT MID YEAR REPORT

Introduction to include a 10 minute refresher

R Smith
Ext 8046

7. RISK MANAGEMENT AND BUSINESS CONTINUITY UPDATE

S Morrell
Ext 8420

8. SERVICE AREA RISK REGISTER - REGENERATION AND DEVELOPMENT

S Morrell
Ext 8420

9. INTERNAL AUDIT PROGRESS REPORT 2010/11

C Dickens
Internal
Auditor
(PWC)

10. EXCLUSION OF PUBLIC AND PRESS

THE CHAIR TO MOVE:

“THAT THE PUBLIC AND PRESS BE EXCLUDED FROM THE REMAINDER OF THE MEETING ON THE GROUNDS THAT THERE IS LIKELY TO BE DISCLOSURE TO THEM OF SUCH CATEGORIES OF EXEMPT INFORMATION AS DEFINED BY SECTION 100(1) OF THE LOCAL GOVERNMENT ACT 1972 AS LISTED AGAINST SUCH ITEMS OF BUSINESS BY REFERENCE TO THE APPROPRIATE PARAGRAPH OF SCHEDULE 12A TO SUCH ACT.”

SUPPLEMENTARY AGENDA

Exempted Under Schedule
12A of L.Govt Act 1972
Para No:-

- | | | | |
|-----|---------------------------------------|-----|---|
| 11. | INTERNAL AUDIT PRIVATE SESSION REPORT | (7) | C Dickens
Internal
Auditor
(PWC) |
|-----|---------------------------------------|-----|---|

Public Participation

Members of the public may address the Committee on any non-procedural matter listed on this agenda. Addresses shall not last longer than three minutes. Committee members may then ask questions of the speaker. No prior notice is required prior to the commencement of the meeting of a request to address the Committee.

Appendices

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Item No.

6



NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title

TREASURY MANAGEMENT MID YEAR REPORT 2010-11

AGENDA STATUS:

PUBLIC

Audit Committee Meeting Date: 8 November 2010

Policy Document: No

Directorate: Finance & Support

Accountable Cabinet Member: David Perkins

1. Purpose

1.1 To put the draft Treasury Management Mid Year Report for 2010-11 before Audit Committee for review prior to it being put to Cabinet in December and to Council in January, and to invite Audit Committee to put forward recommendations as they think appropriate.

2. Recommendations

2.1 That Audit Committee review the draft Treasury Management Mid Year Report for 2010-11 prior to it being put to Cabinet in December and to Council in January, and put forward recommendations as they think appropriate.

3. Issues and Choices

3.1 Report Background

3.1.1 A report was brought to Audit Committee on 22 March 2010 that explained new regulatory requirements for the Council to place greater emphasis on the scrutiny of treasury management strategies and policies. Under these arrangements the Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council.

3.2 Issues

Treasury Management Mid Year Report 2010-11

3.2.1 The Council's draft Treasury Management Mid Year Report for 2010-11 is attached at Appendix A. This comprises a covering report and annexes (A to J). This report is timetabled to go to Cabinet on 15 December 2010 and Council on 17 January 2011.

3.2.2 Audit Committee are asked to review the report and to put forward recommendations to Cabinet and Council as they think appropriate.

3.3 Choices (Options)

3.3.1 Audit Committee have the option to comment on the areas considered in the report and to make recommendations to Officers and to Cabinet and Council.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Council is required to adopt the latest CIPFA Treasury Management Code of Practice, and to set and agree the following policy and strategy documents:

- A Treasury Management Policy Statement
- Treasury Management Practices (TMPs) and TMP Schedules
- An annual Treasury Strategy incorporating:
 - The Capital Financing and Borrowing Strategy for the year including:
 - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
 - The Affordable Borrowing Limit for the year as required by the Local Government Act 2003.
 - The Investment Strategy for the year as required by the CLG Guidance on Local Government Investments issued in 2004, and updated in 2010.
- A mid-year review report and an annual review report of the previous year.

These documents are reported to Cabinet and Council as part of the budget setting process or at appropriate points during the year.

4.1.2 The updated CIPFA Treasury Management Code of Practice (published in 2009) requires the Council to place greater emphasis on the scrutiny of treasury management strategies and policies. This includes the nomination of the body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. Council has nominated the Audit Committee for this role, which includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council.

4.2 Resources and Risk

4.2.1 The risk management of the treasury function is considered as an integral part of day-to-day treasury activities, and is also specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually.

4.2.2 The mid year report for 2010-11 attached as an Appendix to this report includes an analysis of the risk implications of decisions taken and transactions executed during 2010-11.

4.3 Legal

4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are referred to within the report and annexes and listed in the background papers

4.4 Equality

4.4.1 Annual Equalities Impact Assessments are carried out on the Council's Treasury Strategy and the associated Treasury Management Practices (TMPs) and Schedules to the TMPs. These are reported to Cabinet and Council in February of each year.

4.5 Consultees (Internal and External)

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury advisers, Sector, and with the Portfolio holder for Finance.

4.6 Other Implications

4.6.1 No other implications have been identified.

5. Background Papers

Statute, Regulation and Guidance

The Treasury Management Mid Year Report at Appendix A contains a full list of current statute, regulation and guidance relating to treasury management.

Reports to Audit Committee, Cabinet & Council

Treasury Strategy 2010-11 to 2012-13 – Report to Cabinet 24 February 2010 & Council 25 February 2010

Prudential Indicators for Capital Finance 2010-11 to 2012-13 – Report to Cabinet 24 February 2010 & Council 25 February 2010

Report Author: Bev Dixon, Finance Manager – Capital & Treasury, ext 7401

Appendices

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NORTHAMPTON
BOROUGH COUNCIL

Item No.

CABINET REPORT

Report Title

TREASURY MANAGEMENT MID YEAR REPORT 2010-11

AGENDA STATUS:

PUBLIC

Cabinet Meeting Date:	15 December 2010
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	David Perkins
Ward(s)	Not Applicable

1. Purpose

- 1.1 To inform the Cabinet of the Council's performance in relation to its treasury management activities, including its borrowing and investment strategy, for the period 1 April to 30 September 2010.
- 1.2 To inform Cabinet of a change to the Council's Investment Strategy, approved by the Chief Financial Officer in August 2010.
- 1.3 To ask Cabinet to recommend to Council that they approve revisions to the Council's prudential indicators for Capital Expenditure and the Capital Financing Requirement for 2010-11.

2. Recommendations

- 2.1 That Cabinet recommend to Council that they note the Council's treasury management activities and performance for the period 1 April to 30 September 2010.
- 2.2 That Cabinet recommend to Council that they note the change to the Council's Investment Strategy detailed at paragraphs 3.2.27 to 3.2.28.
- 2.3 That Cabinet recommend to Council that they approve revisions to the Council's prudential indicators for 2010-11 for Capital Expenditure and the Capital Financing Requirement as set out at paragraphs 3.2.51 and 3.2.54.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council adopted the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("the Treasury Management Code of Practice") following its publication in 2001.
- 3.1.2 During 2009, in the light of the impacts on local authorities of the Icelandic bank situation in 2008, CIPFA published a fully revised second edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and a fully revised third edition of the Guidance Notes for Local Authorities. The adoption of the updated code was formally minuted as a decision at the Council meeting of 25 February 2010.
- 3.1.3 The latest Treasury Management Code of Practice and the associated the guidance notes include recommendations on reporting requirements, including a new requirement for an annual mid year report on treasury activities. The table below shows how the specific requirements have been incorporated into this report.

Reporting Requirement	Reference
Activities undertaken	3.2.7 – 3.2.23 Annexes B,C,D,E,F
Variations (if any) from agreed policies and practices	3.2.24 – 3.2.33 Annex H
Interim performance report	3.2.34 – 3.2.40 Annex G
Regular monitoring	3.2.41 – 3.2.45 Annex H,I,J
Monitoring of treasury management indicators for local authorities	3.2.46 – 3.2.47 Annex H

3.1.4 The following topics are also covered in this report

Topic	Reference
Economic environment and interest rates	3.2.1 – 3.2.6 Annex A
Monitoring of prudential indicators for local authorities	3.2.48 – 3.2.54 Annex I
Monitoring of debt financing budget	3.2.55 – 3.2.56 Annex J

3.2 Issues and Choices

Economic Environment and Interest Rates

- 3.2.1 An analysis of the economic position as at the end of September 2010, is attached at **Annex A**. This has been provided by Sector, the Council's treasury management advisers.
- 3.2.2 The Monetary Policy Committee left bank base rate unchanged at 0.50% throughout the first half of 2010-11, and maintained its level of quantitative easing at £200 billion.
- 3.2.3 Investment rates are at a historical low point and remained relatively stable throughout the first six months of 2010-11, with the average 7 day LIBID rate 0.07% below base rate, and LIBOR 0.05% above.
- 3.2.4 Interest rate views continue to differ between forecasters, and some forecasts have been revised downwards during the year following developments in the economy. **Annex A** includes the latest interest rate forecast provided by Sector.
- 3.2.5 Expectations for future bank base rates vary; the earliest forecast of a base rate increase is March 2011, while some forecasters predict the bank rate will remain at its current level until 2012.
- 3.2.6 Borrowing rate forecasts have been revised following an unexpected fall in bond yields in August and September 2010. The overall view is that borrowing rates are currently at a low point and will begin to rise, although opinion is varied on the timing and degree of future increases.

Activities undertaken

Investments

- 3.2.7 The Council's overall investments figure as at 30 September 2010 was £78m; average balances for the six-month period to 30 September were £71m. The lowest and highest balances during the period were £54m and £89m.

- 3.2.8 Since the start of the year 40 new fixed term deposits have been entered into ranging in value between £5k and £5m, at rates between 0.33% and 1.90%. The average value of each single investment was £2.6m, and the average interest rate achieved for fixed deposits was 1.12%. Fixed term deposits make up an average of 82% of the Council's investment portfolio, the remainder being balances held in instant access deposit accounts. **Annex B** shows the Council's investments and deposit account balances at 30 September 2010.
- 3.2.9 As investment interest rates are expected to rise from current levels, albeit slowly, the majority of investments have been made for relatively short periods, to ensure that funds are not tied up in long term investments at low rates in the future when available rates are higher. Keeping funds liquid ensures that the Council is able to take advantage of high interest rates for longer-term deals when they become available. Investment periods since the start of 2010-11 range from 16 days to 364 days, the average duration being 140 days. **Annex C** shows the maturity profile of the Council's investments at 30 September 2010.
- 3.2.10 Instant access deposit accounts have been used extensively during the first half of the year, in order to maintain liquidity and security of funds. The average balance held in deposit accounts since 1 April 2010 was £13m, around 18% of the Council's average investment portfolio.
- 3.2.11 Two of the deposit accounts currently used by the Council earn interest at relatively high rates, so are used in preference to short term fixed investments where possible, to increase the Council's rate of return on investments. In order to spread the Council's funds over a wider range of counterparties whilst ensuring sufficient liquidity, three more deposit accounts are in the process of being opened with two counterparties; one of these accounts will be instant access, the other two requiring fifteen and thirty days notice for transactions.
- 3.2.12 Due to changes in banking regulation to improve security of deposits, it may not be beneficial for banks to offer high interest rates on instant access accounts in the future, with customers being encouraged to place deposits for fixed periods instead. It is therefore likely that the banks could reduce the interest rates currently applicable on the Council's deposit accounts.
- 3.2.13 In order to maintain sufficient liquidity and prevent a fall in investment interest following these changes, the Council will shortly begin to use Money Market funds as well as deposit accounts. The use of money market funds will ensure liquidity, as they provide instant access. In addition, there will be increased capacity with investment counterparties as a result of the reduction in balances held in deposit accounts. This will enable more use to be made of direct deals at enhanced rates to maintain a sufficient rate of return on investments.

- 3.2.14 Money Market Funds currently earn interest at a lower rate than the Council's deposit accounts, but have a high security rating due to their diversification. Deposits placed with money market funds are distributed between a wide range of institutions, reducing the exposure to single counterparties, and therefore minimising the potential impact of a collapse of a particular institution on the fund and its investors.
- 3.2.15 The Council's treasury management advisors ran a Money Market Fund selection process on several AAA rated funds based on the Council's preferred selection criteria of size of fund, diversification and performance, and have recommended the three most suitable money market funds to use. An account has been set up with Ignis, the fund with the highest score based on these criteria, and the use of other funds will be arranged in the future to ensure the rates achieved remain competitive.
- 3.2.16 All investment activity has been carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2010-11. This has ensured that the principle of considering security, liquidity and yield in that order (SLY), has been consistently applied.

Borrowing

- 3.2.17 **Annex D** shows outstanding long-term borrowing at 30 September 2010 at amortised cost. The total long-term debt outstanding is £32m. Of this amount, 77% is in the form of money market LOBO loans, 19% is PWLB borrowing and the remaining 4% is the long-term element of an annuity loan with the Homes and Communities Agency (HCA). The amount of principal due within one year for the HCA annuity is treated as short term borrowing in the accounts.
- 3.2.18 No loans have been repaid since April 2010 other than the principal element (£16k) of the HCA annuity payment made in September. No rescheduling of loans took place in the first half of the year.
- 3.2.19 No new borrowing was arranged in the first six months of 2010-11. New PWLB loans totalling £6m were arranged during January 2010 on the advice of the Council's treasury advisors, Sector. As interest rates are forecast to rise in the short to medium term, these loans were arranged to fund capital expenditure over the next three years, in order to reduce the risk of being required to borrow externally in the future at a point when rates are high. It is currently anticipated that no further external borrowing will be taken during the next two years.
- 3.2.20 **Annex E** shows the Council's long-term debt maturity profile at 30 September 2010 at cash value. Two LOBO loans totalling £15.6m are due for repayment in 2014-15. As current interest rates are lower than the rates applicable to these loans, rescheduling of this debt at current rates would incur high premiums, and would therefore not be beneficial. Options for the repayment or rescheduling of these loans will be monitored and revisited nearer to their

maturity date, with advice taken from the Council's external treasury consultants, Sector.

3.2.21 **Annex F** shows outstanding balances and applicable rates for short-term borrowing at 30 September 2010. The total outstanding for temporary borrowing at 30 September 2010 was £181k.

3.2.22 The Council has long-standing agreements with two local organisations, Billing Parish Council and Northampton Volunteering Centre, for the short-term deposit of funds with the Council. Accounting regulations require that these be treated in the accounts as short-term borrowing. The interest rate applicable on these accounts is set quarterly using the Council's average investment rate for the previous quarter, less 0.5% to cover administrative costs. The balances in these accounts during the period April to September 2010 were between £70k and £110k, at interest rates between 0.66% and 0.67%.

3.2.23 The principal element (£17k) of the HCA annuity repayment due within 12 months is also treated as short term borrowing in the accounts in order to comply with accounting requirements.

Variations (if any) from or to agreed policies and practices

Variation to Investment Strategy

3.2.24 The Council's Treasury Strategy for 2010-11 approved by Council on 25 February 2010 set the following criteria for selecting investment counterparties:

	Investments may be placed with counterparties within the maximum periods recommended by the Council's external treasury advisors, and which meet the following criteria:	Additional limits
(1)	Counterparties having sovereign ratings of AAA (Overseas or UK)	NBC additional limits in force will be £12m and a maximum of 12 months (364 days).
	Or:	
(2)	UK nationalised or part nationalised banking institutions	NBC additional limits in force will be £15m and a maximum of 12 months (364 days).
	Or;	
(3)	UK banks or building societies supported by the UK banking system support package	NBC additional limits in force will be £15m and a maximum of 2 years (729 days).

3.2.25 During the first six months of the year the maximum duration recommended by the Council's external treasury advisors for investments with counterparties falling in category (3) above was 364 days, effectively preventing the Council from placing any long term investments.

3.2.26 The Treasury Strategy for 2010-11 gives the authority to the Chief Financial Officer to make a change to the counterparty selection criteria in order to enable the effective management of risk in relation to investments.

3.2.27 In order to reduce the risk that the Council could be unable to take advantage of preferential interest rates for long term investments if they arose, the Chief Financial Officer agreed changes to the counterparty limits on 23 August 2010, increasing the range of counterparties available for investments over 364 days.

3.2.28 The new limits are as follows:

	Investments may be placed with counterparties within the maximum periods recommended by the Council’s external treasury advisors, and which meet the following criteria:	Additional limits
(1)	Counterparties having sovereign ratings of AAA (Overseas or UK)	NBC additional limits in force will be £12m and a maximum of 12 months (729 days).
	Or:	
(2)	UK nationalised or part nationalised banking institutions	NBC additional limits in force will be £15m and a maximum of 12 months (729 days).
	Or;	
(3)	UK banks or building societies supported by the UK banking system support package	NBC additional limits in force will be £15m and a maximum of 2 years (729 days).

3.2.29 However, as long-term investment interest rates are currently at a low point and are expected to rise, no long-term investments have yet been entered into. Investments are currently being kept short term in order to ensure that sufficient funds are available to take advantage of higher interest rates when they become available.

Variation from and revision to Treasury Indicator

3.2.30 The Council agreed the treasury indicators for 2010-11 at their meeting of 25 February 2010. These included indicators for fixed and variable rate interest rate exposures. The indicator for fixed rate interest rate exposure was set at zero, meaning that fixed rate investments should remain in excess of fixed rate borrowing.

3.2.31 At the time of setting this indicator the Council had fixed rate investments of £10m and fixed rate borrowing of £7m, resulting in a negative indicator of £3m. The indicator was set based on the expectation that the fixed rate investment figure would drop to £8.5m in 2010-11 in line with the treasury strategy limit for investments over 364 days, and fixed rate borrowing would remain constant following the PWLB borrowing arranged in January 2010, resulting in a negative indicator of £1.5m.

- 3.2.32 Market conditions during the first half of the year were such that the Council had no suitable counterparties with which to invest for periods over 364 days, and as the existing investments over 364 days matured they were replaced with shorter-term investments classed as variable rate. The figure for fixed rate investments started the year at 1 April at £8m, dropped to £6m on 4 June, to £4m on 14 June, and to £2m on 16 June. The indicator was therefore positive from 4 June, and currently stands at £5m (positive). This is in excess of the previously set limit of zero.
- 3.2.33 This breach was reported to Council on 15th September 2010 and Council agreed a change to the indicator for fixed rate interest rate exposure to £10m for the remainder of 2010-11. This will allow the Council to hold all of its investments at under 364 days and also gives some scope for additional fixed rate borrowing to be taken out if required.

Interim performance report

- 3.2.34 The variance between the Council's monthly rate of return on investments and the average 7-day Libid rate for the month is used as a measure of treasury performance, where a high variance reflects a high level of performance.
- 3.2.35 The 7-day Libid rate has remained fairly constant at an average of 0.42% throughout the first half of 2010-11.
- 3.2.36 At the beginning of the year, the Council held a number of longer-term investments, which had been arranged in previous years in a higher interest rate environment. The inclusion of these investments when measuring the rate of return against the current Libid rate led to a high positive variance at the beginning of the year, which fell sharply in June and July when these investments matured.
- 3.2.37 During the first half of the year, the positive variance reported fell from 0.88% in April 2010 to 0.41% in July 2010. From August 2010 there has been a higher balance held in deposit accounts, which attract higher rates than short term investments, and performance has improved slightly again. The average rate of return on investments since April 2010 was 1.01%, giving an average positive variance of 0.59%.
- 3.2.38 As investment rates are expected to rise in the future, there is a possibility that at some point existing investments could be held at a rate lower than the market rates available. This could cause the Council's rate of return on investments to fall below the current LIBID rate, and would result in a negative variance. Most investments have been kept short term to safeguard against this risk, and under the advice of the Council's treasury advisors no investments with maturity periods over 364 days have been arranged this year.
- 3.2.39 Treasury staff are currently working on a more sophisticated measure of tracking investment performance against LIBID. If this proves workable the current method of measurement may shortly be replaced by the new methodology.

3.2.40 Investment performance to 30 September 2010 is attached at **Annex G**.

Regular monitoring

3.2.41 A schedule of current investments and deposit account balances showing counterparties used, investment durations and interest rates achieved is prepared weekly and reviewed by the Finance Manager, Capital and Treasury.

3.2.42 Monthly reconciliations are completed for outstanding investment principal, interest received, outstanding borrowing principal and interest paid to ensure all transactions have been made and recorded accurately.

3.2.43 The Chief Finance Officer receives monthly treasury investment performance data and minutes from monthly treasury management meetings.

3.2.44 Prudential and treasury indicators have been monitored monthly from July 2010 and a summary will be taken to monthly treasury management meetings from October 2010.

3.2.45 The debt financing and debt management budgets have been monitored monthly since the start of the year. Debt financing budget monitoring information is reported in the monthly dashboard reports to Cabinet.

Monitoring of treasury management indicators for local authorities

3.2.46 Treasury management indicators have been monitored monthly since July 2010 and the latest position will be reported at monthly treasury management meetings from October.

3.2.47 **Annex H** contains treasury management indicator monitoring information at 30 September 2010. This includes the revised treasury management indicator for fixed interest rate exposures approved by Council on 15th September 2010. Details of the revision to this indicator are given at paragraphs 3.2.30 to 3.2.33 above.

Monitoring of prudential indicators for local authorities

3.2.48 Prudential indicators have been monitored monthly since July 2010 and the latest position will be reported at monthly treasury management meetings from October.

3.2.49 **Annex I** contains prudential indicator monitoring information at 30 September 2010. This includes revisions to the Council's prudential indicators for 2010-11 for Capital Expenditure and Capital Financing Requirement as set out below.

Estimate of capital expenditure 2010-11

3.2.50 This prudential indicator requires reasonable estimates of the total of capital expenditure to be incurred. It is in the nature of capital expenditure to have variations to the capital programme as the year proceeds, for example as new grant or other third party funding becomes available, or to accommodate slippage from the previous year. This is acknowledged in the Prudential Code.

3.2.51 Revised estimates for capital expenditure for 2010-11 are shown below and at **Annex I**. The estimates are consistent with the latest proposed capital programme for 2010-11 submitted to Cabinet on 3 November 2010 (Finance Monitoring Dashboard Report to end of August 2010).

Capital Expenditure		
	2010-11 Estimate £000	2010-11 Estimate at 31/08/2010 £000
General Fund	9,579	17,142
HRA	15,911	16,874
Total	25,490	34,016

3.2.52 The £7.5m increase in the General Fund figure is a result of the inclusion of slippage from 2009-10 (£3.6m) and the addition of new schemes into the capital programme (£3.9m). The additional schemes include the Cliftonville office move at £1.9m.

Estimate of Capital Financing Requirement (CFR) 2010-11

3.2.53 In day-to-day cash management no distinction can be made between revenue cash and capital cash. External borrowing may arise as consequence of all the financial transactions of the authority, and not simply those arising from capital spending. However the Capital Financing Requirement reflects the local authority's need to borrow for a capital purpose.

3.2.54 Revised estimates for the Capital Financing Requirement for 2010-11 are shown below and at Annex I. The revisions to the estimates of CFR arise primarily as a result of changes to the latest forecasts of borrowing to fund capital expenditure in 2010-11, compared to original estimates. The figures are consistent with the 2009-10 Statement of Accounts and with the borrowing requirements of the latest forecast capital programme for 2010-11.

Capital Financing Requirement (Closing CFR)		
	2010-11 31 March 2011 Estimate £000	2010-11 31 March 2011 Estimate at 31/08/2010 £000
General Fund	31,059	30,923
HRA	(6,175)	(6,175)
Total	24,884	24,748

Monitoring of debt financing budget

3.2.55 The debt financing budget has been monitored monthly since the beginning of the year; the latest forecast at 30 September 2010 is attached at **Annex J**.

3.2.56 There is currently a net underspend of £152k forecast for debt financing in 2010-11. This is mainly due to higher cash balances available for investment than budgeted.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Council is required to adopt the latest CIPFA Treasury Management Code of Practice, and to set and agree the following policy and strategy documents:

- a) A Treasury Management Policy Statement
- b) Treasury Management Practices (TMPs) and TMP Schedules
- c) An annual Treasury Strategy incorporating:
 - (i) The Capital Financing and Borrowing Strategy for the year including:
 - The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
 - The Affordable Borrowing Limit for the year as required by the Local Government Act 2003.
 - (ii) The Investment Strategy for the year as required by the CLG Guidance on Local Government Investments issued in 2004, and updated in 2010.
- d) A mid-year review report and an annual review report of the previous year.

These documents are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2010-11 was approved by Council at its meeting on 25 February 2010.

- 4.1.2 The updated CIPFA Treasury Management Code of Practice, published in 2009, requires the Council to place greater emphasis on the scrutiny of treasury management strategies and policies. This includes the nomination of the body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. The Audit Committee has been nominated for this role, which includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and for making recommendations to Council.

4.2 Resources and Risk

- 4.2.1 The resources required for the Council's debt management and debt financing budgets are agreed annually through the Council's budget setting process. The debt financing budget position as at 30 Sept is shown at paragraph 3.2.55 and Annex J.
- 4.2.2 The risk management of the treasury function is an integral part of day-to-day treasury activities. It is also specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually.

4.3 Legal

- 4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are referred to within the report and listed in the background papers.

4.4 Equality

- 4.4.1 An Equalities Impact Assessment was carried out on the Council's Treasury Strategy for 2010-11, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. This was included as an annex to the report to Cabinet on 24 February 2010 and to Council on 25 February 2010.
- 4.4.2 As a result of that assessment, it was noted that the potential impact of the strategy and associated documents (including Treasury Management Practices (TMPs) and the Schedules to the TMPs) on the different equalities groups must be considered as it is developed and put together each year. This includes the consideration of the potential impact on the different equalities groups of any processes, procedures or outcomes arising from these.

4.5 Consultees (Internal and External)

- 4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury advisers, Sector, and with the Portfolio holder for Finance.
- 4.5.2 Under new regulatory requirements, the Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council. Audit Committee reviewed and noted the draft treasury management mid year report and annexes at their meeting on 8 November 2010.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 The Council is required to keep its Treasury Management Strategy under review and monitor against it. The strategy should reflect the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.
- 4.6.2 This supports the Council's priority to be a well-managed organisation that puts our customers at the heart of what we do.

4.7 Other Implications

- 4.7.1 No other implications have been identified

5. Background Papers

Statute, Regulation and Guidance

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes 2001

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

CIPFA Prudential Code for Capital Finance in Local Authorities 2003

ODPM Guidance on Local Government Investments 2004

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006)

CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

Audit Commission. Risk & Return: English Local Authorities and the Icelandic Banking Crisis (March 2009)

CLG Select Committee report on Local Authority Investments (11 June 2009)

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008

CIPFA Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition) 2009

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition) 2009

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Third Edition) 2009

CLG Guidance on Local Government Investments (11 March 2010)

Reports to Cabinet & Council

Treasury Strategy 2010-11 to 2012-13 – Report to Cabinet 24 February 2010 & Council 25 February 2010

Prudential Indicators for Capital Finance 2010-11 to 2012-13 – Report to Cabinet 24 February 2010 & Council 25 February 2010

Bev Dixon, Finance Manager – Capital & Treasury, ext 7401

Economic Update provided by Sector

1. Global economy

The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May.

Growth in the US, UK and the Euro zone in quarter 2 of 2010 was particularly driven by strong growth in the construction sector catching up from inclement weather earlier in the year and is unlikely to be repeated; general expectations are for much more subdued figures for the remainder of 2010. Market expectations for all three sectors of the economy is that these have all peaked and are pointing downwards, though not necessarily in to negative territory.

2. UK economy

Following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence. House prices have started a negative trend during the summer and mortgage approvals are at very weak levels and also declining.

Economic Growth

GDP growth is likely to have peaked at 1.2% in quarter 2 of 2010.

Unemployment

The trend of falling unemployment (on the benefit claimant count) has now been replaced since July with small increases which are likely to be the start of a new trend of rising unemployment.

Inflation and Bank Rate

CPI has remained high so far during 2010. It peaked at 3.7% in April and has fallen back to 3.1% in August. RPI remains high, at 4.7% in August. Although inflation has remained stubbornly above the MPC's 2% target, the MPC is confident that inflation will fall back under the target over the next two years. The last quarterly Inflation Report in August showed a significant undershoot after the end of 2011.

The Bank of England finished its programme of quantitative easing with a total of £200bn in November 2009 (although there is currently some increase in expectations that there might be a second round of quantitative easing).

Sector's view is that there is unlikely to be any increase in Bank Rate until the middle of 2011.

AAA rating

Prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling has strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and PWLB rates.

3. Sector's view for the next six months of 2010/11

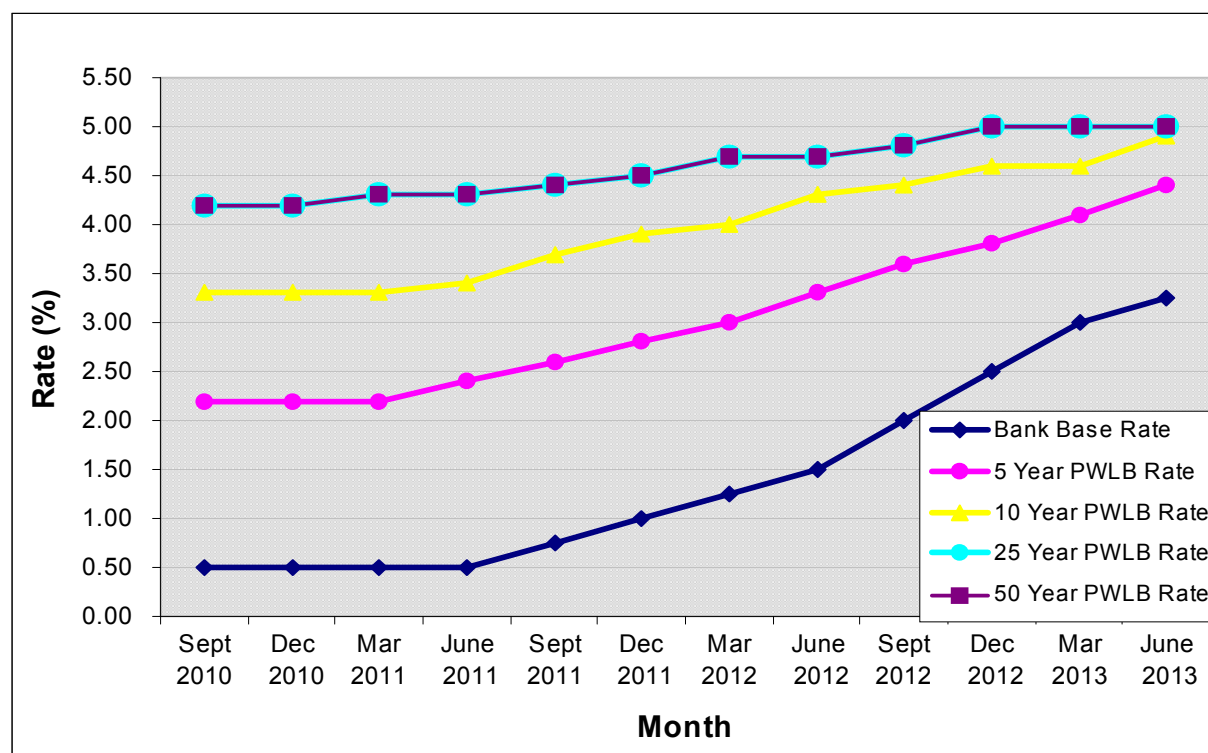
It is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector has adopted a moderate view. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:

- the speed of economic recovery in the US and EU
- the degree to which government austerity programmes will dampen economic growth
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- changes in the consumer savings ratio
- the potential for more quantitative easing, and the timing of this in both the UK and US
- the speed of recovery of banks' profitability and balance sheet imbalances
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

The overall balance of risks is weighted to the downside and there is some risk of a double dip recession and deleveraging, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

4. Sector's interest rate forecast*



*Graph added by NBC based on rates provided by Sector

	Sept 2010	Dec 2010	Mar 2011	June 2011	Sept 2011	Dec 2011	Mar 2012	June 2012	Sept 2012	Dec 2012	Mar 2013	June 2013
Bank Base Rate (%)	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	3.00	3.25
5 Year PWLB Rate (%)	2.20	2.20	2.20	2.40	2.60	2.80	3.00	3.30	3.60	3.80	4.10	4.40
10 Year PWLB Rate (%)	3.30	3.30	3.30	3.40	3.70	3.90	4.00	4.30	4.40	4.60	4.60	4.90
25 Year PWLB Rate (%)	4.20	4.20	4.30	4.30	4.40	4.50	4.70	4.70	4.80	5.00	5.00	5.00
50 Year PWLB Rate (%)	4.20	4.20	4.30	4.30	4.40	4.50	4.70	4.70	4.80	5.00	5.00	5.00

Outstanding Investments at 30th September 2010

Deposit Accounts

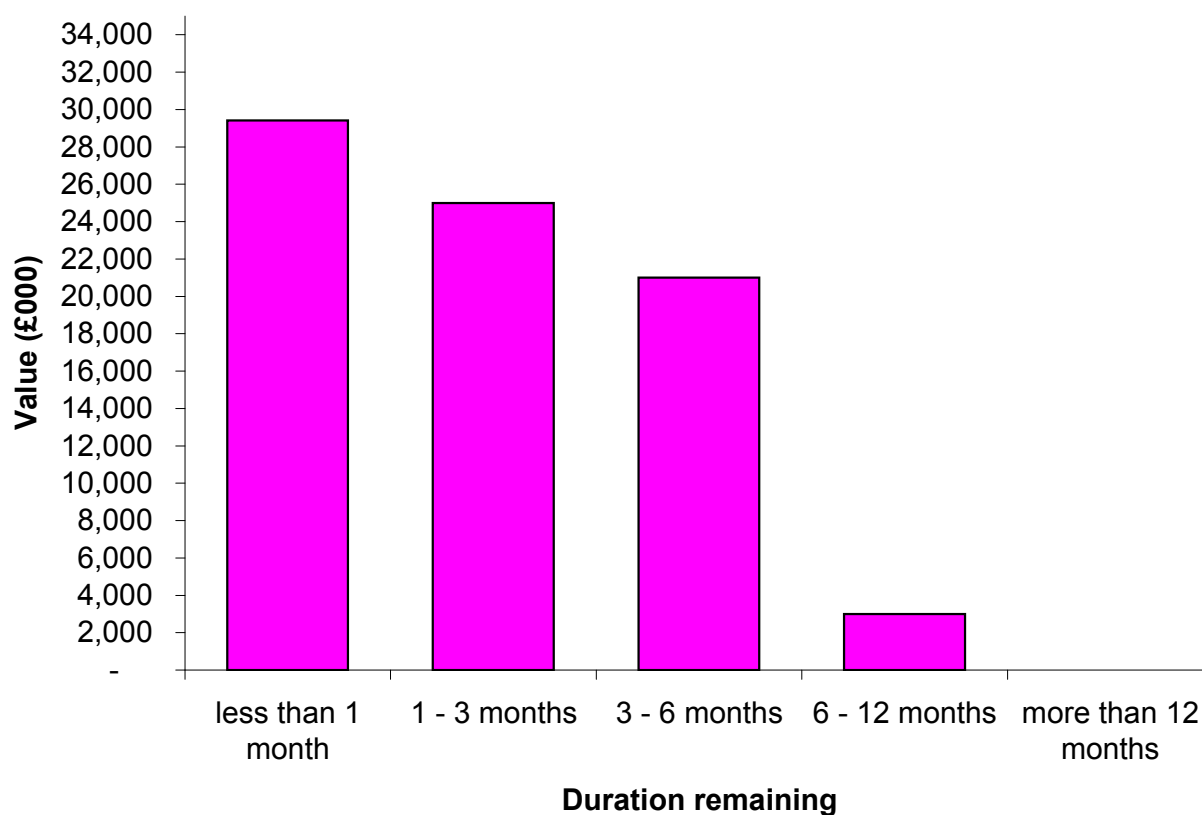
Counterparty	Balance (£000)
Bank of Scotland plc	2,520
Co-operative Bank plc	50
Santander UK plc	14,843
Total balance in deposit accounts at 30th September 2010	17,414

Fixed Term Investments

Counterparty	Start Date	End Date	Value Invested (£000)
Bank of Scotland plc	15/03/10	14/03/11	2,000
DBS Bank Ltd	02/08/10	21/12/10	3,000
DBS Bank Ltd	16/08/10	15/02/11	3,000
DBS Bank Ltd	15/09/10	21/02/11	2,000
District Councils' Network (DCN)	01/09/10	31/07/11	5
Landesbank Berlin AG	31/08/10	22/11/10	2,000
Landesbank Berlin AG	01/09/10	04/11/10	2,000
Landesbank Berlin AG	03/09/10	03/12/10	1,000
Landesbank Berlin AG	15/09/10	15/12/10	3,000
Lloyds TSB Bank plc	01/12/09	01/12/10	2,000
Lloyds TSB Bank plc	04/06/10	03/03/11	2,000
Lloyds TSB Bank plc	16/06/10	15/06/11	2,000
Lloyds TSB Bank plc	28/09/10	27/09/11	1,000
Nationwide Building Society	15/06/10	17/11/10	4,000
Oversea-Chinese Banking Corporation Ltd	15/06/10	17/11/10	2,000
Oversea-Chinese Banking Corporation Ltd	15/06/10	16/03/11	3,000
Oversea-Chinese Banking Corporation Ltd	01/07/10	17/12/10	4,000
Oversea-Chinese Banking Corporation Ltd	15/07/10	14/01/11	3,000
Royal Bank of Scotland	01/07/10	19/11/10	2,000
Ulster Bank Ltd	12/04/10	12/10/10	5,000
Ulster Bank Ltd	15/04/10	18/10/10	2,000
Ulster Bank Ltd	15/04/10	17/01/11	2,000
Ulster Bank Ltd	02/08/10	20/01/11	2,000
Ulster Bank Ltd	15/09/10	16/03/11	2,000
United Overseas Bank Ltd	01/07/10	18/10/10	5,000
Total fixed term investments outstanding at 30th September 2010			61,005

Total outstanding at 30th September 2010	78,419
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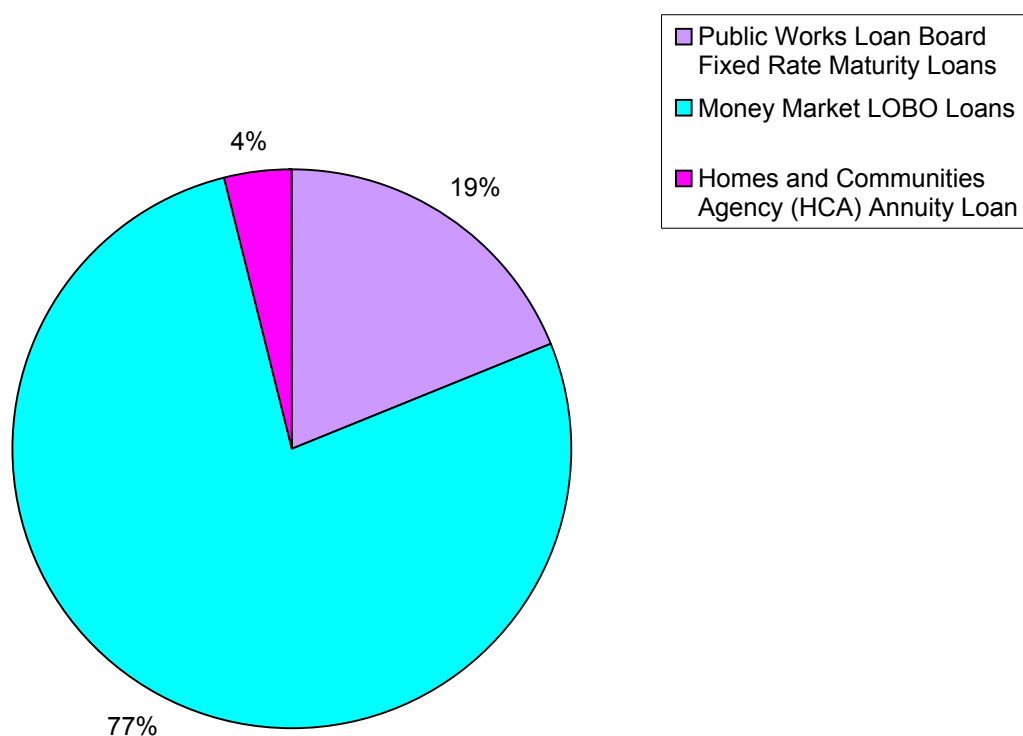
Maturity profile of investments (days remaining at 30/09/2010)



Duration remaining	Value	% of total
less than 1 month	29,414	38
1 - 3 months	25,000	32
3 - 6 months	21,000	27
6 - 12 months	3,005	4
more than 12 months	-	-
Total	78,419	100

Long Term Borrowing as at 30th September 2010

	Principal £'000	Proportion of Debt %	Range of Interest Rates Paid to 30/09/2010	
			From %	To
Public Works Loan Board Fixed Rate Maturity Loans	6,049	18.88	3.47	3.97
Money Market LOBO Loans	24,787	77.35	4.85	7.03
Homes and Communities Agency (HCA) Annuity Loan	1,209	3.77	9.25	9.25
Total Long Term Debt Outstanding at 30th September 2010	32,045	100		



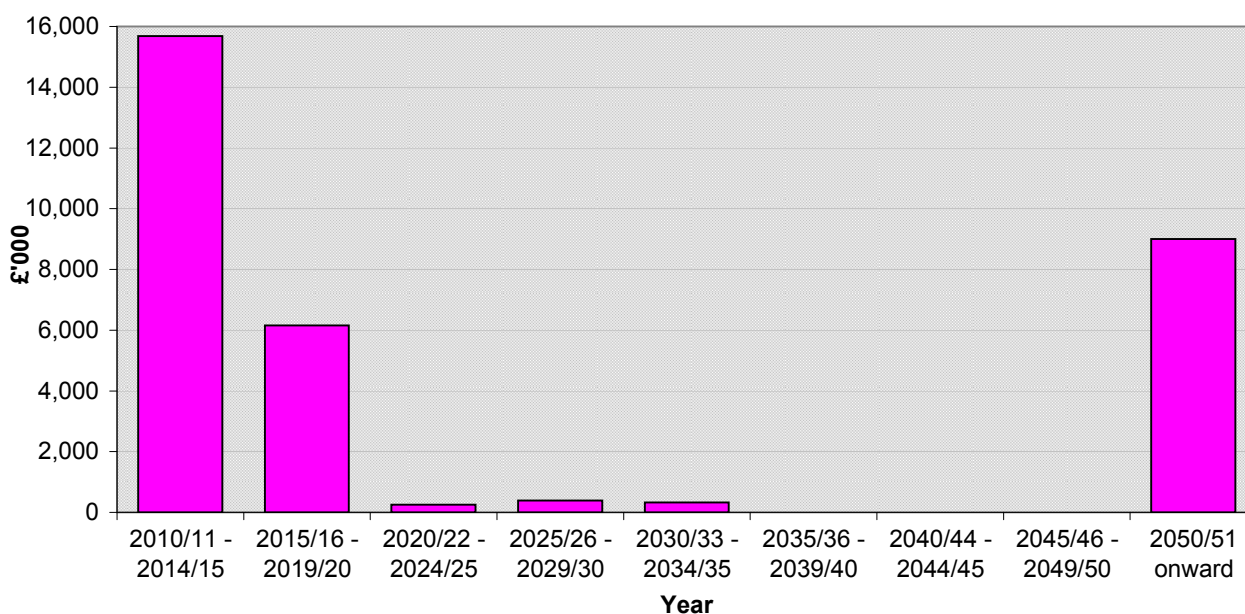
Figures shown at amortised cost as per the CIPFA SORP 2009

Long Term Debt Maturity Profile as at 30th September 2010

Time Frame	Value of Loans Maturing £'000	Proportion of Long Term Debt %
Within: 5 years	15,686	49.3
10 years	6,160	19.4
15 years	249	0.8
20 years	387	1.2
25 years	329	1.0
30 years	0	0.0
35 years	0	0.0
40 years	0	0.0
Over: 40 years	9,000	28.3
Total	31,809	100

The LOBO loans mature in 2014-15 (£15.6m) and in 2065/66 (£9m). The PWLB Loans mature in 2016, 2017 and 2018 (£2m each year, £6m in total). The HCA annuity is repaid across the term of the loan, with the final payment due in 2033-34.

Long Term Debt Maturity Profile as at 30th September 2010

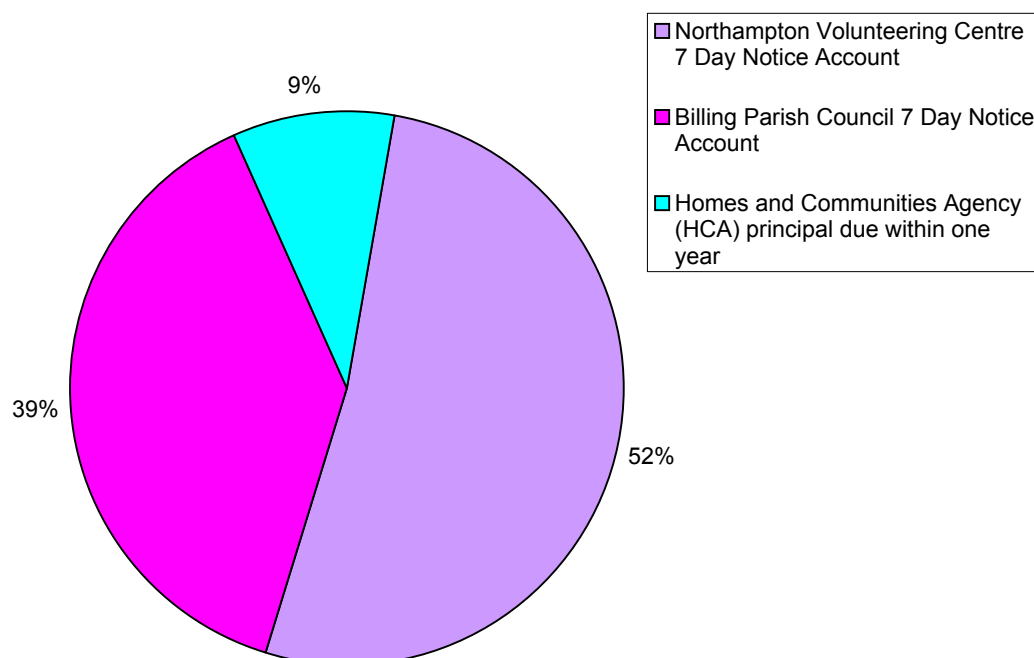


Figures shown at original (cash) value rather than amortised cost to reflect commitment at maturity

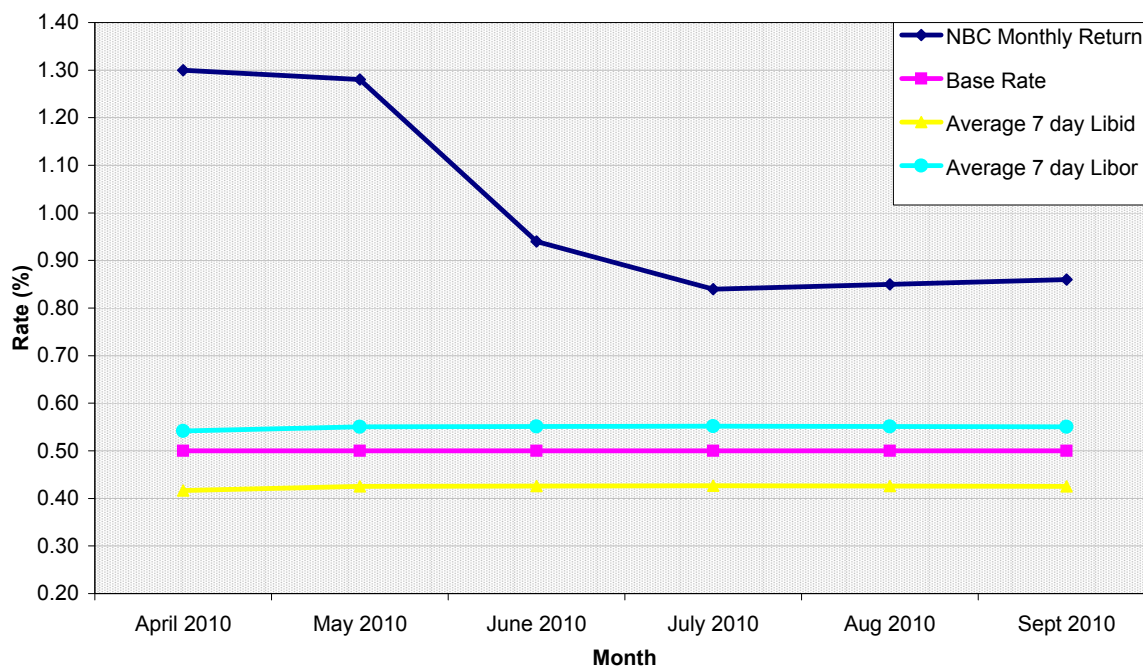
Short Term Borrowing as at 30th September 2010

	Principal £'000	Proportion of Debt %	Range of Interest Rates Paid to 30/09/2010	
			From %	To %
Northampton Volunteering Centre 7 Day Notice Account	94	52	0.66	0.67
Billing Parish Council 7 Day Notice Account	70	39	0.66	0.67
Homes and Communities Agency (HCA) principal due within one year	17	9	9.25	9.25
Total Debt Outstanding at 30th September 2010	181	100		

Shown at original (cash) value as per the CIPFA SORP 2009



Investment Performance 2010-11



Temporary Investments - Comparison of Monthly Rate of Return to Base Rate and 7 Day Libid Rate

Month	NBC Monthly Return %	Base Rate %	Average 7 day Libid %	Average 7 day Libor %	Variance - Monthly Return - Libid %
April 2010	1.30	0.50	0.42	0.54	0.88
May 2010	1.28	0.50	0.43	0.55	0.85
June 2010	0.94	0.50	0.43	0.55	0.51
July 2010	0.84	0.50	0.43	0.55	0.41
Aug 2010	0.85	0.50	0.43	0.55	0.42
Sept 2010	0.86	0.50	0.43	0.55	0.43
Average to 30/09/10	1.01	0.50	0.42	0.55	0.59

Treasury Indicators monitoring at 30 September 2010

1. Upper limits on interest rate exposures

Upper limits on interest rate exposures			
	2010-11	2010-11	2010-11
	Limit £000	Actual at 30/09/2010 £000	Maximum to 30/09/2010 £000
Fixed Interest Rate Exposures	10,000	5,226	5,242
Variable Interest Rate Exposures	0	(51,655)	(21,184)

2. Total principal sums invested for periods longer than 364 days

Upper limit on investments for periods longer than 364 days			
	2010-11	2010-11	2010-11
	Upper Limit £000	Actual as at 30/09/2010 £000	Maximum to 30/09/2010 £000
Investments longer than 364 days	8,500	2,000	8,000

3. Maturity Structure of Borrowing

Maturity structure of borrowing			
	2010-11	2010-11	2010-11
	Lower Limit %	Upper Limit %	Actual at 30/09/2010 %
Under 12 months	0%	25%	0.57%
1-2 years	0%	25%	0.06%
2-5 years	0%	50%	48.97%
5-10 years	0%	100%	19.25%
Over 10 years	0%	100%	31.15%

Prudential Indicators Monitoring at 30 September 2010

Affordability

a) Estimate of the ratio of financing costs to net revenue stream

Ratio of financing costs to net revenue stream		
	2010-11 Estimate %	2010-11 Estimate at 30/09/2010 %
General Fund	6.51	5.88
HRA	18.38	22.88

b) Estimate of the incremental impact of capital investment decisions on the council tax

Estimates of incremental impact of new capital investment decisions on the Council Tax		
	2010-11 Estimate £.p	2011-12 Estimate £.p
General Fund	3.35	6.68

Monitoring information - This indicator is set before the start of the financial year, in the context of the budget setting process, which feeds into the setting of Council Tax and Housing Rents. As these are set and fixed for the financial year ahead, any capital investment decisions made during the year cannot impact on the existing Council Tax and Housing rent levels. This means that new capital investment plans approved during the year must be funded externally or from within existing resources.

c) Estimate of the incremental impact of capital investment decisions on the housing rents

Estimates of incremental impact of new capital investment decisions on weekly housing rents		
	2010-11 Estimate £.p	2011-12 Estimate £.p
HRA	1.57	0.63

Monitoring information - This indicator is set before the start of the financial year, in the context of the budget setting process, which feeds into the setting of Council Tax and Housing Rents. As these are set and fixed for the financial year ahead, any capital investment decisions made during the year cannot impact on the existing Council Tax and Housing rent levels. This means that new capital investment plans approved during the year must be funded externally or from within existing resources.

Prudence

d) Net borrowing and the capital financing requirement (CFR)

Net external debt less than CFR				
	2010-11 £000	2010-11 Position at 31/08/2010	2010-11 Maximum Net to 31/08/2010	2010-11 Forecast Maximum
Borrowing	31,726	32,016	32,046	32,046
Less investments	57,400	74,213	85,531	88,917
Net external debt	0	(42,197)	(53,485)	(56,871)
2009-10 Closing CFR (Forecast)	19,481	17,647	17,647	17,647
Changes to CFR:				
2010-11	5,403	7,101	7,101	7,101
2011-12	4,951	4,965	4,965	4,965
2012-13	9,209	9,223	9,223	9,223
Adjusted CFR	39,044	38,936	38,936	38,936
Net external debt less than adjusted CFR	Yes	Yes	Yes	Yes

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure		
	2010-11 Estimate £000	2010-11 Estimate at 31/08/2010 £000
General Fund	9,579	17,142
HRA	15,911	16,874
Total	25,490	34,016

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)		
	2010-11 31 March 2011 Estimate £000	2010-11 31 March 2011 Estimate at 31/08/2010 £000
General Fund	31,059	30,923
HRA	(6,175)	(6,175)
Total	24,884	24,748

External Debt

g) Authorised limit for external debt

Authorised limit for external debt				
	2010-11 Limit £000	2010-11 Actual at 30/09/2010 £000	2010-11 Maximum to 30/09/2010 £000	2010-11 Forecast Maximum £000
Borrowing	48,000	31,990	32,046	32,046
Other long-term liabilities	2,000	22	22	22
Total	50,000	32,012	32,068	32,068

h) Operational boundary for external debt

Operational boundary for external debt				
	2010-11 Boundary £000	2010-11 Actual at 30/09/2010 £000	2010-11 Maximum to 30/09/2010 £000	2010-11 Forecast Maximum £000
Borrowing	43,000	31,990	32,046	32,046
Other long-term liabilities	2,000	22	22	22
Total	45,000	32,012	32,068	32,068

h) Adoption of the CIPFA code of Practice for Treasury Management in the Public Services

The fully revised second edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2009), as set out at Annex A of the Treasury Management Strategy 2010-11 to 2012-13, was adopted by Council on 25th February 2010.

2010-11 Debt Financing Budget - Monitoring at 30 September 2010

	Budget	Actual	Variance Actual to Budget	Forecast	Variance Forecast to Budget
	2010-11	2010-11	2010-11	2010-11	2010-11
	£	£	£	£	£
Debt Financing & Interest					
<u>Interest Payable</u>					
Interest on long term debt - LOBOs	1,382,500	684,092	(698,408)	1,377,930	(4,570)
Interest on long term debt - HCA Annuity	114,890	114,885	(5)	114,161	(729)
Interest on long term debt - PWLB	263,800	111,900	(151,900)	223,800	(40,000)
Interest on long term debt - Other budgeted new borrowing	0	0	0	0	0
Interest on temporary borrowing	1,500	605	(895)	946	(554)
Other miscellaneous interest payable	23,820	2,251	(21,569)	1,356	(22,464)
Total Interest Payable	1,786,510	913,732	(872,778)	1,718,193	(68,317)
<u>Interest Receivable</u>					
Interest on temporary investments	(430,500)	(190,766)	239,734	(660,461)	(229,961)
Other miscellaneous interest receivable	0	0	0	0	0
Financial Instruments adjustments	0	0	0	0	0
Total Interest Receivable	(430,500)	(190,766)	239,734	(660,461)	(229,961)
Net Interest Payable/Receivable	1,356,010	722,966	(633,044)	1,057,732	(298,278)
<u>Other Adjustments</u>					
Recharges to/from HRA	88,200	0	(88,200)	148,335	60,135
Mimimum Revenue Provision for debt repayment	721,790	0	(721,790)	751,432	29,642
Total Other Adjustments	809,990	0	(809,990)	899,767	89,777
Total Debt Financing & Interest	2,166,000	722,966	(1,443,034)	1,957,499	(208,501)
Earmarked Reserves	0	0	0	0	0
Total Debt Financing & Interest	2,166,000	722,966	(1,443,034)	1,957,499	(208,501)
Budget to be vired from Debt Management Budget	(57,000)	0	57,000	0	57,000
					(151,501)

Agenda Item 7

Appendices



Item No.
7

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Risk and Business Continuity Management Update
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AGENDA STATUS: PUBLIC

Meeting Date:	8 th November 2010
Directorate:	Finance and Support
Accountable Cabinet Member:	Cllr David Perkins
Ward(s)	Not Applicable

1. Purpose

1.1 To provide an update on progress in Risk and Business Continuity Management across the authority.

2. Recommendations

- 2.1 To note recent progress in Risk and Business Continuity Management across the authority.
- 2.2 That once the latest Strategic Risk Register has been approved by Management Board, the Register be presented at a future Audit Committee meeting.

3. Issues and Choices

3.1 Report Background

3.1.1 Audit Committee requested an update on the developments within Risk and Business Continuity Management to be submitted to the Committee meeting.

3.2 Issues

- 3.2.1 Since the last reported update to the Committee, a number of developments have been made in risk and business continuity management across the authority.
- 3.2.2 Over recent months the Strategic Risk Register has undergone a significant refresh, which has seen many of the current Strategic Risks allocated to the Service Area best placed to manage the risk from a Corporate perspective. The aim is to create 5 or 6 new risks which are true Strategic Risks. The following definition was used for guidance, 'strategic risks are those risks

concerned with ensuring overall business success, vitality and viability'. Once the revised register has been approved by Management Board it is recommended that the register is brought to Audit Committee for review.

- 3.2.3 The Risk Manager is a member of the Partnerships Working Group, a Group that has been working on the development of a Partnership Protocol for the Council. Risk management is one element of good partnership governance and contributes to partnerships achieving the objectives they set out to deliver, whilst protecting the interests of the individual partners and stakeholders. The Risk Manager has been working with the group to ensure risk management is adequately covered within the protocol to meet the Council's requirements.
- 3.2.4 Significant improvements to Risk Management within the Council's key projects has been seen over recent months. Risk Management forms part of the Council's Project Governance requirements and a large number of the Council's key projects can evidence excellent risk management arrangements. The Risk Manager is a member of the Council's Project Initiation Group which enables support and guidance to be provided to projects in their very early stages of initiation.
- 3.2.5 Over the last 18 months the Risk Manager has been working closely with members of the Performance Team to set the risk management process up to operate through Performance Plus (P+). As the system is designed primarily as a Performance Management tool, the risk management element is not as well developed, and a lot of work has been undertaken with the software provider to adapt the system to meet NBC's risk needs in a user-friendly way.
- 3.2.6 To date this has not been achieved, many other Council's have experienced the same issues, and a natural point has been reached where too much time has already been spent trying to make the system work for us, and we are in danger of taking the focus away from the key function of managing the Council's risk. Following a number of meetings, it has been agreed that we no longer pursue the implementation of risk management on to P+. This decision by no means reflects the way P+ operates within its primary function of Performance Management which has, and continues to, work very well for the Council.
- 3.2.7 It has been agreed that if P+ develops and improves its risk capability in the future and other councils successfully implement the system for risk management, then the Council can look again at integrating it for risk management.
- 3.2.8 The Excel spreadsheets that have been used as an interim option will be further developed and improved and it is believed that these will be adequate for the Council's purposes. To maintain some level of integration, a risk summary will be provided through the DMT information packs via P+.
- 3.2.9 The Risk Manager is in the process of working with Business Continuity Plan Owners to ensure that services consider the Business Continuity impacts associated with the move from Cliftonville House. Heads of Service will be encouraged to consider the implications to their Critical Functions both during and after the moves take place.
- 3.2.10 Many Service Continuity Plans will require a significant update following the move to take account of changes to contingency arrangements for alternative buildings etc.

3.3 Choices (Options)

3.3.1 To suggest any additional areas to cover in future updates.

4. Implications (including financial implications)

4.1 Policy

4.1.1 None.

4.2 Resources and Risk

4.2.1 This report provides an update on the progress being made to ensure that risk and business continuity management arrangements are in place across the Council.

4.3 Legal

4.3.1 There are no specific legal implications arising from this report.

4.4 Equality

4.4.1 There are no specific equalities implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 The Director of Finance and Support and the Head of Finance have been asked to comment on this report.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Providing an early warning system to alert Officers and Members to potential opportunities and threats.

4.6.2 Targeting resources at areas and issues of greatest risk where the Council's objectives are most under threat.

4.6.3 Reduction in interruptions to service delivery.

4.6.4 Continuity of critical Council activities.

4.6.5 Enabling the Council to act proactively, avoiding reactive management wherever possible.

4.6.6 Protecting and enhancing the reputation of Northampton Borough Council.

4.7 Other Implications

4.7.1 Not applicable

5. Background Papers

None.

Sue Morrell
Corporate Risk and Business Continuity Manager, ext 8420

Appendices
1



Item No.
8

NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Risk Register Reviews
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AGENDA STATUS: PUBLIC

Meeting Date:	8 th November 2010
Directorate:	Finance and Support
Accountable Cabinet Member:	Cllr David Perkins
Ward(s)	Not Applicable

1. Purpose

- 1.1 To provide an opportunity for the Audit Committee to undertake a review of a service-level risk register at each committee meeting.

2. Recommendations

- 2.1 To undertake a review of the Regeneration and Development risk register.
2.2 To highlight any suggestions for improvement.
2.3 To select the next service-level risk register to be reviewed.

3. Issues and Choices

3.1 Report Background

- 3.1.1 At the Audit Committee meeting on 22nd March, the Committee requested that each service area risk register be routinely brought before the Committee for review.

3.2 Issues

- 3.2.1 Points for Audit Committee to consider as part of the review:

- Is the register complete are there gaps in the spreadsheet.
- Are there any key risks missing, highlight additional risks to be considered.
- Are there overdue actions.
- Challenge scores where necessary.
- Discuss in more detail any high risks or risks of specific interest.

- 3.2.2 The Council essentially has five areas of risk management across the authority, strategic, service, project, partnership and operational.

3.2.3 The registers being reviewed through this process are the service-level registers and therefore are focussed on risks to achieving service objectives. They should not include day-to-day operational risks.

3.2.4 The Regeneration and Development Service Objectives are detailed below:

- Support major corporate partners in the delivery of their key projects and strengthen partnerships with stakeholders.
- Develop, facilitate and deliver priority regeneration projects outside the Town Centre including Housing PFI and Becket's Park Marina.
- Maximise external funding/investment to facilitate and support economic growth.
- Develop, facilitate and initiate a Programme of Community Regeneration including Northampton East, Spring Boroughs and Dallington/Kings Heath.
- Develop, facilitate and deliver priority regeneration projects within the Town Centre including the Grosvenor/Greyfriars Development and the St Johns Development.
- Play a strategic role at regional and sub regional level to help enhance and source economic development opportunities for Northampton.

3.3 Choices (Options)

3.3.1 To suggest any additional areas to cover in future risk updates.

4. Implications (including financial implications)

4.1 Policy

4.1.1 None.

4.2 Resources and Risk

4.2.1 A balanced approach needs to be taken when considering the cost of mitigating actions against the level of perceived or actual risk.

4.2.2 Targeting resources at areas and issues of greatest risk where the Council's objectives are most under threat.

4.3 Legal

4.3.1 There are no specific legal implications arising from this report.

4.4 Equality

4.4.1 There are no specific equalities implications arising from this report.

4.5 Consultees (Internal and External)

4.5.1 The Director of Finance and Support and the Head of Finance have been asked to comment on this report.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Providing an early warning system to alert Officers and Members to potential opportunities and threats.

- 4.6.2 Targeting resources at areas and issues of greatest risk where the Council's objectives are most under threat.
- 4.6.3 Reduction in interruptions to service delivery.
- 4.6.4 Continuity of critical Council activities.
- 4.6.5 Enabling the Council to act proactively, avoiding reactive management wherever possible.
- 4.6.6 Protecting and enhancing the reputation of Northampton Borough Council.

4.7 Other Implications

- 4.7.1 Not applicable.

5. Background Papers

- 5.1 Appendix A – Regeneration and Development Risk Register (please print on A3 paper).

Sue Morrell
Risk and Business Continuity Manager, ext 8420

Regeneration & Development - RISK REGISTER 2010-11

Last Updated: 28 October 2010

Corporate PRIORITY	Service Area Objectives	ID	Risk Owner	Risk Cause (as a result of)	Risk Event (there is a risk that)	Risk Impact (which may result in)	Inherent Risk Scores (assume no controls)			Mitigation Actions (A) and Controls (C)	Action Owner	Due Date	Date Completed	Residual Risk Scores			Sept Progress Update and Estimated Completion Date
							Impact (1-5)	Probability (1-5)	Score (I x P)					Impact (1-5)	Probability (1-5)	Score (I x P)	
A confident, ambitious and successful Northampton	Develop, facilitate and deliver priority regeneration projects within the Town Centre including the Grosvenor/Greyfriars Development and the St Johns Development.	7	Chris Cavanagh	Failure to comply with terms of the Development Agreement with Legal and General	The Grosvenor/Greyfriars development fails	* Regeneration of the town falters * Loss of reputation and economic driver resulting in poor quality town centre	5	3	15	C* Project teams established to work on the 4 workstreams C* Continuing regular update meetings with L&G A* Agree governance structure with L & G A* Appoint main contractor for car park improvements A* Secure funding for Stagecoach agreement	C Cavanagh S Dougall C Cavanagh	30/04/2010 11/11/10 31/03/11	23/04/2010 8/10/2010	5	2	10	Contractor appointed to carry out Car Park Improvements, ahead of programme. Awaiting result of NBC/WNDC GAF application.
A confident, ambitious and successful Northampton	Develop, facilitate and deliver priority regeneration projects within the Town Centre including the Grosvenor/Greyfriars Development and the St Johns Development.	9	Chris Cavanagh	Adverse national and international economic conditions	Lack of public or private funding. It becomes extremely difficult to attract development partners and external funding	* Lack of funding for regeneration projects * Serious delays to regeneration projects * Loss of reputation * Failure to improve	5	4	20	C* Regular meetings with partners, NCC, HCA, NEL, WNDC and EMDA to maintain good relations C* Active monitoring to find alternative sources of available funding C* Staff dedicated to the funding process A* Investigate possibility of selling assets to raise funds	C Cavanagh	30/06/10	30/06/10	5	3	15	Still in discussions with main funders and stakeholders with the intention of coordinating capital project funding requirements.
A confident, ambitious and successful Northampton	Develop, facilitate and deliver priority regeneration projects within the Town Centre including the Grosvenor/Greyfriars Development and the St Johns Development.	10	Mike Kitchen	Failure to meet terms of the agreement with EMDA re the Blueberry Diner site. Difficult to attract development investors.	EMDA require the council to repay its £2m grant	* Failure of the St Johns Phase 1 development * Severe financial embarrassment to the council * Loss of professional reputation * Inability to attract future partners or funding	5	3	15	C* Maintain regular updates to EMDA informing the project progress C* Programme and milestones agreed with developer C* Regular project meetings A* Sign Heads of Terms with developer A* Work with University of Northampton to agree a way forward to establish a digital media centre and student accommodation	M Kitchen M Kitchen	31/12/2010 31/12/2010		5	3	15	The University has nominated St Johns as a preferred site for their student accommodation. NBC is negotiating an Options Agreement with the university. Developer is close to signing the Heads of Terms with the hotel operator.
A confident, ambitious and successful Northampton	Develop, facilitate and deliver priority regeneration projects within the Town Centre including the Grosvenor/Greyfriars Development and the St Johns Development.	11	Chris Cavanagh	Reorganisation of EMDA and GOEM. Change of government.	Change of policies involving availability and allocation of funding	* Lack of available funding for regeneration projects	4	3	12	C* Maintain close liaison with EMDA and deliver existing projects	C Cavanagh			4	2	8	First stage LEP application approved by government 28 Oct 2010..
A confident, ambitious and successful Northampton	Support major corporate partners in the delivery of their key projects and strengthen partnerships with stakeholders.	15	Chris Cavanagh	Changing market conditions eg economic and political	The Economic Regeneration Strategy is not aligned with current market conditions	Missed opportunities. Unrealistic plans and actions.	3	3	9	A* Economic Regeneration Strategy to be reviewed by Planning	C Cavanagh	30/06/10	13/10/10	2	2	4	SNEAP Theme papers progressing. Pre Submission Draft CAAP approved by Cabinet.
Strong partnerships and engaged communities	Play a strategic role at regional and sub regional level to help enhance and source economic development opportunities for Northampton.	17	Chris Cavanagh	Time pressures due to limited resources and multiple objectives	Failure to provide leadership and engage with the business community	* Failure to gain support of business community	4	3	12	C* Leading MKSM Logistics initiative C* Leading role taken in Town centre Partnership and in establishing the Town Centre BID. A* Complete MKSM Logistics Study C* Regen attend Brackmills BID Board Meetings. C* Regular meetings held with WNDC/NCC, Legal & General and the Chamber of Commerce.	M Lorkins	30/06/2010	31/05/2010	3	2	6	Voting on formation of the Town Centre BID to be held in late October 2010.

Corporate PRIORITY	Service Area Objectives	ID	Risk Owner	Risk Cause (as a result of)	Risk Event (there is a risk that)	Risk Impact (which may result in)	Inherent Risk Scores (assume no controls)			Mitigation Actions (A) and Controls (C)	Action Owner	Due Date	Date Completed	Residual Risk Scores			Sept Progress Update and Estimated Completion Date
							Impact (1-5)	Probability (1-5)	Score (I x P)					Impact (1-5)	Probability (1-5)	Score (I x P)	
Strong partnerships and engaged communities	Support major corporate partners in the delivery of their key projects and strengthen partnerships with stakeholders.	23	Martin Cumbleton	Lack of understanding and knowledge of our customers	Provide unnecessary or inappropriate service	* Lack of public support * Damage to NBC reputation	5	3	15	C* Annual Customer satisfaction survey C* Consultation process included for relevant projects C* Close working links maintained with Planning Policy.	C Cavanagh			5	2	10	Extensive consultation continuing with residents and steering groups regarding Housing PFI .
An efficient, well managed organisation that puts our customers at the heart of what we do	All	26	Martin Cumbleton	Failure to follow project management methodology on all key projects	* Project governance is weak. * Projects drift away from main objectives * Partners not properly informed or managed	* Failure to meet objectives * Reputation suffers * Relations with Partners deteriorates	4	2	8	C* Quarterly audit of key projects to ensure methodology is followed. C* Staff trained in project methodology C* Support provided by Programme Coordinator A* Review effectiveness of current procedures A* Review Service risk register in light of 2010/11 service plan	M Cumbleton M Cumbleton	30/09/2010 30/04/2010	30/09/2010 23/04/10	4	1	4	Draft audit of Project Methodology completed.
An efficient, well managed organisation that puts our customers at the heart of what we do	All	27	Julia Tinker	Lack of clarity regarding the application of EIA's and the methodology to be used.	Projects and service working arrangements fail to apply fit for purpose Equalities processes and considerations	* Failure to identify and meet our customers requirements * Failure to meet corporate equality objectives	3	4	12	C* Relevant staff have attended corporate Equality training course A* Arrange equality workshop for Team. A* investigate feasibility of a service wide EIA or equalities policy and procedure	J Tinker J Tinker	30/11/2010 30/06/2010	30/06/2010	3	3	9	Community Engagement and Equalities Officer addressed Regen Team Meeting.
An efficient, well managed organisation that puts our customers at the heart of what we do	All	30	M Cumbleton	A lack of business continuity planning	Should an unexpected event occur the section could take longer than necessary to recover	* Projects may be delayed * Unnecessary stress caused to employees and partners	2	4	8	A* Produce a Documentation Retention Policy for the service to ensure key documents are protected.	M Cumbleton	31/10/10		2	2	4	Document Retention Policy progressing. Scanning of key drawings for Grosvenor/Greyfriars being investigated.
An efficient, well managed organisation that puts our customers at the heart of what we do	All	31	Chris Cavanagh	Demanding schedule arising from responsibility for several major projects together with limited financial and staff resources. Affect of Pay & Grading review and budget restrictions.	Failure to focus on priorities Increasing pressure on staff Errors and omissions Possible illness due to stress.	* Failure to meet objectives * Reputation suffers * Relations with Partners deteriorate * Staff morale falls	4	3	12	C* Service Plan aligned with Corporate Plan C* Responsibilities clearly allocated in service plan C* Management restructure effected C* Supportive team culture A* Appointment of PFI Project Manager A* Appointment of Regeneration Manager (Currently on hold)	C Cavanagh C Cavanagh	30/06/10	17/05/2010	4	2	8	Implications/opportunities from Asset Management move still under consideration.

Agenda Item 9

Appendices



NORTHAMPTON
BOROUGH COUNCIL

Item No.

9

AUDIT COMMITTEE REPORT

Report Title

Internal audit progress report

AGENDA STATUS:

PUBLIC

Audit Committee Meeting Date:	8 November 2010
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	Councillor David Perkins

1. Purpose

- 1.1 To provide the Audit Committee with a report summarising progress made against the approved internal audit plan.
- 1.2 The report also includes an updated Internal Audit Charter and a completed CIPFA self assessment checklist

2. Recommendations

- 2.1 Receive the report.

3. Issues and Choices

3.1 Report Background

3.1.1 Introduction

The report is produced to inform the Committee on internal audit activity in the current year up to the date of the Committee meeting. The report will give an update on reports issued and recommendations made as well as highlighting any issues that are considered appropriate to bring to the attention of the Committee.

3.1.2 2010/11 Plan Outturn

We have undertaken work in accordance with the 2010/11 Internal Audit Plan which was presented to Audit Committee at its meeting in March 2010

Since the previous Audit Committee we have completed fieldwork for our Expenses review and anticipate issuing the draft report shortly.

We have issued the cash collection report as final

- The Cash Collection review (**10_11 NBC Cash Collection 06**). The review focussed on the security controls, segregation of duties, records of cash collected and authorisation monitoring of under-vends and over-vends. We have not identified any critical or high risk rated issues and have provided a **moderate assurance** draft opinion.

The following reviews have been scheduled in for November and terms of reference sent out:

- Payroll - week commencing 22nd November
- Debtors – week commencing 15th November
- Housing Rents – week commencing 22nd November
- Home Renovations and Temporary Accommodation Follow Up Reviews – week commencing 22nd November
- General Ledger – week commencing 8th November

A number of other reviews have been scheduled in with key contacts for November and December and terms of reference will be sent out for these in due course.

Changes to the Audit Plan

Creditors review:

The creditors review within the audit plan has been split into two separate reviews, IBS system creditors and Agresso system creditors.

The IBS system has been implemented to replace the Uniclass system at the Westbridge Depot. Historically when performing our creditors audit work the vast majority of control weaknesses related to creditors within the Uniclass system.

In order to assess whether the control weaknesses previously identified within Uniclass have been addressed within the new IBS system, we have conducted a specific controls review at the Westbridge Depot. This has been carried out earlier than the main Agresso system creditors review because the IBS project team are still currently in place and therefore can address any recommendations raised.

We have substantially completed fieldwork on our IBS system creditors review.

We will issue a draft report once the fieldwork is finalised and we will perform a separate review of Agresso creditors in December and issue a report subsequently.

Debt Management review:

A new debt management team has been set-up at the Guildhall. This team is responsible for debt recovery within housing benefits, housing rents and sundry debtors. Therefore, in agreement with the Head of Finance and Head of Benefits we will exclude debt recovery from the scopes of these reviews and perform a separate review of debt recovery within quarter 4. Additional audit days over and above the plan will not be required for this.

Additional Work Performed

We have performed two additional reviews following management request:

Decent Homes

Summary of work performed included in Appendix 3

Museums Security:

A verbal update will be provided to members at the meeting.

For information we have provided an update in Appendix One regarding progress against the plan and a summary of status of recommendations made as part of the 2009/10 audit plan in Appendix Two.

3.1.3 Internal Audit Charter

The CIPFA Code of Practice for Internal Audit in Local Government 2006 requires that the Council should formally define the purpose, authority and responsibility of Internal Audit. The Internal Audit Charter sets out clearly the role of Internal Audit within Northampton Borough Council. The Charter is reviewed annually in order to ensure that it reflects current requirements. The updated Charter is attached at Appendix 4.

3.1.4 CIPFA Self Assessment

We conducted our annual self-assessment exercise during October 2010 and have reported the results of this exercise at Appendix 5.

3.2 Issues

3.2.1 As detailed in the report

3.3 Choices (Options)

3.3.1 N/a

4. Implications (including financial implications)

4.1 Policy

4.1.1 No implications other than enabling monitoring of internal audit reporting performance.

4.2 Resources and Risk

4.2.1 Risks may be highlighted as a result of audit issues being reported.

4.3 Legal

4.3.1 N/a

4.4 Equality

4.4.1 N/a

4.5 Consultees (Internal and External)

4.5.1 Director of Finance and Head of Finance

4.6 Other Implications

4.6.1 N/a

5. Background Papers

5.1 Appendices to the report

- Appendix 1 – Progress against Plan
- Appendix 2 – TeamCentral report summary
- Appendix 3 – Decent Homes Summary
- Appendix 4 – Internal Audit Charter
- Appendix 5 – CIPFA Self Assessment

Other individual internal audit reports are available if required.

Chris Dickens
Senior Manager
PricewaterhouseCoopers LLP
01509 604041

Appendix One

Planned activity	Planned days	Actual days	Status
1. Core Financial Systems – Fundamental assurance			
▪ Council Tax	6	6	Final Report
▪ Non Domestic Rates (NDR)	5	5	Final Report
▪ Cash Collection	7	6	Draft report
▪ General Ledger	8	1	Quarter 3 – review booked in
▪ Debtors	6	1	Quarter 3– review booked in
▪ Creditor Payments	10	4	Quarter 3 – Split between IBS and Agresso Systems (IBS Fieldwork completed)
▪ Payroll	10	1	Quarter 3– review booked in
▪ Budgetary Control	8	0	Quarter 4
▪ Bank Reconciliations	7	1	Quarter 3– review booked in
▪ Housing Benefits	9	0	Quarter 4
▪ Fixed Assets	6	0	Quarter 4
▪ Housing Rents	7	1	Quarter 3– review booked in
▪ Expenses	7	6	Fieldwork Completed
▪ Debt Recovery Review	5	0	Quarter 4 – Replaces debt recovery work within Housing Benefits, Debtors and Housing Rents reviews.

Planned activity	Planned days	Actual days	Status
2. Operational system reviews – risk based assurance			
▪ Carbon Reduction Commitment	10	1	Quarter 2/3 – Fieldwork underway
▪ Human Resources	13	0	Quarter 3
▪ Westbridge Depot	15	1	Quarter 2/3 –Scoping meeting held
▪ Voluntary Grants	7	7	Final report issued
▪ Void management	7	1	Work deferred to Quarter 3 at request of management
▪ Procurement/VFM	10	1	Quarter 3 – scoping meeting held
▪ Licensing	13	13	Final report
▪ Planning Application	8	1	Quarter 2/3 – scoping meeting held
▪ ICT audits	15	0	Quarter 3
▪ Insurance Claims	5	0	Quarter 3

Planned activity	Planned days	Actual days	Status
3. Strategic – performance assurance			
▪ Risk management & Business Continuity Arrangements	5	0	Quarter 3
▪ Governance – management information	10	0	Quarter 3/4
▪ SBR governance	7	0	Quarter 3
▪ Anti fraud and corruption	10	0	Quarter 3/4

Planned activity	Planned days	Actual days	Status
4. Other			
▪ Specific follow up reviews:	7	0	
➤ Temporary Accommodation			Work deferred to Quarter 3 at request of management
➤ Home renovations			Work deferred to Quarter 3 at request of management
➤ Partnerships			Quarter 4
➤ Citizen Engagement			Quarter 4
▪ General follow up/Team Central	12	5	TeamCentral training maintenance and follow up
▪ NFI	15	0	Quarter 4
▪ Audit Management	18	8	Continuous

Total	288	70	
Plus additional work (see table below)	25	24	
Outturn	313	94	

Expected outturn by end of December 2010: 218 days

This consists of 94 days delivered to date plus 125 days delivery expected by the end of December 2010 as the majority of core financial system plus a number of operational reviews are carried out during the busiest internal audit period of the year.

Additional Work	Planned days	Actual days	Status
5. Further work undertaken at request of Management			
▪ Decent Homes review	10	10	Draft Report
▪ Museum security review	15	14	Draft Report

Appendix Two

TEAMCENTRAL 21st October 2010

Year	Number of recommendations made	Implemented / Closed	Outstanding
2009/10	151	132	19 (11 not yet due)
2010/11	16	8	8 (8 not yet due)

The table above shows the position as at the 21st October 2010.

Note:

- Only finalised reports are being tracked through TeamCentral
- The 8 overdue recommendations for 2009/10 relate to Grounds Maintenance (4), Citizen Engagement (2), Anti-fraud and Corruption (1) and PAYE (1). The overdue PAYE recommendation deadline may need extending following management comments.
- There are 2 overdue recommendations relating to FOI and DP from 2008/09 although from status updates on TeamCentral it is evident that one is completed and just requires signing off and the other is substantially completed.
- The 2010/11 recommendations are detailed in the table below:

2010/11 Recommendation Status

Review and number of recommendations still pending as at 21 October 2010	Responsible HoS	Total Outstanding	Outstanding & overdue	Outstanding but not yet due	Total Implemented	Imp. Awaiting verification	Closed
Project : 10_11 NBC 01 -Voluntary Grants (5)	Thomas Hall	5	0	5	0	0	0
Project : 10_11 NBC 03 -Licensing (5)	Steve Elsey	5	0	0	0	5	0
Project : 10_11 NBC 04 -NNDR (3)	Robin Bates	2	0	2	1	1	0
Project : 10_11 NBC 05 - Council Tax (3)	Robin Bates	1	0	1	2	2	0

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Decent Homes Review

Background

In June 2010 the Council's Head of Finance and Assets asked internal audit to undertake a preliminary review of Decent Homes capital expenditure, following the identification of an unusual spending pattern at the end of the 2009/10 financial year.

The Decent Homes capital programme concerned relates to approximately 450 HRA properties in the Kingsley and Kingsthorpe areas of Northampton. The programme was being delivered by Thomas Vale Construction PLC ("TVC") and was project-managed by a third-party quantity surveyor, Michael Dyson and Associates Limited ("Dysons").

Contract monitoring

During the contract, TVC provided a monthly schedule of work completed, which was checked by Dysons. Dysons sent a payment certificate to the Council for the amount they believed to be due to TVC, and the Council issued its own payment certificate after which TVC were paid.

The Council's Clerk-of-Works surveyed all properties included in the scheme, subject to being able to gain access, and post-inspected when works were complete to ensure appropriate quality standards were maintained. Beyond this, there was little Council involvement in checking that the value of work paid for was correct – this process was undertaken by Dysons when TVC submitted their claims for work undertaken.

The contract with TVC allowed them to bill for complete works, and also to bill when significant components of work were completed; for example, if a kitchen required renovation and new units were fitted but other works were incomplete at the valuation date, the contract allowed TVC to bill for the fitting of those units.

Payments authorised

The contract with TVC was valued at around £3.9m, of which £876k had been claimed by 31 March 2010. Work on the programme started in November 2009 and the payments made for 2009/10, as detailed within payment certificates issued by the Council, were as follows:

Date	10/12/2009	08/01/2010	09/02/2010	09/03/2010	30/03/2010
Contract	3,939,650	3,939,650	3,939,650	3,939,650	3,939,650
Contingencies					
Sub-total	3,939,650	3,939,650	3,939,650	3,939,650	3,939,650
Value works executed	107,435	40,315*	280,826	468,512	898,512
Less retention	- 2,686	- 3,509	- 7,021	- 11,713	- 22,463
Total	104,749	136,833	273,805	456,800	876,050
Less previously certified	-	- 104,749	- 136,833	- 273,805	- 456,800
Now due for payment	104,749	32,084	136,972	182,994	419,250
Plus VAT 15%	15,712	4,813			
Plus VAT 17.5%			23,970	32,024	73,369
Total payment	120,462	36,897	160,942	215,018	492,619

* The value of works executed on the 08/01/2010 certificate should have read £140,315.

Total payments net of VAT: £876,049

It is apparent that £602k or 69% of this expenditure was incurred during March 2010 alone. The former Housing Asset Strategy Manager was one of the signatories authorising these payment certificates. Before he left the Council on 18 June 2010, we asked him what

Appendix Three

assurance he had that the work within the March 2010 certificates had actually been delivered by 31 March 2010. He told us that the spend was within expectation as the contractor increased the work-streams from 1 to 4 after January 2010 and he expected to see progress. Furthermore, he informed us that 120 properties had been brought up to Decent Homes standard by 31 March 2010, which is a higher proportion of the total than the amount of cost incurred at that date.

He also advised that checking by the in-house Quantity Surveyor had done sufficient work to be sure this work was all completed.

Potential issues identified

- Payment certificates submitted by Dysons were usually accompanied by a spreadsheet, detailing the works undertaken and a detailed cost breakdown. The £419k claim dated 30/03/2010 on the schedule above was not accompanied by this detail. Instead, the accompanying email from Dysons to the in-house Quantity Surveyor on 30 March 2010 states:

“I am pleased to enclose the valuation certificate for March 2010. This is in the region that was agreed between TVC and (The former Housing Asset Strategy Manager). Next month we will again be providing a full breakdown of the valuation and there will be some final accounts.”

This indicates that there was no detailed information to support this, the largest payment on the scheme to date and that it had been agreed between the former Housing Asset Strategy Manager and the contractor direct, without the professional input of Dysons. This might also indicate that the figures involved did not relate to work actually undertaken at the balance sheet date.

- We were told by the former Housing Asset Strategy Manager that 120 homes were brought up to Decent Homes standard by 31 March 2010. In a separate meeting, the in-house Quantity Surveyor told us that the figure should be 150 properties and the acting Major Works Team Leader speculated that 182 properties might be involved. Prior to our review, another source within the Council told Finance staff that only 80 properties had reached Decent Homes standard by the end of March. If the latter figure had been correct, the comment about the percentage of expenditure compared to project completion would not hold true.
- Additional work-streams are likely to increase the value of work undertaken; nevertheless the steep increase in the value of works booked in March 2010 compared to prior months is notable. Furthermore, the subsequent payment certificates for May and June 2010 were at around half the value of those for March.
- The former Housing Asset Strategy Manager told PwC that the checking undertaken by the in-house Quantity Surveyor was another reason why he was happy to accept the valuation as being accurate. Our meeting with the in-house Quantity Surveyor identified that he undertook few if any checks of the valuation certificates received, reasoning that this was what Dysons were paid to do.
- The former Housing Asset Strategy Manager joined the Council from Dysons in March 2009. He told PwC that in summer of 2009 he was involved in the selection process to appoint an external project management firm, resulting in the appointment of Dysons. This raises questions about the procurement process employed.
- The in-house Quantity Surveyor told PwC that the Dysons Quantity Surveyor had been asked by the former Housing Asset Strategy Manager to undervalue the work performed early in the programme and then to be ‘generous’ in March to make up some of the shortfall. This raises questions about the integrity of the process and potentially raised a

Appendix Three

question-mark over what other costs remain to be brought into the open if the valuations are not a direct and accurate reflection of work done to date.

- We were told that there have been issues about TVC's work, particularly in respect of communication with residents and resident satisfaction. If there has been a major drive to increase the work completed after January 2010, this may correspond with reduced levels of customer satisfaction if it had not been managed sensitively.

Further considerations/potential work required

- The Council should consider meeting with, or appointing specialist capital project specialists to meet with, both TVC and Dysons, to fully explore the circumstances behind the large value of works certified in March 2010. This should include access to open-book accounting information for TVC if necessary, to validate the extent of works completed at that date.
- The Council should consider commissioning or undertaking relationship checks / corporate intelligence checks of TVC, Dysons and the former Housing Asset Strategy Manager, to help gain assurance that there are no relationships that might have compromised the objective and professional letting or running of either contract.
- The Council should consider engaging a forensic IT provider to securely image the e-mail and computer records of the former Housing Asset Strategy Manager, with a view to establishing whether there is any evidence to suggest involvement in manipulating the value of the March or other payment certificates.
- A complete review of the financial position of the programme should be considered. Our work has focussed on payment certificates but we have not examined or reconciled the certificates to actual expenditure, nor expenditure to budgets.
- The actual number of homes having achieved Decent Homes status by 31 March 2010 should be established.

Appendix Four

Northampton Borough
Council

Internal audit charter

2010/11

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1. Mission and scope of work

The mission of internal audit is to provide independent, objective assurance and consulting services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of internal audit is to determine whether the Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the Council's control process.
- Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately.
- Opportunities for improving management control, profitability and the Council's image may be identified during audits. They will be communicated to the appropriate level of management.

2. Accountability

The Head of Internal Audit, in the discharge of his duties, shall be accountable to management and the audit committee to:

Provide annually an assessment on the adequacy and effectiveness of the Council's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.

Report significant issues related to the processes for controlling the activities of the Council and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.

Periodically provide information on the status and results of the annual audit plan and the sufficiency of resources.

Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

Whilst the annual internal audit report is a key element of the assurance framework required to inform the Annual Governance Statement (AGS), there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from internal audit will be agreed with the Audit Committee at the beginning of the year and presented in the annual internal audit plan (and subsequent agreed amendments). As such, the annual internal audit opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities

3. Independence

To provide for the independence of internal audit, its personnel report to the head of internal audit, who reports functionally to the audit committee and administratively to the Director of Finance (or Head of Finance) in a manner outlined in the above section on Accountability. It will include as part of its reports to the Audit Committee a regular report on internal audit progress against the internal audit plan. Internal Audit may provide consultancy work to the Council within the scope of the audit plan. The scope of any consultancy work will be set out in a terms of reference. All additional calls for consultancy work will be assessed in line with the PwC Independence Policies.

4. Responsibility

The Head of Internal Audit and staff of the internal audit team have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and the audit committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the audit committee and management summarising results of audit activities.
- Keep the audit committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the audit committee.
- Assist in the investigation of significant suspected fraudulent activities within the Council in accordance with its anti fraud and corruption procedures and notify management and the audit committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the Council at a reasonable overall cost.

5. Authority

The Head of Internal Audit and internal audit staff are authorised to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the audit committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the Council where they perform audits, as well as other specialised services from within or outside the Council.

The Head of Internal Audit and internal audit staff are not authorised to:

- Perform any operational duties for the Council or its affiliates.
- Initiate or approve accounting transactions.
- Direct the activities of any Council employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

6. Relationships

The Head of Internal Audit and internal audit staff are involved in a wide range of relationships and the quality of those relationships impact on the quality of the audit function and the effective delivery of that function.

- **Relationships With Management**

The Head of Internal Audit and internal audit staff will maintain effective relationships with managers of the Authority. Regular meetings will be held with key stakeholders and management will be consulted with in the audit planning process. Timing of audit work will be in conjunction with management.

- **Relationships With Other Internal Auditors**

Where it is necessary for the Head of Internal Audit and internal audit staff to work with the internal auditors of another organisation, the roles and responsibilities of each party will be agreed. Appropriate safeguards will be put in place to ensure that third party responsibilities are clearly defined understood by all concerned.

- **Relationships With External Auditors**

Internal audit and the Audit Commission have established a working relationship where internal and external audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings are held and plans and reports are shared. External audit are consulted as part of the internal audit planning process.

- **Relationships With Other Regulators And Inspectors**

The Council has been subject to a number of inspections. The Head of Internal Audit and his staff will take account of the results and reports from these inspections when planning and undertaking internal audit work. Where appropriate, the Head of Internal Audit will establish a dialogue with representatives of the appropriate inspection agencies.

- **Relationships With Elected Members**

The Head of Internal Audit has established good working relationships with members, in particular with members of the Audit Committee. The Head of Internal Audit has the opportunity to meet with the Chair of the Audit Committee if desired.

7. Standards of audit practice

Internal audit will meet or exceed the *Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors, The Government Internal Audit Standards (“GIAS”) and the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006

Chris Dickens – Head of Internal Audit

Presented to Audit Committee

October 2010

Appendix Five

PwC Internal audit service to Northampton Borough Council – Compliance with the CIPFA code of practice for internal audit in local government in the UK (2006)

Self-assessment at October 2010

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Where 'partial' or 'no', you should give reasons for any non-compliance, and any compensating measures in place or actions in progress to address this.

Ref	Adherence to standard	Y	P	N	Evidence
1	Scope of Internal Audit				
1.1	Terms of Reference				
1.1.1	Do terms of reference: <ul style="list-style-type: none"> (a) establish the responsibilities and objectives of Internal Audit? (b) establish the organisational independence of Internal Audit? (c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and: <ul style="list-style-type: none"> (i) those charged with governance? (ii) those parties to whom the Head of Internal Audit may report? (d) recognise that Internal Audit's remit extends to the entire control environment of the organisation? 	X			As detailed in IA charter – reviewed and updated October 2010

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
	<p>(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?</p> <p>(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?</p> <p>(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?</p> <p>(h) explain how Internal Audit's resource requirements will be assessed?</p> <p>(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>				
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	X			Refer to answer above
1.1.3	Have the terms of reference been formally approved by the organisation?	X			Approved by NBC September 2007. Updated Charter being submitted to Audit Committee October 2010.
1.1.3	Are terms of reference regularly reviewed?	X			Refer to answer above
1.2	Scope of Work				
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	X			Refer to audit plan
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified:	X			Not a partnership

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Ref	Adherence to standard	Y	P	N	Evidence
	(a) how assurance will be sought? (b) agreed access rights where appropriate?				but audit plan sets out where IA provide assurance
1.3	Other Work				
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the: (a) skills, and (b) resources to do this?	X			Access to PwC resources including forensic investigation team.
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	X			Reference made within the charter.
1.4	Fraud and Corruption				
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	X			Set out in NBC anti fraud and corruption policy

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
2	Independence				
2.1	Principles of Independence				
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit (operational) duties?	X X			Outsourced provider – independent of operations
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	X			Independence is maintained. We do not make recommendations or take decisions in such instances.
2.2	Organisational Independence				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	X			Outsourced audit provision totally independent.
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	X			Set out in contract and demonstrated in practice.

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?	X			Refer to audit reports
2.2.3	(a) Is there an assessment that the budget for Internal Audit is adequate? (b) Does any budget delegated to service areas ensure that: (i) Internal Audit adherence to the Code is not compromised? (ii) the scope of Internal Audit is not affected? (iii) Internal Audit can continue to provide assurance for the Statement on Internal Control?	X			See proposal for IA service and Audit Committee approval
2.3	Status of the Head of Internal Audit				
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	X			Report to Director of Finance
2.5	Independence of Internal Audit Contractors				
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?	X			Independence is maintained. PwC has clear policies on independence
2.6	Declaration of Interest				

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Ref	Adherence to standard	Y	P	N	Evidence
2.6.1	Do audit staff make formal declarations of interest?	X			On PwC engagement files
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	X			Not arisen but we would address this issue

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Ref	Adherence to standard	Y	P	N	Evidence
3	Ethics for Internal Auditors				
3.1	Purpose				
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	X			Through PwC methodology
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	X			We believe so – through feedback provided
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	X			PwC Code of conduct and all staff undertake ethics training
3.3	Objectivity				
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	X			
3,3.3	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	X			No situation has arisen but we would avoid any potential conflict
3.3.4	Are staff rotated on regular/annually audited areas?	X			The career progression

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Ref	Adherence to standard	Y	P	N	Evidence
					pathway within PwC means that auditors will progress to more challenging work as they gain experience and knowledge.
3.4	Competence				
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) the purpose, risks and issues of the service area? (c) the scope of each audit assignment? (d) relevant legislation and other regulatory arrangements that relate to the audit?	X			Built into engagement file and discussed with staff at the commencement of their audits.
3.5	Confidentiality				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	X			PwC Methodology and Code of Conduct

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
4	Audit Committees				
4.1	Purpose of the Audit Committee				
4.1.1	Does the organisation have an independent audit committee?	X			
4.2	Internal Audit's Relationship with the Audit Committee				
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	X			Includes meeting outside of committee
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	X			Audit Committee minutes
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	X			Audit Committee minutes
4.2.4	Does the Head of Internal Audit: (a) attend the committee and contribute to its agenda? (b) participate in the committee's review of its own remit and effectiveness? (c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives? (d) report on the outcomes of internal audit work to the committee? (e) establish if anything arising from the work of the committee requires consideration of changes to the	X			As above plus training provided to Audit Committee

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Ref	Adherence to standard	Y	P	N	Evidence
	audit plan, or vice versa? (f) present the annual internal audit report to the committee?				
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	X			If required

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Ref	Adherence to standard	Y	P	N	Evidence
5	Relationships				
5.1	Principles of Good Relationships				
5.1.2	<p>Is there a protocol that defines the working relationship for Internal Audit with:</p> <p>(a) management?</p> <p>(b) other internal auditors?</p> <p>(c) external auditors?</p> <p>(d) other regulators and inspectors?</p> <p>(e) elected members?</p>	X			<p>Implicit in audit proposal, annual audit plan and annual report.</p> <p>IA Charter includes reference to relationships.</p> <p>Specific protocol exists between IA and EA</p>
5.2	Relationships with Management				
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	X			Regular meetings with key stakeholders
5.2.2	Is the timing of audit work planned in conjunction with management?	X			Refer to audit plan
5.3	Relationships with Other Internal Auditors				
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers,	X			Subject to appropriate

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Ref	Adherence to standard	Y	P	N	Evidence
	respective roles and confidentiality?				safeguards regarding third party responsibilities
5.4	Relationships with External Auditors				
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	X			Refer to external audit/internal audit protocol
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	X			Regular meetings throughout the year
5.4.3	Are the internal and external audit plans co-ordinated?	X			Plans shared with the Audit Commission
5.5	Relationships with Other Regulators and Inspectors				
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	X			IA Charter includes reference to relationships.
5.6	Relationships with Elected Members				

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	X			IA Charter includes reference to relationships.
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	X			IA Charter includes reference to relationships.

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Ref	Adherence to standard	Y	P	N	Evidence
6	Staffing, Training and Continuing Professional Development				
6.1	Staffing Internal Audit				
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	X			Core team are all qualified and experienced
6.1.1	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	X			Access to all PwC resources
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	X			CMIIA qualified and substantial experience
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	X			Over 10 years as Head of Internal Audit
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	X			Within PwC capabilities framework
6.2	Training and Continuing Professional Development				
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor? (b) Are individual auditors periodically assessed against these predetermined skills and competencies?	X			Through PwC systems

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Ref	Adherence to standard	Y	P	N	Evidence
	(c) Are training or development needs identified and included in an appropriate ongoing development programme? (d) Is the development programme recorded, regularly reviewed and monitored.				
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	X			As above

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Ref	Adherence to standard	Y	P	N	Evidence
7	Audit Strategy and Planning				
7.1	Audit Strategy				
7.1.1	(a) Is there an internal audit strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	X			Implicit in audit proposal and audit plan. Audit Charter now in place
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, ie internally, externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?	X			See audit plan
7.1.3	Has the strategy been approved by the audit committee?	X			See audit committee minutes
7.2	Audit Planning				
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance	X			Refer to audit plan

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
	management and other assurance processes?				
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	X			Refer to audit plan
7.2.1	Are stakeholders consulted on the audit plan?	X			Refer to audit plan
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	X			Refer to audit plan
7.2.3	Does the plan: (a) cover a fixed period of no longer than one year? (b) outline the assignments to be carried out? (c) prioritise assignments? (d) estimate the resources required? (e) differentiate between assurance and other work? (f) allow a degree of flexibility?	X X X X X X			Refer to audit plan
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?				Not applicable
7.2.4	Has the plan been approved by the audit committee?	X			See minutes
7.2.5	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	X			Any amendments are reported to the Audit Committee

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Ref	Adherence to standard	Y	P	N	Evidence
8	Undertaking Audit Work				
8.1	Planning				
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	X			Terms of reference produced and agreed in advance of audit commencement
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	X			See Terms of reference
8.2	Approach				
8.2.1	Is a risk-based audit approach used?	X			See audit plan
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	X			We operate a 'no surprises'

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Ref	Adherence to standard	Y	P	N	Evidence
					approach.
8.2.4	Does the audit approach include a quality review process for each audit?	X			PwC methodology
8.3	Recording Audit Assignments				
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	X			PwC methodology and working papers
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	X			PwC quality reviews.
8.3.2	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	X X			PwC methodology includes documentation and re-performance standards
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	X			PwC protocols for archiving of files
8.3.3	Do all retention and access policies conform to appropriate legislation, ie Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	X			Methodology complies with legislation
8.3.3	Is there an access policy for audit files and records?	X			Procedures exist to provide access to third parties

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Ref	Adherence to standard	Y	P	N	Evidence
					when appropriate to do so.

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Ref	Adherence to standard	Y	P	N	Evidence
9	Due Professional Care				
9.2	Responsibilities of the Individual Auditor				
9.2.1	<p>Are there documents that set out the requirements on all audit staff in terms of:</p> <p>(a) being fair and not allowing prejudice or bias to override objectivity?</p> <p>(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?</p> <p>(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?</p> <p>(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?</p> <p>(e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest?</p> <p>(f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed?</p> <p>(g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?</p> <p>(h) disclosing any non-compliance with these standards?</p> <p>(i) not using information they gain in the course of their duties for personal use?</p>	X			PwC ethics training and code of conduct
9.3	Responsibilities of the Head of Internal Audit				

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
9.3.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?	X			PwC methodology
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?		X		Not explicit but expected through PwC procedures and code of conduct

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Ref	Adherence to standard	Y	P	N	Evidence
10	Reporting				
10.1	Principles of Reporting				
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	X			Refer to audit reports
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	X			PwC methodology
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	X			PwC methodology
10.1.5	Are there laid-down timescales for reports to be issued?	X			Protocol for reporting in place
10.2	Reporting on Audit Work				
10.1.4	Do the reporting standards include: (a) format of the reports?	X			PwC methodology
10.1.4	(b) quality assurance of reports?				
10.2.2	(c) the need to state the scope and purpose of the audit?				
10.2.1	(d) the requirement to give an opinion?				
10.1.4	(e) process for agreeing reports with the recipient?				
10.2.1	(f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached				

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Ref	Adherence to standard	Y	P	N	Evidence
	with management together with appropriate timescales?				
10.2.3	Does the audit reporting process include discussion and agreement of reports?	X			See reports
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	X			See reports
10.2.5	Are areas of disagreement recorded appropriately?	X			See reports
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	X			See reports
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	X			See reports
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	X			See reports
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that: (a) recommendations that have a wider impact are reported to the appropriate forums? (b) risk registers are updated?		X		See reports It is managements responsibility to update risk registers
10.3	Follow-up Audits and Reporting				
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	X			Reports state follow-up

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
					requirements. Follow-up work undertaken as part of audit plan.
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	X			Re-reported to Audit Committee.
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	X			Failure to address prior audit recommendations is reported and has impacted on our opinions.
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	X			Highlighted in annual report.
10.4	Annual Reporting and Presentation of Audit Opinion				
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control?	X			See annual report
10.4.2	Does the Head of Internal Audit's annual report:				Refer to annual report. Performance metrics continually under review
	(a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment?	X			
	(b) disclose any qualifications to that opinion, together with the reasons for the qualification?	X			
	(c) present as summary of the audit work from which the opinion was derived, including reliance placed on	X			

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
	<p>work by other assurance bodies?</p> <p>(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control?</p> <p>(e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets?</p> <p>(f) comment on compliance with the standards of the Code?</p> <p>(g) communicate the results of the internal audit quality assurance programme?</p>	<p>X</p> <p>X</p> <p>X</p> <p>X</p>			
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	X			Regular progress reports provided to Director of Finance and Audit Committee

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
11	Performance, Quality and Effectiveness				
11.1	Principles of Performance, Quality and Effectiveness				
11.1.1	Is there an audit manual?	X			PwC Internal Audit Manual
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	X			Doesn't specifically refer to the Code as it is generic across all sectors. Does specify compliance with relevant standards.
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	X			Last reviewed 2009. New global methodology roll out planned for 2011.
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	X			Subject to PwC internal quality review arrangements

Appendix Five

Ref	Adherence to standard	Y	P	N	Evidence
11.2	Quality Assurance of Audit Work				
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	X			
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audit?	X			PwC methodology
11.2.2	Does the supervisory process cover: a) monitoring progress? b) assessing quality of audit work? c) coaching staff?	X			PwC methodology
11.3	Performance and Effectiveness of the Internal Audit Service				
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	X			PwC quality arrangements
11.3.2	Does the performance management and quality assurance framework include as a minimum: a) a comprehensive set of targets to measure performance: (i) which are developed in consultation with appropriate parties? (ii) which are included in service level agreements, where appropriate? (iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?	X			Part of PwC procedures Individual and team objectives Internal quality

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Ref	Adherence to standard	Y	P	N	Evidence
	<p>b) user feedback obtained for each individual audit and periodically for the whole service?</p> <p>c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?</p> <p>d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?</p> <p>e) an action plan to implement improvements?</p>				review process
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?		X		Client satisfaction surveys are used however we remain keen to agree performance indicators with the authority.
11.3.1	<p>Do the results of the performance management and quality assurance programme evidence that the internal audit service is:</p> <p>a) meeting its aims and objectives?</p> <p>b) compliant with the Code?</p> <p>c) meeting internal quality standards?</p> <p>d) effective, efficient, continuously improving?</p> <p>e) adding value and assisting the organisation in achieving its objectives?</p>		X		<p>Informal satisfaction through audit plan and also reappointment.</p> <p>Internal PwC quality review process confirmed compliance.</p>
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality	X			Now annual

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Ref	Adherence to standard	Y	P	N	Evidence
	assurance programme in the annual audit report?				review against CIPFA Code
11.3.5	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	X			Now annual review against CIPFA Code

Agenda Item 11

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted