



AUDIT COMMITTEE

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To: Councillors Angell (Chair), Grimley (Vice-Chair), Hadji-Nikolaou, Huddleston, Parsons, Parton and Smith (For attention)

All other members of the Council
(For information)

You are requested to attend the meeting of the Audit Committee to be held in Committee Room 2 - Council Offices on Tuesday, 27th November 2018 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

19th November 2018

AGENDA

1. APOLOGIES
2. MINUTES FROM THE PREVIOUS MEETING 3 - 7

The Committee is asked to confirm as a correct record the minutes of the meeting of the Committee held on 4th September 2018.
3. DISCLOSURES OF PERCUNIARY AND PERSONAL INTEREST
4. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions were submitted.

5. EXTERNAL AUDITOR INTRODUCTION

A verbal introduction from the Council's new external auditors.

6. TREASURY MANAGEMENT MID YEAR REVIEW

8 - 23

Report of the Head of Finance and Property Services.

7. INTERNAL AUDIT PLAN - PROGRESS REPORT

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Report of the Head of Strategic Support.

8. RISK MANAGEMENT (RISK REGISTER) UPDATE

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Report of the Head of Strategic Support.

9. COUNCIL'S USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

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Report of the Head of Strategic Support.

10. WORK PROGRAMME

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Report of the Head of Strategic Support.

AUDIT COMMITTEE 4TH SEPTEMBER 2018

PRESENT: The Chair (B. Angell)
The Vice Chair (Councillor Grimley)
Councillors Hadji-Nikolaou, Parsons, Parton and
Smith

Strategic Director of Corporate Services
Head of Customer Experience
Head of Strategic Support
Audit and Risk Manager
Information Technology Delivery Manager
Democratic Services Officer (NA)

APOLOGIES: Councillor Huddleston

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

21. MINUTES FROM THE PREVIOUS MEETING

The minutes of the meeting of the Committee held on 17th July 2018 were confirmed as a correct record and signed.

The Chair advised the Committee that a minor amendment had been made to the Statement of Accounts following the meeting on 17th July 2018.

22. DISCLOSURES OF PERCUINIARY AND PERSONAL INTEREST

No disclosures were made.

23. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

24. UPDATE ON THE GENERAL DATA PROTECTION REGULATIONS (GDPR)

A report of the Head of Customer Experience was submitted (item 5 on the agenda filed with these minutes).

The Head of Customer Experience attended the meeting to assist the Committee with consideration of the item.

RESOLVED

1. that a list of the data breaches for the past year be provided to the Committee following the meeting.
2. that the report be noted.

Reasons

1. To provide the Committee with the information requested.
2. The Committee was content with the report and had no specific areas of concern or actions that it wished to include as part of its decision.

25. INTERNAL AUDIT PLAN - PROGRESS

A report of the Head of Strategic Support was submitted (item 6 on the agenda filed with these minutes).

The Audit and Risk Manager attended the meeting to assist the Committee with consideration of the item.

RESOLVED that the report be noted with the decision that resources will be identified to help ensure the audit plan is completed on time.

Reason

The Committee was content with the report and had no specific areas of concern or actions that it wished to include as part of its decision.

26. RISK MANAGEMENT (RISK REGISTER) UPDATE

A report of the Head of Strategic Support was submitted (item 7 on the agenda filed with these minutes).

The Audit and Risk Manager attended the meeting to assist the Committee with consideration of the item.

RESOLVED that the report be noted.

Reason

The Committee was content with the report and had no specific areas of concern or actions that it wished to include as part of its decision.

27. COUNCIL'S USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

A report of the Head of Strategic Support was submitted (item 8 on the agenda filed with these minutes).

The Audit and Risk Manager attended the meeting to assist with consideration of the item.

RESOLVED that the report be noted.

Reason

The Committee was content with the report and had no specific areas of concern or actions that it wished to include as part of its decision.

28. WORK PROGRAMME

A report of the Head of Strategic Support was submitted to enable the Committee to consider its work programme (item 9 on the agenda filed with these minutes).

RESOLVED that the Committee proceeds on the basis of the following work programme, which incorporates all decisions made at this meeting:

ISSUE	MEETING
Internal Audit Business	Ongoing
Internal Audit Plan – Progress	27 th November 2018 Quarterly
Risk Management (Risk Register)	27 th November 2018 Quarterly - detailed report every six months, exception report quarters in-between.
Council's Use of Regulation of Investigatory Powers Act (RIPA)	27 th November 2018 Quarterly
Treasury Management Mid-Year Review	27 th November 2018 Annually
2018/19 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	26 th February 2019 Annually
2019/20 Internal Audit Plan	26 th February 2019 Annually
2018/19 Review of the effectiveness of Internal Audit (Feedback from Panel)	11 th June 2019 Annually
Internal Audit Charter	11 th June 2019 Annually (for approval)
2018/19 Members' Allowances Claimed	11 th June 2019 Annually
Whistle Blowing and Anti-fraud, Corruption and Bribery	11 th June 2019 Annually
Environmental Audits – Report on	11 th June 2019

Outcomes	Annually <u>Note</u> : Six month exception report where identified actions are not implemented by the target date.
2018/19 Treasury Management Outturn	11 th June 2019 Annually
2018/19 Statement of Accounts	16 th July 2019 (Accounts Meeting) Annually
2018/19 Annual Governance Statement and Review of the Code of Corporate Governance	16 th July 2019 (Accounts Meeting) Annually
2018/19 Annual Internal Audit Report	10 th September 2019 Annually
Annual IT Health Check (Code of Connection) Confidential Report	10 th September 2019 Annually
Future of Local Public Audit	Report on Government proposals considered 5 th July 2011. Further report once final regulations/guidelines are known. <u>Note</u> : Appointing Your External Auditor briefing note considered June 2016.
Policy for Engagement of External Auditors for non-audit work	Considered March 2013. Review policy - date to be agreed
External Audit Business	Ongoing
External Audit Progress Report and Technical Update	4 th September 2018 Quarterly
Certification of Claims and Returns (2018/19 Audit)	26 th February 2019 Annually
2019/20 External Audit Plan	26 th February 2019 Annually
2018/19 Annual Governance Report	16 th July 2019 (Accounts Meeting) Annually
2018/19 Annual Audit Letter	16 th July 2019 Annually

29. EXEMPT INFORMATION

Resolved that members of the public were excluded from the meeting during the consideration of the following item on the grounds that it would involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

30. ANNUAL IT HEALTH CHECK

An exempt report of the Head of Customer Experience was considered regarding the Annual IT Health check (item 11 on the agenda filed with these minutes).

The Head of Customer Experience and the Information Technology Delivery Manager attended the meeting to assist with consideration of the item.

RESOLVED that the report be noted.

Reason

The Committee was content with the report and had no specific areas of concern or actions that it wished to include as part of its decision.

NOTES:

1. No reference may be made to these minutes at the Council meeting on 5th November 2018 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.
2. These minutes are subject to confirmation as a correct record at the next meeting of the Audit Committee.

AUDIT COMMITTEE – 27TH NOVEMBER 2018

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

TREASURY MANAGEMENT UPDATE – MID-YEAR REVIEW FOR THE 6 MONTHS ENDED 30TH SEPTEMBER 2018

Purpose of Report

This report reviews the Treasury Management Strategy and the Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first six months of 2018/19.

Recommendation

That it be recommended to Council to note this mid-year review of the Treasury Management Strategy Statement, Prudential Borrowing and Treasury Indicators plus the Annual Investment Strategy, as shown in Part B.

Reasons

To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the Revised CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement, that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

Policy Justification and Previous Decisions

The Treasury Management Strategy Statement, Prudential & Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly. This review is set out in the attached report as Part B. The Strategy for the year was approved by Council on 26th February 2018 (minute ref: 80.3).

Implementation Timetable including Future Decisions and Scrutiny

This report will be available for Overview Scrutiny Group on 12th November 2018, should they wish to consider it, and for the Audit Committee on 27th November 2018.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management

There are no direct risks arising from the recommendation in this report. Risks associated with the Treasury Policy etc in general are included in Part B.

Key Decision: No

Background Papers: None

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Part B

Treasury Management Update – Half Year Ended 30th September 2018

Background

1. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; an overview of how the associated risk is managed; and the implications for future financial sustainability. A report setting out our Capital Strategy will be taken to the full Council, (or Cabinet, with responsibility retained by the full Council), in February 2019.
2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the role of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
4. Accordingly, treasury management is defined as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
5. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).The primary requirements of the Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead.
 - Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.
6. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management , and covers the following:
- An economic update for the first part of the 2018/19 financial year;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - The Council's capital expenditure (prudential indicators);
 - A review of the Council's investment portfolio for 2018/19;
 - A review of the Council's borrowing strategy for 2018/19;
 - A review of any debt rescheduling undertaken during 2018/19;
 - A review of compliance with Treasury and Prudential Limits for 2018/19.
7. This is a mid-year report therefore there are no proposed changes to the Treasury and Capital Strategies at this point.

Economic Background

UK

8. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.
9. Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose

unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

10. As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.
11. In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA

12. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices.

Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE

13. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

CHINA

14. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN

15. Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest Rate Forecast

16. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

17. The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future

Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary nor contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The Balance of Risks to the UK

18. The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.
19. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
 - Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
 - A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
 - Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
 - The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a

particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.

- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

20. Upside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy Statement and Annual Investment Strategy update

21. The Treasury Management Strategy Statement (TMSS) for 2018/19, which includes the Annual Investment Strategy, was approved by Council on 26th February 2018 (Council Minute 80.3 2017/18). In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

22. There are no policy changes to the TMSS. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

23. As shown by forecasts in paragraph 16, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades

as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

24. In the current economic climate it is considered not only appropriate to keep some investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using the Council's creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information. In addition, the Annual Investment Strategy allows the Council to invest in property funds and provide loans to other Local Authorities for a maximum of 2 years.
25. The approved limits within the Annual Investment Strategy were not breached during the six months ended 30th September 2018.
26. The average level of funds available for investment purposes during the half year was £51.52m. The majority of these funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.
27. During the six months to 30th September 2018, the Council's interest rate earned on investments excluding property funds was 0.67% against a benchmark of 3 month London Interbank Bid Rate (LIBID) of 0.61%. This measure is used as a comparator because it allows comparisons with the Council's benchmarking group and matches the weighted average time period of the Council's current investments. Although the return rate is low, our performance can still be considered to be good as we exceeded the target rate.
28. The interest rate earned by the Council's property funds for Q1 was 1.8% This is a reasonable rate in comparison to the benchmark Q1 rate for property fund investments of 1.6% supplied by Link Asset Management.
29. The actual interest received to 30th September 2018 was £174k, against an annual budget of £300k so the Council performed above target in both percentage and actual returns for the six months. It is proposed to review the investment income budget as part of 2019/20 budget setting in light of the higher than budgeted returns being achieved.

New Borrowing

30. No new borrowing was undertaken during the half year and neither has the Council borrowed in advance of need during the six months ended 30th September 2018. Similarly, no debt rescheduling was undertaken during the half year.

Compliance with Treasury and Prudential Limits

31. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
32. During the financial year to date, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

Additional Information

33. New regulations are coming into force with regards to the operation and regulatory structure of Money Market Funds, as part of wider reforms aimed at strengthening the resilience of the financial markets. This involves funds being re-categorised as Variable Net Asset Value (VNAV) or Low-volatility Net Asset Value (LVNAV) funds. This should not present any issues in terms of the funds that the Council invests in as the important consideration is that the funds remain AAA money market fund rated.
34. **UK Banks ring-fencing** The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.
35. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.
36. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

37. **IFRS9 Accounting Standard** This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The impact on the Council is likely to be minimal as the Council's exposure is limited to the property fund investments and these are kept under constant review in terms of their value and relative performance.
38. The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known.
39. **Changes in risk appetite** The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

Appendices

Appendix 1: Prudential and Treasury Indicators as at 30th September 2018

Appendix 2: Investment Portfolio – Investments held as at 30th September 2018

Appendix 3: Glossary of Terms

APPENDIX 1:**Prudential and Treasury Indicators as at 30th September 2018**

Treasury Indicators	2018-19	30/09/18
	Budget	Actual
	£'000	£'000
Authorised limit for external debt	96,000	81,190
Operational boundary for external debt	81,190	81,190
Gross external debt	81,190	81,190
Investments	32,603	51,630
Net borrowing	48,587	29,560

Prudential Indicators	2018/19 Budget	30/09/18 Actual
	£'000	£'000
Capital expenditure – General Fund	5,213	940
Capital expenditure – HRA	7,566	681
Capital Financing Requirement (CFR) – GF	-248	-248
Capital Financing Requirement (CFR) – HRA	81,820	81,820
Annual change in CFR	0	0

In year external borrowing requirement	0	0
Ratio of financing costs to net revenue stream - GF	-0.37%	-0.37%
Ratio of financing costs to net revenue stream - HRA	12.45%	12.45%
<u>Incremental impact of capital investment decisions:-</u>		
Increase in council tax (band change) per annum.	0%	0%
Increase in average housing rent per week	0%	0%

For convenience a Glossary of Terms is provided at Appendix 3.

APPENDIX 2:**Investment Portfolio****Investments held as at 30th September 2018**

Institution	Maturity Date	Interest Rate %	Principal £'000
<i>Loans to other local authorities</i>			
Liverpool City Council	25/01/2019	0.70	2,000
Bournemouth Borough Council	27/09/2019	0.72	2,000
<i>Bank deposits and Money Market funds</i>			
Close Brothers	26/10/2018	0.80	2,000
Nationwide Building Society	12/11/2018	0.64	2,000
Sumitomo Mitsui Banking Corporation Europe	17/12/2018	0.78	2,000
Standard Chartered Bank	35 Day Notice	0.78	8,000
Bank of Scotland	95 Day Notice	0.80	8,000
Goldman Sachs International Bank	180 Day Notice	0.75	5,000
Santander	180 Day Notice	0.95	8,000
Federated MMF	1 Day Notice	0.70	7,000
Insight MMF	1 Day Notice	0.62	630
<i>Property funds</i>			
Lothbury Property Fund	N/A		2,500
Hermes Property Fund	N/A		2,500
Total			51,630

APPENDIX 3:

Glossary of Terms

Capital Financing Requirement

CFR is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

Operational Boundary

The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Gross External Debt

This is the total amount borrowed by the Council at a point in time. At 30th September 2018 the figure of £81,190 equates to £79,190k HRA and £2,000k market loan (General Fund).

Investments

The budgeted figure is the estimated average funds available for investment during the year. The actual figure is the total amount invested as at 30th September 2018.

Net Borrowing

Net borrowing is gross external debt less investments.

Ratio of financing costs to net revenue stream

This ratio looks at net interest payable as a proportion of revenue (broadly council tax and government grants in respect of the General Fund, rental income in respect of the HRA). Essentially, this is an indicator of the Council's ability to service its loans.

In this mid-year (and previously) interest receivable has exceeded interest payable for the General Fund producing a negative number for net interest payable and a somewhat odd looking negative ratio; this can be construed as indicating that the Council has no issues servicing General Fund loans at this time.

AUDIT COMMITTEE – 27TH NOVEMBER 2018

Report of the Head of Strategic Support

Part A

INTERNAL AUDIT PROGRESS REPORT

Purpose of Report

The report summarises the status of the 2017-18 and 2018-19 Audit Plans and also outlines the key findings from final audit reports and follow-up work completed since the previous progress report considered by the Audit Committee at the meeting held 4th September 2018.

Recommendation

The Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the approved Internal Audit Plan.

Policy Justification and Previous Decisions

The Accounts and Audit Regulations 2015 state (Regulation 5 (1)) that the relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None

Risk Management

There are no specific risks associated with this decision.

Background Papers:

None.

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Part B

1. Progress against the 2017/18 and 2018/19 Audit Plans.

1.1 Progress against the 2017/18 Audit Plan

General Audits – Five audits remain to be completed from the 2017/18 Audit Plan.

These being three targeted testing financial systems audits i.e. Payroll, Creditors and Capital Accounting and two service audits i.e. Markets & fairs and Asset Management. It has been agreed with the Strategic Director of Corporate Services and Head of Strategic Support that the work planned to be undertaken in respect of the three financial systems audits will be included in the 2018/19 audits of these areas due to timing.

IT Audits –

The ICT Key Controls audit report was finalised in October.

The Change Management audit remains in progress.

A procurement exercise has been undertaken for the provision of Technical IT Audit Services, and it is anticipated that the contract will commence on the 1st December 2018.

1.2. Progress against the 2018/19 Audit Plan

Appendix A summarises progress against the 2018/19 Audit Plan.

As previously reported, there has been some slippage with the 2018/19 plan due to more resources being required to complete 2017/18 audits than was anticipated at the time the 2018/19 plan was drafted and approved. Also as previously reported to the Committee there was a case of sickness absence within the Audit team during July - September which impacted on completion of carried over 2017/18 audits and progression with 2018/19 planned audits.

In addition, resources were required to complete unplanned audit work in respect of Disabled Facility Grants certification, where Internal Audit assurance was required.

Having reviewed the resources available for the remainder of the financial year and the audits remaining to be completed, and following discussion with the Strategic Director of Corporate Services and the Head of Strategic Support, it has been decided to procure additional resources to undertake the audits listed below which amount to a total of 50 days planned work. This should ensure the completion of the Audit Plan by the end of the financial year and enable work on the 2019/20 Audit Plan to commence in April 2019.

Accounting & Budgetary Control – 10 days

Capital Accounting – 8 days

Enforcement – 20 days

Holiday Pay/Flexi/TOIL – 12 days

3. Final Audit Reports Issued

The following final audit reports have been issued since the last update report to the Committee. Further detail in respect of these audits is attached in Appendix B, including a background section, the executive summary, and the agreed action plan listing recommendations made and the management responses.

Audit	Field Work Completed	Draft Report Issued	Final Report Issued	Current Level of Assurance	Previous Audit Level of Assurance	Corporate Significance
Mayorality 2018/19	July 2018	August 2018	September 2018	Substantial	Pre-2007/08	Medium
Grants in the Community 2018/19	July 2018	August 2018	September 2018	Moderate	No previous audits	Low
Garden Waste 2018/19	July - September 2018	October 2018	October 2018	Moderate	Report not issued superseded by new scheme	Medium

4. ICT Audits

One final IT audit report has been issued since the last update report to the Committee. Further details in respect of this audit are included in the Exempt Appendix C.

Audit	Field Work Completed	Draft Report Issued	Final Report Issued	Current Level of Assurance	Previous Audit Level of Assurance	Corporate Significance
ICT Key Controls 2017/18	May - June 2018	July 2018	October 2018	Moderate	Substantial	High

5. Follow Up of Recommendations

The table below summarizes the follow-up status of recommendations which were due to be implemented during the period July - September 2018. Two medium priority recommendations have not been implemented by the agreed action dates. Further details are available at Appendix D.

	Priority Level	Implemented	Not Implemented	No Further Action
July - September 2018	High	3	0	0
	Medium	11	2	1
	Low	12	0	2
Percentages		84%	6%	10%

6. Special Investigations

There have been no special investigations undertaken during the reporting period.

7. Performance Indicators for Internal Audit

The following summary outlines the results against the local performance indicators for Internal Audit for 2018/19.

Indicator	Target	Result	Notes
Percentage of clients that rated the performance of Internal Audit as satisfactory or higher.	90% (Annual)	100%	Based upon the number of Head of Service responses received (4/10) April 2018.
Percentage of the agreed 2018/19 Internal Audit plan delivered (as at 31/10/2018).	48%	30%	See commentary in Section 2 of report. Percentage completed based upon actual time spent on 2018/19 planned audits.
Percentage of agreed recommendations arising from internal audit reviews implemented by the agreed date (as at 30.09.18)	80%	82%	April - September 2018 (56/68 recommendations)

Appendices

Appendix A – Summary of progress against the 2018/19 Audit Plan as at the 31st October 2018

Appendix B – Summary of Final Audit Reports Issued

Appendix C – Summary of Final IT Audit Reports Issued (Exempt Appendix)

Appendix D – Follow Ups: Recommendations Not Implemented By the Agreed Date as at 30th September 2018

PROGRESS AGAINST THE 2018/19 AUDIT PLAN

2018/19 Audit Plan	Plan Days	Spent Days (31.10.18)	Status as at 31st October 2018	Assurance Level	Corporate Significance
Key Financial Systems					
<i>Full Systems Audit</i>					
<i>Accountancy & Budgetary Control</i>	10.00	0.00	<i>Proposed for Outsourcing</i>		
Payroll	10.00	0.00	Scheduled for Q4		
<i>Capital Accounting</i>	8.00	0.00	<i>Proposed for Outsourcing</i>		
Non Domestic Rates	8.00	0.00	Scheduled for Q4		
<i>Targeted Testing:</i>					
Creditors	3.00	0.00	Scheduled for Q4		
Debtors	2.00	0.00	Scheduled for Q4		
Income Collection	2.00	0.00	Scheduled for Q4		
Housing Benefits	3.00	0.00	Scheduled for Q4		
Council Tax	3.00	0.00	Scheduled for Q4		
Housing Rents	3.00	0.00	Scheduled for Q4		
<i>Quarterly Testing:</i>					
Treasury Management	2.00	0.50	Q2 checks completed		
Bank Reconciliation	2.00	0.75	Q2 checks completed		
Sub Total – KFS Reviews	56.00	1.25			
Strategic & Service Risk Audits					
NFI/Counter Fraud	10.00	5.00	Ongoing		
Homelessness	12.00	2.00	In Progress		

2018/19 Audit Plan	Plan Days	Spent Days (31.10.18)	Status as at 31st October 2018	Assurance Level	Corporate Significance
Decent Homes Contract	15.00	0.50	Planning/Scoping		
Grants to Community Groups (Landlord Services)	8.00	5.50	Completed	Moderate	Low
Licensing	10.00	0.00	Scheduled for December 2018		
Car Parking fees	12.00	0.25	Scheduled for Q4		
<i>Enforcement (Cross cutting)</i>	<i>20.00</i>	<i>0.00</i>	<i>Proposed for outsourcing</i>		
Revenues & Benefits Contract	12.00	9.25	In Progress		
Performance Management	10.00	7.50	In Progress		
Staff Allowances & Expenses	10.00	10.25	Completed	Moderate	Low
Garden Waste Scheme	10.00	11.00	Completed	Moderate	Medium
Sport & Active Recreation	10.00	0.00	Scheduled for December 18		
CCTV	8.00	0.00	Scheduled for January 2019		
Mayoralty	8.00	4.50	Completed	Substantial	Medium
<i>Holiday pay/flexi/toil policies and application.</i>	<i>12.00</i>	<i>0.00</i>	<i>Proposed for Outsourcing</i>		
ASB (cross cutting use of Sentinel etc)	9.00	10.00	In Progress		
Corporate Credit Cards	10.00	6.00	In progress		
Sub Total – Strategic & Services Audits	184.00	71.75			
Other Work					
Recommendations - Follow Ups	20.00	10.00			
Ad Hoc Investigations/ Contingency	30.00	7.50			
Allowance to complete 2017/18 Audits	10.00	50.00			
Sub Total – Other work	60.00	67.50			
TOTAL – Audit Plan (not including externally resourced audits)	300.00	140.50			

SUMMARY OF FINAL AUDIT REPORTS ISSUED

Mayoralty 2018/19

1. Background

The Mayor is the principal ambassador of the Council and will attend around 500 engagements each year over 90% of which are likely to be within the Borough. They chair meetings of the full Council, host annual events such as the Civic Church Service and the opening of the fair, and promote Council initiatives and campaigns. The Mayors diary and engagements are managed and facilitated by the Civic Officers within the Democratic Services team of Strategic Support.

This review was included in the Audit Plan for 2018/19 to review the administration of the Mayors Charity Appeal and Twinning arrangements. However, following the scoping meeting with the Head of Strategic Support the scope of the audit was revised to include Civic Regalia in place of Twinning arrangements as he considered this to be more beneficial.

Mayors Charity Appeal

As soon as the nomination for the next Mayor is known they are asked to decide which charity or charities they would like to benefit from their appeal. This year, the Mayor's charity appeal will raise money for two charities: Sense and The Woodland Trust.

Civic Regalia

The Mayor and Mayoress are both provided with chains of office to wear during official business. In addition to these there is a large quantity of civic regalia, displayed in the Mayors Parlour.

2. Executive Summary

2.1 Overview

**ASSURANCE RATING –
SUBSTANTIAL**

**CORPORATE
SIGNIFICANCE – MEDIUM**

Assurance

Internal Audit can give substantial assurance to those charged with governance. The internal control environment within the areas reviewed is adequate and effective, and appropriate actions are being taken to manage risks.

Based on the testing undertaken during the course of this audit it was found that civic regalia and the insignia is adequately safeguarded and insured.

The arrangements in place for the receipting, recording and banking of donations made to the Mayor's charities are generally satisfactory. However, where donations are received during a function attended by the Mayor a receipt is not issued at the time the donation is received as required by Financial Procedure Rule 22.2.6 which states 'on receipt of income, Council Officers must issue an official receipt'. Although the income received is not 'official Council monies' the income is administered by Council employees and recorded in the Council's accounts, there is therefore a risk of reputational damage should an amount be disputed by the donor at the time they do receive an official receipt.

Corporate Significance

The area reviewed has been rated as being of medium corporate significance, on the basis of:

- Service failures would have moderate impact on customers
- Risk of moderate reputational damage (local press)

2.2 Key Findings

We are pleased to report that the procedures in place incorporate the following examples of good practice:

- There are satisfactory arrangements in place for the receipting, recording and banking of donations to the Mayor's charities where donations are received in the Mayoralty office.
- Civic Regalia and Insignia are stored securely and is adequately insured.

However, from the work undertaken during the review, we have also identified the following areas where there is scope for improvement to ensure that the system operates more effectively and efficiently:

- Receipts are not issued for charitable donations received at functions at the time the income is received.

- There has been no risk assessment completed on the Mayor's Parlour.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. Receipts are not issued for charitable donations received at functions at the time the income is received.	Reputational damage should an amount later received be disputed by the donor. Breach of Financial Procedure Rules	1. Consideration is given to receipting income received at functions, particularly cash donations, at the time it is received.	L	Providing receipts for charitable donations received at functions is not practical and the Head of Strategic Support has confirmed that the current practice of issuing receipts after a function should continue.	Not Applicable	No Further Action
2. There has been no risk assessment completed on the Mayor's Parlour	Management may not be aware of any areas of weakness with regard to the security of civic regalia and staff working alone	2. Management consider completing a risk assessment on the Mayors Parlour to identified potential security risks and put in appropriate mitigating actions in place if any weaknesses are identified.	L	A risk assessment will be undertaken by mid-October. Advice has been sought from the Health and Safety team on completing the assessment.	Democratic Services Manager	October 2018

Grants in the Community 2018/19

1. Background

The Council operates a Community Initiative Fund which is open to tenants for financial help towards the cost of arranging an event, activity or initiative in their local community. Tenants can apply for funding up to £200 towards the cost of a one day event and up to £400 towards the cost a long term initiative. Applicants must submit an application and meet certain criteria to be able to obtain funding.

The Council also offer recognition and funding to resident groups as start-up grants and when the group is fully recognised it will be eligible to apply for annual continuation grants.

The Grants are administered by the Customer Engagement Team within Landlord Services. Community Initiative funding available in 2018/19 is £10,500 and for resident groups it is £2,000.

2. Executive Summary

2.1 Overview

**ASSURANCE RATING –
SUBSTANTIAL ASSURANCE**

**CORPORATE
SIGNIFICANCE – HIGH**

Assurance

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no serious weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

Based on the testing undertaken during the course of the review it was found that in general the procedures in place for the processing of applications are adequate, but there were areas identified where evidence is missing to show groups are

meeting the funding criteria, in particular evidence that a formal committee exists and a group bank account is in place. It appears that there may have been some leniency in meeting the criteria to allow community groups to access the funding, as there has been a poor level of uptake for this funding.

Corporate Significance

The area reviewed has been rated as being of LOW corporate significance, on the basis of:

- General risk of financial loss less than £10,000
- Service failures would have limited impact on customers
- Risk of minimal reputational damage (e.g. customer complaints)

2.2 Key Findings

We are pleased to report that the procedures in place incorporate the following examples of good practice:

- There is set criteria in place for applicants to meet.
- The appropriate amount of funding was awarded in accordance with the policy.
- Procedures are in place to ensure funding is utilised by the recipient in accordance with their approved application.

However, from the work undertaken during the review, we have also identified the following areas where there is scope for improvement to ensure that the system operates more effectively and efficiently:

- There were areas identified where evidence is missing to show groups are meeting the funding criteria, in particular evidence that a formal committee exists (2/8) and a group bank account is in place at the time of application (2/8).

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. There were areas identified where	There is potential for	1.1 The application form is updated so that the	Medium	The application form is updated to include	Principal Officer – Customer	September 2018

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
<p>evidence is missing to show groups are meeting the funding criteria, in particular evidence that a formal committee exists (2/8) and a group bank account is in place at the time of application (2/8).</p> <p>It was noted during the course of the audit work that take up of the grants was low and that this may be due to the stringency of the criteria considering the value of the grants and intended purpose of the scheme.</p>	fraud to occur.	applicant signs and dates the form to confirm that they are agreeing to the conditions of the grant.	Medium	the signature of the applicant and the date of signing to confirm that they are agreeing to the conditions of the grant.	Engagement and Older Persons Service	November 2018
		1.2 Procedures are put in place to ensure applications meet the funding criteria.	Low	Procedure drafted to ensure that applications meet the funding criteria.	Principal Officer – Customer Engagement and Older Persons Service	
		1.3 Taking into consideration the poor level of uptake of the grants, a review is undertaken of the criteria that have to be met to qualify for community initiatives to ensure that the grants can be accessed by communities as intended by the scheme.		Undertake a review of the criteria for eligibility of grants to ensure that they meet the purpose that was intended in implementing the scheme.	Principal Officer – Customer Engagement and Older Persons Service	January 2019

Garden Waste Scheme 2018/19

1. Background

The Council offers the residents of the Borough a garden waste collection service for an annual fee. A collection is made every fortnight all year round, apart from two weeks at Christmas. In July 2017, a new scheme was introduced whereby permits are issued to residents to be displayed on their bin. The current charge is £40 per year if paid by direct debit and £45 per year if payment is made by any other method.

Management of the Green Waste Scheme falls under the responsibility of the Cleansing and Open Spaces Service within the Neighbourhoods and Community Wellbeing Directorate. There is a contract in place with Serco Plc who undertake the collections on behalf of the Council.

In 2017/18 the scheme generated income of £990,330. The budgeted income for 2018/19 is £1,214,000.

2. Executive Summary

2.1 Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE – MEDIUM
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Assurance

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no serious weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

Based on the work undertaken in this review it is apparent that a considerable amount of work has been completed in implementing the new permit scheme. In general the procedures in place to manage the operation of the scheme and for income collection are satisfactory in that waste collections are not being undertaken for expired permits, all subscribers have

been accounted for, the value of write-offs is considered reasonable, any refunds given have been appropriate and all income received has been recorded in the accounts.

However, there are some areas where further improvements can be made. Procedures are not formally documented which could lead to operational issues should key staff be absent or leave the council's employment. Testing found that the process in place for the reconciliation of issued permits had not identified the fact that 22 permits had been issued twice by the printers however procedures have since been put in place to ensure this is monitored on a daily basis.

The process in place for new subscribers is inadequate in that subscribers are allowed to pay the discounted rate (applied to those who pay by direct debit) as their initial payment however in 85% of cases a direct debit mandate was not received. Cases were also identified in respect of renewals where the discounted rate had been applied but the payment was not received by direct debit.

Corporate Significance

The area reviewed has been rated as being of medium corporate significance, on the basis of:

- General risk of financial loss between £10,000 and £100,000
- Service failures would have moderate impact on customers
- Risk of moderate reputational damage (local press)
- Direct link to identified operational risks

2.2 Key Findings

We are pleased to report that the procedures in place incorporate the following examples of good practice:

- The procedures in place for income collection are satisfactory.
- Daily reconciliations are undertaken between the reports sent to the printing contractor and return files to promptly identify anomalies.
- An exercise was undertaken to remove bins where invalid permits were presented, resulting in 493 bins being removed and 786 customers making payment.
- A service audit was completed to ensure replacement permits were not being obtained for fraudulent reasons.

However, from the work undertaken during the review, we have also identified the following areas where there is scope for improvement to ensure that the system operates more effectively and efficiently:

- There are no written procedures in place that define responsibilities or document the internal controls in place, such as reconciliations procedures.
- In 70% (7/10) of cases the description on the financial management system (Agresso) was 'garden waste refund' and the reasoning behind the refund is recorded on Lagan, with no link between the two systems.
- Through testing it was identified that in 16 out of 26 cases a discounted rate of £40 had been applied and either no direct debit form was received from the subscriber or in respect of renewals the payment was not received by direct debit.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. There are no written procedures in place that define responsibilities or document the internal controls in place, such as reconciliations procedures.	Processes are not clear and may result in officers not following the correct process. There could be disputes if responsibilities, if they are not defined which could impact on service delivery.	1. Written procedures are put in place that clearly define the process in place and define the responsibilities of those involved in those processes.	Medium	Although there is a current flowchart that shows the different teams involved in different stages of the process, explicit procedures will be developed to ensure business continuity.	Programme Manager	January 2019
2. In 70% (7/10) of cases the description on the	Insufficient audit trail in place.	2. Where refunds are issued the Lagan case number is recorded in	Low	Officers dealing with refunds have been advised to include the	Contract Officers	No Further Action

financial management system (Agresso) was 'garden waste refund' and the reasoning behind the refund is recorded on Lagan, with no link between the two systems.		Agresso.		LAGAN reference number on Agresso at all times. This is currently in place and can be monitored at the end of the year to ensure compliance and consistency		
3. Through testing it was identified that in 16 out of 26 cases a discounted rate of £40 had been applied and either no direct debit form was received or in respect of renewals the payment was not received by direct debit.	Income is not being maximised. Customers are not being treated fairly.	3. To ensure all customers are treated fairly and that correct changes are made management should consider how to ensure those not paying by direct debit pay the full amount. For example, only applying the discount in the second year when a mandate has been received or making the mandate a compulsory part of the sign up process.	Low	The Service recognises this issue within the existing business process and accepts that it should be addressed. Resolution is however a complex matter that may require a rewrite of our existing business rules and IT integration and development across multiple systems. To address this issue a multi-disciplinary team covering the garden waste collection, IT and finance teams will be created.	Head of Cleansing and Open Spaces	November 2018

Follow Ups: Recommendations Not Implemented By the Agreed Date as at 30th September 2018

Audit	Observation	Recommendation	Priority	Agreed Action	Agreed Date	Responsible Officer	Comments
Management of Open Spaces Contract 2017/18	2. Due to the lack of an interface between LAGAN (the Council's Customer Relationship Management System) and the contractor's systems there are inadequate arrangements in place for the monitoring of Local Performance Indicators (LPIs) and therefore expected levels of service as set out within the contract may not be achieved.	2. Management should ensure that the interface between LAGAN and the contractor's CRM is developed and put in place by the contractor in order to meet contractual obligations.	Medium	The lack of interface has been raised since the upgrading of the Council's CRM system (LAGAN). The work required is currently being scheduled in to the Customer Experience service's work programme. The interface project is to be scheduled by the end of March 2018	Mar 18 Revised to Aug 18, Oct 18	Head of Cleansing and Open Spaces	Partially Implemented: Update 4.9.18 - A technical appraisal of the best solution was undertaken with Verint (Lagan) and it was decided to use Lagan Lite rather than an interface to allow better connectivity between CBC and idVerde. Lagan Lite is a browser based version of Lagan that can be used remotely. Access can be limited so the idVerde only get access to the required information. The system was installed and User Acceptance Testing highlighted an issue with the levels of access granted on historical cases. Verint are working on a solution and are undertaking internal testing which will take between 5 and 18 days to complete. Once this has been completed, officers

							will undertake another programme of User Acceptance Testing to ensure that the solution is performing to acceptable level. End user training has taken place to allow use once the solution is live.
	<p>3. The arrangements for monitoring of the LPIs are inadequate due to a lack of an interface between Lagan and the contractors' performance monitoring system. The quality of the data (accuracy and completeness) in respect of timeliness of completion of individual jobs raised in response to Lagan cases cannot be relied upon and therefore the penalties that potentially should have been incurred for LPIs have not been calculated and enforced.</p>	<p>3. Procedures should be put in place to ensure that penalties arising in respect of performance against LPIs are calculated and deducted from payments in accordance with the terms of the contract.</p>	Medium	<p>As per response to recommendation 2 above.</p> <p>The lack of interface has been raised since the upgrading of the Council's CRM system (LAGAN). The work required is currently being scheduled in to the Customer Experience service's work programme.</p> <p>The interface project is to be scheduled by the end of March 2018</p> <p>This project will start by assessing the scope and specific requirements for</p>	<p>Mar 18</p> <p>Revised to Aug 18, Oct 18</p>	<p>Head of Cleansing and Open Spaces</p>	<p>As for Recommendation 2.</p>

				<p>developing the interface. Decisions will be made based on the outcome of the assessment.</p> <p>There is ongoing conversation between the Head of Cleansing and Open Spaces and the Head of Customer Experience.</p>			
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AUDIT COMMITTEE – 27TH NOVEMBER 2018

Report of the Head of Strategic Support

Part A

RISK MANAGEMENT (RISK REGISTER) UPDATE

Purpose of Report

The purpose of this report is to provide the Committee with details of the interim Strategic Risk Register produced for 2018/19 and to provide an update on progress with the review of the Risk Management Framework.

Recommendation

The Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the strategic risks that should they crystallise would cause the Council to be unable to operate and/or provide key services leading to a significant adverse effect on public wellbeing'.

Policy Justification and Previous Decisions

The interim Strategic Risk Register for 2018/19 was approved by Cabinet on the 14th June 2018. Cabinet resolved that the Audit Committee monitor progress against those risks on the register by receiving and considering monitoring reports on a quarterly basis.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None

Risk Management

There are no specific risks associated with this decision.

Background Papers: None

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Part B

Background

1. In accordance with the Committee's work programme the Committee receives monitoring reports in respect of the Councils risk management arrangements. The reports provide a detailed commentary against the risks included in the strategic risk register.
2. The current interim strategic risk register is provided for information at Appendix A. This shows the position as at 30th June 2018. The register was not reviewed at the end of Quarter 2 (September 2018) as the review of the Council's Risk Management Framework had commenced.
3. The Council's current risk matrix is shown at Appendix B to assist the Committee in considering the status of the identified strategic risks.

Review of the Risk Management Framework

4. During March 2018, the Council was subject to a Local Government Association (LGA) Peer Challenge review. One of the recommendations (Recommendation 7) arising from the review was for the Council to:
 - **Establish risk appetite and strengthen approach to risk management.**
To provide stronger assurance around risk and identify a risk tolerance level that is right for Charnwood to further its commercial activities.

To address this recommendation, it was decided that the Council's risk management framework would be reviewed and a revised risk management framework and strategy, including the risk register format, proposed to Members.
5. Work has been undertaken to research best practice in risk management to inform the review of the risk management framework and develop proposals for senior management and Members consideration.
6. Proposals for 'risk appetite' and for amendments to the framework were presented to and agreed by the Senior Management Team during October 2018. These proposals were taken forward for consideration to the Risk Management Group (Corporate Management Team) and to the Cabinet Member Briefing in November 2018.
7. Following the completion of the review a revised Risk Management Strategy and Strategic Risk Register will be proposed to Cabinet. This is scheduled for December 2018.

Appendices

Appendix A – Strategic Risk Register 2018/19 as at 30th June 2018.

Appendix B – Current Risk Matrix

APPENDIX A - Strategic Risk Register 2018/19 as at 30th June 2018

Risk Ref	Risk	Events (possible underlying cause)	Potential Consequences	Inherent Risk Rating			Mitigating Actions and Controls	Residual Risk Rating		
				Likelihood	Impact	Overall Risk Rating		Likelihood	Impact	Overall Risk Rating
SR1	Inadequate business continuity and recovery arrangements, resulting in major internal and/or external disruption to services in the event of an incident.	<ul style="list-style-type: none"> Failure of IT systems Loss of site due to fire or other severe incident. Severe space weather e.g. solar storm Severe weather; high/low temperatures, snow. Fuel strike/shortages Industrial Action (internal and external, e.g. teachers, to the Council). Major power failure and other utilities at Council buildings Effects of pandemics Flooding to Council sites Internal factors i.e. effect on service delivery caused by external factors e.g. staff affected by school closures, Major infrastructure changes Loss of key personnel Contractor /supplier failure Suppliers not GDPR compliant 	<ul style="list-style-type: none"> Inability to deliver key/critical services e.g.: benefits, refuse collection, homelessness applications, emergency repairs. Reduction in access channels available to residents/customers i.e. contact centre, customer services, telephony. 	3 (Possible)	5 (Severe)	15 ↑↑	<p>Current Controls & Actions:</p> <ul style="list-style-type: none"> Corporate Business Continuity Plan (BCP) is in place that identifies critical services and systems and required recovery timescales. Latest revisions July 2017. IT disaster recovery and business continuity arrangements reviewed and ICT Team Recovery Plan produced and uploaded to Resilience Direct. Periodic testing of business continuity arrangements – most recent test - September 2016. External website is hosted off site. Arrangements in place for recruiting interim staff where specialist knowledge/skills required. Robust procurement processes, contract monitoring arrangements and review of media to maintain awareness of any issues affecting contractors/ key suppliers. Team Recovery Plans for designated critical services signed off. Business continuity checklist now included in procurement process checklists. Review of Team Recovery Plans with newly appointed Heads of Service (ongoing as required). Enhanced, disk based, off -site backup storage of the Council's data in place Standby generator for the ICS building in place Cloud based telephony infrastructure in place that is hosted offsite with resilient connections. Contingency plans in place in event of failure of major contractor. 	3 (Possible)	4 (Major)	12 ↑↑
<p>Future Actions Planned: Implementation of electronic document management system(s)</p>				<p>By When: Ongoing</p>		<p>Current Status: Digital Mail – being rolled out across services, target for completion is Q4 2018/19.</p> <p>Backscanning – outline business cases have been passed to service areas to deliver. In relation to the back scanning of HR files, an option has been explored with a partner to iTrent. The</p>		<p>Responsible Officer: Strategic Director of Housing, Planning & Regeneration and Regulatory Services.</p>		

					cost is quite significant therefore wider options are being considered. Hybrid Mail – the business case was approved by the Project Board in May 2018 and awaits sign off by the Programme Board at the next meeting.					
SR2	Inadequate data sharing and data security arrangements.	<ul style="list-style-type: none"> Ineffective processes for sharing of data with appropriate agencies/authorities leading to safeguarding failure. Theft or loss of data Theft or loss of equipment Failure to maintain Public Services Network accreditation and being denied access to PSN data. Viral attack Improper disclosure of confidential information. Disposal of IT equipment Non – communication between parties e.g. of data security incidences. Failure to comply with GDPR requirements. 	<ul style="list-style-type: none"> Major reputational damage Loss of public confidence in the organisation. Inability to operate key business processes 	4 (Probable)	5 (Severe)	20 ↑↑↑	Current Controls & Actions <ul style="list-style-type: none"> Policies and processes are in place for interagency referrals and data sharing in safeguarding matters. Membership and attendance at meetings of county wide groups e.g. the District Implementation Group (DIG), a county wide group involving district, borough and county councils within Leicestershire and the Local Safeguarding Children’s Board that brings together all the main organisations who work with children and families in Leicestershire. Annual IT Health Checks including penetration testing. Data Protection guidance and training for staff. IT Security Policies in place. Plans in place to meet Government standards (PSN/GDPR) Protective marking and security controls on emails which allow appropriate labelling of protect and restricted information. Staff and Member training on Information Security Policies and practice and sign up to policies – implementation of annual sign up. Training of key staff with designated information security responsibilities Data Protection Officer in place Improvement Plan signed off by Information Commissioners Office July 2017. Completed January 2018. Refresher data protection training provided and has been completed by all staff. Information Asset Register and processes for its management in place. Roles and responsibilities of senior officers have been reviewed. Information management processes have been reviewed to ensure compliance with GDPR. 	3 (Possible)	4 (Major)	12 ↑↑

	Future Actions Planned: 1. Information Asset Register to be completed to include data sharing agreements. 2. Project initiated January 2018 to ensure full compliance with Payment Card Industry Data Security Standards.			Target Date: 1. Aug 2018 2. Jan 2019		Current Status: Information Asset Register is in place but there are gaps in respect of data sharing agreements. Heads of Service have been asked to provide the data sharing agreements in place in their service areas. The project plan was presented to the ICT Steering Board in May 2018.			Responsible Officer: Strategic Director of Corporate Services Strategic Director of Corporate Services		
SR3	Inadequate civil contingency arrangements resulting in failure to respond appropriately to a major incident.	<ul style="list-style-type: none"> Major incident/catastrophic event Terrorism threat Flooding External fuel shortage Pandemics Major failure of power and other utilities within the Borough and wider area. Major civil unrest. Lack of adequately trained staffed to respond to an emergency. 	<ul style="list-style-type: none"> Inability to deliver key/critical services e.g. benefits, refuse collection, homelessness applications, emergency repairs. Increased short term demand for services e.g. housing - alternative accommodation, repairs. 	2 (Unlikely)	5 (Severe)	10 ↑↑ Current Controls & Actions <ul style="list-style-type: none"> Participation in the Local Resilience Forum Emergency plans in place for major events e.g. flood, fire and mass evacuation. Emergency planning documents and contacts available on Resilience Direct website. Testing of emergency plans e.g. flood exercise. Business Continuity arrangements as for Strategic Risk 1. 24/7 call out arrangements for senior managers and Emergency Management Officer. LRF call out documents updated. Rolling LRF programme of training and exercising for major incidents, recovery process and emergency centres. Participation in LRF lead teleconferencing on likelihood of terrorist threat being heightened and all partners response should this occur. Participation in Events Safety Advisory Group. SMT/CMT on call duty rota in place 			2 (Unlikely)	4 (Major)	8 ↑
	Future Actions Planned: 1. Increase numbers of staff trained to both support emergency centres and fulfil loggist role.			Target Date: Dec 18		Current Status: Two members of staff have been identified to complete the loggist training.			Responsible Officer: Strategic Director of Corporate Services.		

APPENDIX B – RISK MATRIX

LIKELIHOOD

		Remote	Unlikely	Possible	Probable	Highly Probable
		1	2	3	4	5
IMPACT	Severe 5	5 ↑	10 ↑↑	15 ↑↑	20 ↑↑↑	25 ↑↑↑
	Major 4	4 =	8 ↑	12 ↑↑	16 ↑↑↑	20 ↑↑↑
	Moderate 3	3 =	6 ↑	9 ↑	12 ↑↑	15 ↑↑
	Minor 2	2 =	4 =	6 ↑	8 ↑	10 ↑↑
	Insignificant 1	1 =	2 =	3 =	4 =	5 ↑

Table 1: Description and definitions of the LIKELIHOOD of the RISK occurring

<i>Scale / Level</i>	Descriptor	Description
1	Remote	May only occur in exceptional circumstances
2	Unlikely	Is unlikely to occur, but could occur at some time
3	Possible	Fairly likely to occur at some time, or in some circumstances
4	Probable	Will probably occur at some time, or in most circumstances
5	Highly Probable	Is expected to occur in most circumstances

Table 2: An example of the description and definition of the IMPACT of the RISK should it occur (these are not set in stone – they are merely a guide)

Risk	Scale	Effect - Service Delivery	Effect - Financial	Effect Health & Safety	Effect – Environment	Effect – Reputation
Severe	5	Severe disruption to CBC. Loss of service	Severe financial loss >£1,000,000	Loss of life. Intervention by HSE	Significant local, national and/or international environmental	Extensive coverage in the national press and broadsheet

			delivery for more than seven days		damage	editorial, and/or a national TV item
Major	4	Major disruption to CBC – serious damage to CBC’s ability to service its customers. Loss of service for more than 48 hours but less than 7 days	Major financial loss >£100,000 -<£1,000,000	Extensive / multiple injuries. Intervention by HSE	Major damage to the local environment	Coverage in national broadsheets, the press, and/or low national TV reporting
Moderate	3	Noticeable disruption to CBC – some customers would be affected. Loss of service no more than 48 hours	High financial loss >£25,000 - <£100,000	Violence, threat or major injury - medical treatment required. Intervention by HSE	Moderate damage to the local environment	Coverage in the national tabloid press and/or extensive front page coverage in local press, and/or TV
Minor	2	Some disruption to internal business only - no loss of customer service	Medium financial loss >£5,000 - <£25,000	Minor injury - first aid treatment only required	Minor damage to the local environment	Minimal reputation damage. Minimal coverage in the local press
Insignificant	1	Insignificant disruption to internal business – no loss of customer service	Low financial loss <£5,000	No injuries	No, or insignificant environmental damage	No reputational damage

AUDIT COMMITTEE – 27TH NOVEMBER 2018

Report of the Head of Strategic Support

Part A

RISK MANAGEMENT (RISK REGISTER) UPDATE

Purpose of Report

The purpose of this report is to provide the Committee with details of the interim Strategic Risk Register produced for 2018/19 and to provide an update on progress with the review of the Risk Management Framework.

Recommendation

The Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the strategic risks that should they crystallise would cause the Council to be unable to operate and/or provide key services leading to a significant adverse effect on public wellbeing'.

Policy Justification and Previous Decisions

The interim Strategic Risk Register for 2018/19 was approved by Cabinet on the 14th June 2018. Cabinet resolved that the Audit Committee monitor progress against those risks on the register by receiving and considering monitoring reports on a quarterly basis.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None

Risk Management

There are no specific risks associated with this decision.

Background Papers: None

Officer(s) to contact: Adrian Ward (01509) 634573
 adrian.ward@charnwood.gov.uk

 Shirley Lomas (01509) 634806
 shirley.lomas@charnwood.gov.uk

Part B

Background

1. In accordance with the Committee's work programme the Committee receives monitoring reports in respect of the Councils risk management arrangements. The reports provide a detailed commentary against the risks included in the strategic risk register.
2. The current interim strategic risk register is provided for information at Appendix A. This shows the position as at 30th June 2018. The register was not reviewed at the end of Quarter 2 (September 2018) as the review of the Council's Risk Management Framework had commenced.
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Hybrid Mail – the business case was approved by the Project Board in May 2018 and awaits sign off by the Programme Board at the next meeting.

SR2

Inadequate data sharing and data security arrangements.

- Ineffective processes for sharing of data with appropriate agencies/authorities leading to safeguarding failure.
- Theft or loss of data
- Theft or loss of equipment
- Failure to maintain Public Services Network accreditation and being denied access to PSN data.
- Viral attack
- Improper disclosure of confidential information.
- Disposal of IT equipment
- Non – communication between parties e.g. of data security incidences.
- Failure to comply with GDPR requirements.

- Major reputational damage
- Loss of public confidence in the organisation.
- Inability to operate key business processes

4
(Probable)

5
(Severe)

20
↑↑↑

Current Controls & Actions

- Policies and processes are in place for interagency referrals and data sharing in safeguarding matters.
- Membership and attendance at meetings of county wide groups e.g. the District Implementation Group (DIG), a county wide group involving district, borough and county councils within Leicestershire and the Local Safeguarding Children’s Board that brings together all the main organisations who work with children and families in Leicestershire.
- Annual IT Health Checks including penetration testing.
- Data Protection guidance and training for staff.
- IT Security Policies in place. Plans in place to meet Government standards (PSN/GDPR)
- Protective marking and security controls on emails which allow appropriate labelling of protect and restricted information.
- Staff and Member training on Information Security Policies and practice and sign up to policies – implementation of annual sign up.
- Training of key staff with designated information security responsibilities
- Data Protection Officer in place
- Improvement Plan signed off by Information Commissioners Office July 2017. Completed January 2018.
- Refresher data protection training provided and has been completed by all staff.
- Information Asset Register and processes for its management in place.
- Roles and responsibilities of senior officers have been reviewed.
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AUDIT COMMITTEE – 27TH NOVEMBER 2018

Report of the Head of Strategic Support

WORK PROGRAMME

Purpose of Report

This report is submitted to enable the Committee to consider its Work Programme.

Action Requested

Following consideration of the Work Programme, the Committee is asked to consider any deletions, additions or amendments it wishes to make.

This will enable planning for future meetings to be undertaken, for reports and information to be prepared and for the attendance of officers and/or others to be arranged.

Background

The Work Programme agreed at the last meeting of the Committee is attached as an appendix for the consideration of the Committee.

To assist with the consideration of this item, the dates for future meetings of the Committee are as follows:

26th February 2019

Officer to contact: Nadia Ansari
Democratic Services Officer
(01509) 634502
nadia.ansari@charnwood.gov.uk

ISSUE	MEETING
Internal Audit Business	Ongoing
Internal Audit Plan – Progress	26 th February 2019 Quarterly
Risk Management (Risk Register)	26 th February 2019 Quarterly - detailed report every six months, exception report quarters in-between.
Council's Use of Regulation of Investigatory Powers Act (RIPA)	26 th February 2019 Quarterly
2018/19 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	26 th February 2019 Annually
2019/20 Internal Audit Plan	26 th February 2019 Annually
Annual IT Health Check (Code of Connection) Confidential Report	11 th June 2019 Annually
2018/19 Annual Internal Audit Report	11 th June 2019 Annually
2018/19 Review of the effectiveness of Internal Audit (Feedback from Panel)	11 th June 2019 Annually
Internal Audit Charter	11 th June 2019 Annually (for approval)
2018/19 Members' Allowances Claimed	11 th June 2019 Annually
Whistle Blowing and Anti-fraud, Corruption and Bribery	11 th June 2019 Annually
Environmental Audits – Report on Outcomes	11 th June 2019 Annually <i>Note: Six month exception report where identified actions are not implemented by the target date.</i>
2018/19 Treasury Management Outturn	11 th June 2019 Annually
2018/19 Statement of Accounts	July 2019 (Accounts Meeting)

	Annually
2018/19 Annual Governance Statement and Review of the Code of Corporate Governance	July 2019 (Accounts Meeting) Annually
Treasury Management Mid-Year Review	November 2019 Annually
Future of Local Public Audit	Report on Government proposals considered 5th July 2011. Further report once final regulations/guidelines are known. Note: Appointing Your External Auditor briefing note considered June 2016.
Policy for Engagement of External Auditors for non-audit work	Considered March 2013. Review policy - date to be agreed
External Audit Business	Ongoing
External Audit Progress Report and Technical Update	26 th February 2019 Quarterly
2017/18 Annual Audit Letter	26 th February 2019 Annually
Certification of Claims and Returns (2018/19 Audit)	26 th February 2019 Annually
2019/20 External Audit Plan	26 th February 2019 Annually
2018/19 Annual Governance Report	July 2019 (Accounts Meeting) Annually