

AGENDA

Audit Committee

Friday, 24 January 2014 AT 10:00
In the Flensburg Room, Civic Centre, Carlisle, CA3 8QG

Briefing Meeting

A private preparatory / briefing meeting for Members of the Committee will be held at 9.30 am in the Flensburg Room

Apologies

To receive apologies for absence and notification of substitutions

Declarations of Interest

Members are invited to declare any disclosable pecuniary interests, other registrable interests and any interests, relating to any item on the agenda at this stage

Public and Press

To agree that the items of business within Part A of the agenda should be dealt with in public and that the items of business within Part B of the agenda should be dealt with in private

Minutes

5 - 14

To approve and sign the Minutes of the meeting held on 26 September 2013.
[Copy Minutes in Minute Book Volume 40(3) / herewith]

PART A

To be considered when the Public and Press are present

A.1	<u>MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL</u>	15 - 46
	The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 10 October and 28 November 2013; and 6 January 2014 are submitted for information. (Copy Minutes herewith)	
A.2	<u>ANNUAL AUDIT LETTER 2012/13</u>	47 - 62
	The Director of Grant Thornton to present their Annual Audit Letter 2012/13 for information. (Copy Letter herewith)	
A.3	<u>GRANT THORNTON - AUDIT COMMITTEE UPDATE</u>	63 - 76
	The Director of Grant Thornton to present their report on progress on the 2013/14 audit, and summary of emerging national issues and developments relevant to local government. (Copy Report herewith)	
A.4	<u>FINAL ACCOUNTS PROCESS 2013/14</u>	77 - 94
	The Director of Resources to submit a report updating Members on the 2013/14 final Accounts Process. (Copy Report RD.72/13 herewith)	
A.5	<u>REVIEW OF FINANCIAL PROCEDURE RULES - RETENTION OF DOCUMENTS</u>	95 - 98
	The Director of Resources to submit a report providing details of proposed changes to the Financial Procedure Rules in respect of the retention of documents. (Copy Report RD.73/13 herewith)	
A.6	<u>CODE OF CORPORATE GOVERNANCE - ACTION PLAN</u>	99 - 104
	Pursuant to Minute AUC.52/13, the Director of Resources to submit a report updating Members on the Council's governance arrangements and its systems of internal control in line with CIPFA's Good Governance Framework. (Copy Report RD.74/13 herewith)	

A.7	<u>INTERNAL AUDIT PROGRESS REPORT 2013-14 (NO. 3)</u>	105 - 182
	The Director of Resources to submit a report summarising the work carried out by Audit Services since the previous report to the Committee on 26 September 2013. (Copy Report RD.79/13 herewith)	
A.8	<u>TREASURY MANAGEMENT STRATEGY STATEMENT 2014/15</u>	183 - 206
	The Director of Resources to submit a report setting out the Council's Treasury Management Strategy Statement for 2014/15 in accordance with the CIPFA Code of Practice on Treasury Management. (Copy Report RD.63/13 herewith)	
A.9	<u>TREASURY MANAGEMENT - JULY - SEPTEMBER 2013</u>	207 - 222
	The Director of Resources to submit a report providing the regular quarterly report on Treasury Transactions, together with forecasts for 2014/15 - 2018/19. (Copy Report RD.55/13 herewith)	
A.10	<u>INTERNAL AUDIT EFFECTIVENESS REVIEW</u>	223 - 238
	The Director of Resources to report the findings of an external review of the Internal Audit Shared Service. (Copy Report RD.81/13 herewith)	
A.11	<u>INTERNAL AUDIT CHARTER</u>	239 - 252
	The Director of Resources to report on the Internal Audit Charter. (Copy Report RD.80/13 herewith)	

PART B

To be considered when the Public and Press are excluded from the meeting

Members of the Audit Committee:

Conservative: Earp, Mallinson E, Nedved, Bowman S (Sub), Craig (Sub), Parsons (Sub)

Labour: Atkinson K, Atkinson P, Bowditch (Vice-Chairman), Patrick (Chairman), Boaden (Sub), Franklin (Sub), Whalen (Sub)

Enquiries to:

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MINUTES OF PREVIOUS MEETING

AUDIT COMMITTEE

THURSDAY 26 SEPTEMBER 2013 AT 10.05 AM

PRESENT: Councillor Ms Patrick (Chairman), Councillors Bowditch, Earp (from 10.15am), Ms Franklin (as substitute for Councillor P Atkinson), Mrs Mallinson, Nedved and Whalen (as substitute for Councillors Mrs Atkinson)

OFFICERS: Director of Governance
Financial Services & HR Manager
Chief Accountant
Audit Manager

ALSO

PRESENT: Ms Jackie Bellard (Director, Grant Thornton); and
Mr Richard McGahon (Manager, Grant Thornton)

AUC.44/13 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillor Mrs Atkinson, Councillor P Atkinson and Mr Crossley, Deputy Chief Executive.

AUC.45/13 DECLARATIONS OF INTEREST

Councillor Mrs Mallinson declared an interest in accordance with the Council's Code of Conduct in relation to any discussion regarding Riverside Carlisle or Cumbria County Council. Her interested related to the fact that she was a Member of Cumbria County Council and a City Council representative on the Riverside Carlisle Board.

AUC.46/13 MINUTES

The Minutes of the meeting of the Audit Committee held on 22 July 2013 were submitted.

Referring to AUC.38/13 the Chairman thanked the Chief Accountant for the briefing note on the Minimum Revenue Provision and asked that it be circulated to all Members of the Resources overview and Scrutiny Panel. She also thanked the Manager (Grant Thornton) for the information he had provided.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 22 July 2013 be agreed as a correct record and signed by the Chairman.

AUC.47/13 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 18 July and 29 August 2013 were submitted for information. The Chairman acknowledged the improvement to the Council's sickness absence levels.

RESOLVED – That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 18 July and 29 August 2013 be noted and received.

AUC.48/13 FINANCIAL RESILIENCE 2012/13

The Manager (Grant Thornton) reported that Grant Thornton's work supporting their Value for Money (VfM) conclusion, as part of the statutory external audit, included a review to determine whether the City Council had proper arrangements in place for securing financial resilience.

The Manager commented that, in so doing, they had given consideration to whether the Council had robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enabled it to continue to operate for the foreseeable future. The definition of "foreseeable future" for the purposes of the review was twelve months from the date of the report.

The review of the Council's financial resilience had included consideration of:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control

He outlined in detail each of the above areas, details of which were set out within the report.

The Manager further explained the definitions applicable to the red/amber/green (RAG) rating which had been used as part of the review. He added that overall the City Council had been assessed as GREEN, the conclusion being that whilst the Council had faced, and continued to experience significant financial pressures and risks, its current arrangements for securing financial resilience were satisfactory.

The Manager highlighted the need for the Council to improve its profiling and delivery of its capital budget. The Financial Services & HR Manager informed the Committee that work was being undertaken to change the way capital bids were programmed and that the money would not be released from earmarked reserves until the business plan and final details were known, at which point the scheme would be included within the Capital Programme.

In response to a question the Manager (Grant Thornton) confirmed that careful consideration would have to be given by the Section 151 officer to identify the risks if a decision would result in a further reduction of the Council's General Fund balance.

Members felt that the Amber rating for the Adequacy of planning assumptions was inaccurate and did not match the Amber criteria set out in the report as the outcome was not in the Council's control. The Director (Grant Thornton) understood the Committees concerns and reiterated the need for Members to be aware of the challenges ahead.

The Manager (Grant Thornton) drew Members attention to the need for clear arrangements to be in place to report performance against the Carlisle Plan 2013-16 to enable members of the public to access the information and assess performance. The

Chairman suggested that the performance be monitored through the Annual Governance Statement for transparency.

RESOLVED – 1) That the Financial Resilience report be received and noted.

2) That the monitoring of the Capital Programme process be strengthened.

AUC.49/13 AUDIT FINDINGS REPORT 2012/13

The Director (Grant Thornton) presented a report highlighting the key matters arising from their audit of the Council's financial statements for the year ended 31 March 2013. The report was also used to present their audit findings to management and the Audit Committee in accordance with the requirements of International Standard on Auditing 260 (ISA).

The Director (Grant Thornton) informed Members that, in the conduct of the audit, she had not had to alter or change their planned audit approach, communicated to the Committee in the Audit Plan dated June 2013.

She explained that the audit was substantially complete and, subject to satisfactory clearance of outstanding matters, she planned to issue an audit report including an unqualified opinion on the financial statements. It was further her intention to issue an unqualified Value for Money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

The Director (Grant Thornton) expected to complete the outstanding work and planned to issue her opinion on the accounts by 27 September 2013. The Director also intended to complete work in respect of the Whole of Government Accounts (WGA) so that she could give her certificate to formally close the audit.

Members' attention was drawn to the issues that the Committee should consider prior to completion of the audit.

The Director (Grant Thornton) further outlined:

- the two presumed significant risks applicable to all audits under auditing standards (set out on page 9 of the report);
- details of Grant Thornton's response to the other identified risks of material misstatement were provided (page 10 referred);
- their consideration of accounting policies, estimates and judgements;
- misclassification and disclosure changes; and
- internal controls

A Member raised concerns that the red status of the internal controls on page 88 of the report was incorrect and did not match the description on page 4 of the report. The Manager (Grant Thornton) clarified that the classification for that particular assessment was also set out on page 88 of the report. He explained that the misclassification error was for £1.2m and had the potential to become a material error hence the red assessment.

The Financial Services & HR Manager informed the Committee that discussions had taken place regarding the recommendations set out in the action plan with management's response being included. Monitoring of the actions would form part of next year's final accounts and issues that the Financial Resilience report had picked up would be included in this year's budget and performance monitoring processes.

The Director (Grant Thornton) thanked all staff involved in the audit process for the support and responses received.

RESOLVED – (1) That the Audit Committee had considered the Audit Findings Report for the year ended 31 March 2013 and was pleased to note that Grant Thornton expected to issue an unqualified audit opinion on the financial statements; that the Council had proper arrangements to secure economy, efficiency and effectiveness in the use of its resources; and the Director (Grant Thornton) also planned to issue her Certificate by 27 September 2013.

(2) That the Action Plan be noted and brought back to the Audit Committee for monitoring purposes.

(3) That the thanks of the Committee be conveyed to all staff involved in the audit for their hard work.

AUC.50/13 LETTER OF REPRESENTATION 2012/13

The Chief Accountant submitted report RD.43/13 attaching a Letter of Representation for 2012/13.

The report recorded that the audit of the Statement of Accounts for 2012/13 was substantially complete with the Auditors' Audit Findings Report (ISA260) being considered elsewhere on the Agenda. Following approval of that report, the Auditors would issue their formal opinion and the audit process for 2012/13 would be complete.

However, in accordance with Auditing Standards, a Letter of Representation must also be considered and approved by the Audit Committee prior to the Audit Opinion being provided. Once approved it would be signed by the Director of Resources on behalf of the City Council.

RESOLVED – (1) That the Audit Committee approved the Letter of Representation for 2012/13.

(2) That the Director of Resources be authorised to sign the same on behalf of the Council.

AUC.51/13 STATEMENT OF ACCOUNTS 2012/13

The Chief Accountant submitted report RD.44/13 concerning the Council's Statement of Accounts 2012/13. Copies of the Accounts, which had been subject to a three month audit process, (commencing July and with a statutory completion date of 30 September 2013) had been circulated.

He clarified for Members the one minor amendment to page 194 of the report. The "County Council Pension Fund" to be changed to "Cumbria Pension Fund"

He also reported that the Audit was substantially complete with the Auditor's Audit Findings Report (ISA260) being considered elsewhere on the Agenda. That report provided the Council with an unqualified opinion on both the Accounts and the VFM conclusion. It also detailed any issues found during the course of the audit process, together with any amendments required to the Accounts which must be reported and approved by Members of the Audit Committee.

The Chief Accountant added that there were several recommendations made by the Auditor relating to the disclosure issues raised in the Audit Findings Report (ISA260), and that the completed Action Plan would be reviewed and closely monitored during 2013/14.

The Committee was asked to approve the 2012/13 Statement of Accounts subject to the verbal amendment, noting that also included the amended Annual Governance Statement.

The Chairman expressed thanks to the Financial Services Team, their hard work was valued and appreciated.

The Committee agreed to establish a Working Group to consider how the Annual Governance Statement could be improved in the future. Members would be contacted via email to establish the Group. The Financial Services Manager agreed to add Annual Governance Statement training to the Ethical Governance Programme.

RESOLVED – That the Audit Committee approved the 2012/13 Statement of Accounts subject to correction of the amendment detailed above, noting that also included the Annual Governance Statement.

The Director (Grant Thornton) and the Manager (Grant Thornton) left the meeting.

AUC.52/13 CODE OF CORPORATE GOVERNANCE - ACTION PLAN

The Financial Services & HR Manager submitted report RD.45/13 updating Members on the Council's governance arrangements and its systems of internal control in line with CIPFA's Good Governance Framework.

The Financial Services & HR Manager explained that the Annual Governance Statement for 2012/13 had highlighted one area of weakness (related to contract monitoring) in the Council's governance arrangements, together with the progress made against that area (Appendix A referred).

She added that there were no new significant issues which needed to be brought to Members' attention, nor were there any new areas of risk arising from the Audit reviews or from the Risk Registers that needed to be drawn to Members' attention.

In conclusion, the Financial Services & HR Manager asked that the Committee note the Action Plan attached to the report, together with the current position relating to the issue identified.

The Committee raised concerns regarding the lack of corporate overview and ownership of the contract monitoring within the Local Environment Directorate. There were also concerns raised regarding the skills framework and training of staff to carry out the contract monitoring role. The Members tasked the Director of Governance to write to the Director of Local Environment to bring to her attention the Audit Committee's concern as

part of the ongoing consultation process. The Members were clear that their comments were part of this process and it was a matter for the Director of Local Environment as to what arrangements she put in place given that this responsibility was hers.

The Chairman asked that the names of the two significant partnerships be included in the Annual Governance Statement Action Plan.

RESOLVED – That the Code of Corporate Governance Action Plan and the current position relating to the issue which has been identified be noted.

AUC.53/13 INTERNAL AUDIT PROGRESS REPORT 2013-14 (NO. 2)

The Audit Manager submitted report RD.42/13 summarising the work carried out by Internal Audit since the previous report to Committee on 22 July 2013 and detailing progress made on delivery of the approved Audit Plan.

The Audit Manager reminded Members that the 2013/14 Strategic and Annual Risk Based Audit Plans were presented to the Audit Committee on 15 April 2013 (Report RD.06/13 referred). The current position of the Plan up to the end of June 2013 was illustrated at Appendix A for Members' assistance.

The Plan called for 540 direct audit days to be delivered in 2013/14. 202 days (37%) had been delivered in the first quarter period. Details of the areas upon which time had been spent were provided.

Members were asked to note the progress made against the agreed 2013/14 Audit Plan.

Turning to the matter of previous Audit Recommendations, the Audit Manager reported that 3 methods were used by Internal Audit to ensure that all previous recommendations had been followed up, namely central monitoring; detailed audit follow ups; and cyclical audit reviews. She reported that there were 19 open recommendations; 6 were in progress and 13 which had insufficient information provided. With regard to the Data Quality Audit, the officer had provided Audit with a comprehensive written response which stated that most of the actions had been completed within the necessary timescales but the information had not been entered into the Covalent. The report would be updated to reflect the completed actions for the next meeting of the Committee.

The Audit Manager had been assured that the actions under the Bereavement Services Audit had been completed and she was awaiting further information to update the report.

The Committee stressed the importance of keeping the Covalent system updated in a timely fashion.

The Audit Manager further indicated that there were 4 audit reports for consideration by Members at this time. Guidance on the grading of audit recommendations, the audit follow up procedure and audit assurance ratings was attached at Appendix C.

She then outlined in some detail the content and ratings attached to the audit reports in respect of Fixed Assets; Creditor Payments; Carlisle and Currock Cycleway Project; and IT Business Continuity Planning. Copies were appended to the report.

The Committee gave in depth consideration to the completed audits, raising the following issues:

- Audit of Creditor Payments

The Financial Services & HR Manager reported that a reminder would be sent to all regarding recommendations 2 to 4 and the reminder would also direct staff to the Financial Procedure Rules. She added that the Corporate Purchasing System would affect the recommendations as many of the processes would become automated.

The Committee were concerned that officers were not complying with the Council's Financial Procedure Rules which could have an effect on the Council's budget. It was agreed that the Financial Services & HR Manager prepare a note for the Senior Management Team on the importance of the recommendations and informing them of the Committee's concerns.

- Audit of Carlisle and Currock Cycleway Project

There was concern that the project would not move forward and questioned the financing of the project and who had overall responsibility for it. The Audit Manager (Carlisle City) explained that the project sponsor was the Director of Local Environment. When funding was secured there would be a revised plan which would be considered by the Corporate Project Board.

- Audit of IT Business Continuity Planning

The Audit Manager drew Members attention to the IT Business Continuity Planning Audit which had a Partial Assurance evaluation. The main issue had been the lack of a comprehensive IT Continuity Plan which dovetails with the Corporate Business Continuity Plan. She stressed that parts of an IT Business Continuity Plan were in place and the IT service was supported by experienced staff. The lack of a comprehensive Plan had been acknowledged by the ICT Service and the IT team had been very reactive to the recommendations and established a Project Team to develop the Plan alongside other officers. She had also been informed that an Interim Business Continuity Plan had also been prepared.

Members had a number of questions regarding the IT Business Continuity Plan including who had ownership of the recovery plan, why it was not on the Risk Register, how did it tie in with the Corporate Business Continuity Plan and was there a budget for the recovery.

The Audit Manager informed the Committee that the IT Business Continuity Plan supported the Council's Corporate Business Continuity Plan; any budget required would depend on the scale of the disaster. Consideration was being given to including this matter on the Corporate Risk Register.

In conclusion, the Audit Manager requested that Members receive the report and note progress against the agreed 2013/14 Audit Plan.

RESOLVED – (1) That report RD.42/13 be received and progress made against the agreed 2013/14 Audit Plan referred to in Section 2 and as illustrated in Appendix A be noted.

(2) That the position on the follow up of previous audit recommendations, as outlined in Section 3, be noted.

(3) That the Audit Committee received the completed audit reports referred to in Section 4 of the report.

(4) That Senior Management Team reinforce the recommendations set out in the Audit of Creditor Payments to ensure officers were complying with the Council's Financial Procedure Rules.

(5) That the Audit Committee recommended that the progress regarding the delivery of the Carlisle and Currock Cycle Way project be regularly monitored by the Corporate Project Board.

AUC.54/13 TREASURY MANAGEMENT – APRIL TO JUNE 2013

The Chief Accountant submitted report RD.30/13 providing the regular quarterly summary of Treasury Management transactions for the first quarter of 2013/14, including the requirements of the Prudential Code.

He outlined the outstanding investments as set out in Appendix A3 in some detail and explained the colour coding system used by Sector, the Council's Treasury Advisors. He reported that due to the fall in interest rates the interest rate achieved on investments had significantly fallen they were, however, still above the base rate.

The Chief Accountant informed Members that the 'normal' risk score for investments was 3.5 and the Council's weighted average risk was at 3.8.

RESOLVED - That Report RD.30/13 be received and the good progress in terms of returns on monies invested be noted.

AUC.55/13 CORPORATE RISK MANAGEMENT

The Director of Governance presented report SD.05/13 providing an update on the Council's risk management arrangements. Details of the background and risk management and control environment were provided.

The Director of Governance informed Members that the Corporate Risk Register had been amended in line with the priorities contained within the Carlisle Plan 2013/15 and currently included eight corporate risks:

- Asset Business Plan – Disposal Strategy
- Asset Business Plan – Acquisition Strategy
- Delivering service objectives
- Income targets
- Addressing Carlisle's current and future housing needs
- Housing needs of vulnerable groups
- Workforce planning
- Improving industrial estate performance

Those risks are considered to be the significant risks in achieving the City Council's objectives for 2013/14. Each risk had been scored in accordance with the Council's risk matrix (in which the likelihood of any risk materialising is balanced against its potential impact) and mitigating actions identified for inclusion in the risk register which would be considered and scrutinised by the Resources Overview and Scrutiny Panel at their meeting on 10 October 2013.

Even with a sensible, reasonable and prudent approach to mitigation, the City Council was unable to eliminate risk completely and would be left with a residual risk. Such risk could be deleted from the Corporate Risk Register once the mitigating action had reduced the risk to an acceptable target level but they would continue to be monitored at service level via operational risk registers and, should the need arise, they may be escalated back on to the Corporate Risk Register.

In conclusion, the Director of Governance advised that there have been no risks identified through internal audit reviews which needed to be brought to Members' attention at this time.

The Committee considered a suggestion to amend the Corporate Risk register to include the name of the relevant Overview and Scrutiny Panel and agreed that the inclusion of the Panel would ensure matters were being scrutinised in the most appropriate manner.

RESOLVED – (1) That the Audit Committee had considered and noted the content of Report SD.05/13 as an indication of the continuing commitment and culture of sound governance arrangements for corporate risk management.

(2) That the Audit Committee agreed to receive reports on the effective development and operation of risk management on a six monthly basis.

(3) That the Audit Committee request that the Corporate Risk Register include the relevant Overview and Scrutiny Panel alongside the Portfolio Holder and Lead Officer.

[The meeting ended at 12.10pm]

RESOURCES OVERVIEW AND SCRUTINY PANEL

THURSDAY 10 OCTOBER 2013 AT 10.00AM

PRESENT: Councillor Watson (Chairman), Councillors Betton (from 10.25am), Bowman C, Craig, Dodd, Forrester (as substitute for Councillor Mrs Atkinson) Mallinson J (as substitute for Councillor Layden) and McDevitt

ALSO PRESENT Councillor Dr Tickner – Finance, Governance and Resources Portfolio Holder
Councillor Mrs Prest (for Agenda Item A.3) – Vice Chairman of Community Overview and Scrutiny Panel
Sharon Greenwell – Operational Support Manager, Wellwork

OFFICERS Town Clerk and Chief Executive
Director of Resources
Customer Services Manager
Development Officer
Corporate Project and Risk Management Officer
Policy and Performance Officer
Scrutiny Officer

ROSP.67/13 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillor Mrs Atkinson and Councillor Layden.

ROSP.68/13 DECLARATIONS OF INTEREST

There were no declarations of interest submitted.

ROSP.69/13 CALL-IN OF DECISIONS

There were no items which had been the subject of call-in.

ROSP.70/13 MINUTES OF PREVIOUS MEETING

RESOLVED – 1) That the minutes of the meeting held on 18 July 2013 be agreed as a correct record of the meeting and signed by the Chairman.

2) That the minutes of the meeting held on 29 August 2013 be noted.

ROSP.71/13 OVERVIEW REPORT AND WORK PROGRAMME

The Scrutiny Officer presented report OS.23/13 which provided an overview of matters that related to the work of the Resources Overview and Scrutiny Panel's work.

The Scrutiny Officer reported that:

- The Notice of Key Executive Decisions had been published on 27 September 2013 and the following issue fell within the remit of the Panel:

KD.025/13 Land Transaction Report - Proposed Disposal and Development of Land at Westwood Road, Morton - The Executive will be asked to consider options for the proposed development of land at Westwood Road, Morton and approve the release and disposal of the land at their meeting on 28 October 2013.

KD.026/13 Asset Review Business Plan - Disposal Programme - The Executive will be asked to consider and recommend changes to the Disposal Programme for approval by Council. The report will be available for the Panel at their meeting on 28th November.

Members did not raise any questions or comments on the items contained within the Notice of Key Decisions.

The Chairman reminded the Panel of the work of the Saving Paper Task and Finish Group and informed them that a meeting with the Finance, Governance and Resources Portfolio Holder had taken place to discuss the next steps. It was agreed that, although issues had moved forward there was still a lot that could be done to reduce costs and increase efficiencies.

The Finance, Governance and Resources Portfolio Holder agreed that more work was needed which fell out with the remit of the Panel, he suggested that Members of the Saving Paper Task Group recommended the reinstatement of the Corporate Environmental Working Group to look at a variety of savings across the authority including further paper savings.

The Panel felt that more could be done to improve the readability of reports on tablets, including the titles of reports, layout and content.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to this Panel (OS.23/13) be noted.

2) Following discussions with the Portfolio Holder for Finance, Resources and Governance and due to the success of the Scrutiny Task and Finish Group that the Corporate Environmental Working Group is re-established with representation from each Directorate. The Group should be tasked with identifying, developing and implementing environmentally sustainable initiatives including reducing paper and printing consumption within the City Council, energy use etc. The terms of reference would be agreed between the Town Clerk Chief Executive and the Portfolio Holder for Finance, Governance and Resources.

ROSP.72/13 TRANSFORMATION BOARD

The Director of Resources presented report SD.07/13 updating Members on the work of the Transformation Board.

The Director of Resources reminded the Panel of the purpose of the Board reporting that the delivery of the required savings of £1.38m for the financial year 2013/14 was virtually

complete and the outstanding items which totalled £48,500 would be added to a future year programme.

Work with Portfolio Holders had identified transformation initiatives to deliver the required savings of £760,000 during 2013. The Transformation Board had been assisting in co-ordinating savings initiatives within each Directorate, a detailed overview of the progress made against each Directorate was set out in the report.

He added that the 2013/14 budget had identified savings of £890,000 to be delivered from 2013/14. The 2014/15 budget deliberations would set out the reason for further savings requirements from 2014/15 onwards due to further reductions in RSG, additional National Insurance and pension costs.

Other transformation activities that had been closely monitored by the Transformation Board included the Automating Services project. The project aimed to move services from written, telephony and face to face contact towards electronic means. Phase 1 had focussed on Council Tax e-billing and Phase 2 would focus on Environmental Health, smarter use of media and taking self serve out to community venues.

The Project was on target to deliver further efficiencies through self serve modules. Procurement of an authentication module would allow easier sign up for services such as e-billing. Yewdale Community Centre had been identified as a pilot for self serve.

The Customer Services Manager and the Development Officer gave a detailed presentation on the Automating Services project highlighting the changes to the Council's internet pages and the advantages of e-billing and paperless direct debits. It was stressed that the new automated services would be additional to the services provided by the Customer Contact Centre. Face to face contact would still be available and it was that changes would enable Officers in the Contact Centre to focus on those who were most in need. The presentation showed the changes that would take place to the whole of the City Council website to move it to an interactive site which would be more user friendly and more accessible to smart phones and tablet devices. The presentation brought the updated Customer Contact Foyer to Members attention, in particular the introduction of two new self serve kiosks which were supported by the triage receptionists. One kiosk would be placed in Yewdale Community Centre as a pilot and two further kiosks had been purchased, their location was yet to be determined. Mobile kiosks were also being considered for rural areas to ensure everyone could access the Council's services.

In considering the update Members raised the following comments and questions:

- The Panel thanked the Customer Services Manager and the Development Manager for their informative presentation and congratulated them on the work that had been undertaken in the Customer Contact Centre.
- A Member asked for some clarity with regard to the introduction of the 2% charge for the use of credit cards.

The Town Clerk and Chief Executive clarified that the 2% charge for credit card use covered the Council's cost for the administration of the payment. There would be no charge for debit card payments and customers who paid by credit card were encouraged to take up direct debit payments.

- Members felt that the introduction of mobile self serve machines would be an invaluable addition especially for rural and scattered urban areas. It was also suggested that they could be used at various events that took place across the City to promote the services on offer.
- A Member had concerns with regard to the high cost of the 0845 number, especially to those that used mobile phones, and asked if there had been any consideration given to changing the number.

The Town Clerk and Chief Executive shared the concerns raised. He explained that the 0845 number had to be in place for security reasons to enable debit card payments to be carried out securely over the telephone. He had asked the Director of Resources to look urgently at establishing a 03 number for mobile phone users.

- The Finance, Governance and Resources Portfolio Holder asked if there was a way for Members to access the information coming into the Customer Contact Centre so that they could monitor the issues, comments or compliments that were coming into the Council.

The Customer Services Manager confirmed that there was a large amount of data available for members which would also be used to increase and improve service provision across the whole authority. She added that the CRM system recorded all the issues coming into the Council through the Customer Contact Centre and would flag up if an issue was still outstanding. The Customer Service Advisors also gave all customers their name and a reference number for future use.

- Had there been any resistance from partners regarding the access to services?

The Customer Services Manager responded that partners had been actively interested in working with the Council and highlighted the number of registered social landlords who had registered for e-billing.

- How would the savings from the move to automated services be calculated and recorded?

The Director of Resources explained that there would be two types of savings achieved from the changes. The first saving would be opportunity costs, an increase in the use of online services meant that the Customer Service Advisors had more time to deal with those that needed more support and advice and improve the service. The monetary savings would come as a result of less paperwork and postage as well as officer time. In the first year most of the savings would be opportunity costs opposed to actual savings.

The Town Clerk and Chief Executive added that the savings would allow the authority to invest in the Customer Contact Centre and continually improve the services offered.

- A Member asked about the security of the self serve kiosks especially if customers were entering personal data.

The Customer Services Manager explained that there would be staff on hand to assist customers in using the self serve kiosks if they so wished, the staff would move away from the customer when they were entering personal data. Staff would also advise customers to keep their personal information private and try and enter the information discreetly.

- The report showed a 50% reduction to the Parish Council and Village Hall grants, had there been any feedback on the change?

The Director of Resources reminded the Panel that the change came into force on 1 April 2013 and that traditionally the budget had been under spent. There had been no complaints received regarding the reduction.

RESOLVED – 1) That the update from the Transformations Board (report SD.07/13) be welcomed.

2) That the Customer Services Manager and the Development Officer be thanked for their informative presentation and through response to Members questions.

3) That the Panel was pleased with the direction of travel in the Customer Contact Centre and looked forward to the continued improvements.

ROSP.73/13 2013/14 SICKNESS ABSENCE REPORT – APRIL TO AUGUST 2013

The Town Clerk and Chief Executive presented report CE.10/13 setting out the authority's sickness absence levels for the period April to August 2013, 2012/13 benchmarking, Occupational Health usage statistics and other sickness absence related information.

The Town Clerk and Chief Executive reported that the authority had experienced an 18% reduction in absenteeism in 2012/13 compared to the previous year. This had been attributed to less stress related absences, revised attendance management policies and the introduction of a wider employee assistance programme.

He outlined the benchmarking and data which had been carried out and collated by North West Employers. Carlisle's sickness absence levels were fourteenth out of eighteen north west authorities, this was an improvement from last place in 2011/12 and the authority's year on year reduction went against the upward trend of days lost in other north west authorities.

The sickness absence levels split by directorate in the first five months of the current year showed a reduction of 22% compared to the previous year. Profiled over the year this would equate to a forecast of 7.1 days per FTE and would move Carlisle from fourteenth to sixth in the table of north west authorities.

The Town Clerk and Chief Executive drew Members attention to the Occupational Health and Employee Assistance Programme. The graphs included in the report provided a summary of the usage figures for the authority's Occupational Health provider Wellwork Ltd and the authority's Employee Assistance Programme which was provided by Health Assured. Pre Employment Questionnaires (PEQ) were conducted as part of a new employee's initial health screening and had been completed online since the end of last year. It was difficult to quantify usage as if there are no health issues a fitness certificate would be automatically generated through Wellwork's online system. He highlighted that an accurate total employee usage figure would not be provided if all categories were added together as some people may have used more than one service as part of the same issue. He added that the referrals were the number of initial referrals received and seen and not the total number of visits.

The Panel welcomed Sharon Greenwell, Operational Support Manager, Wellwork to the meeting.

In considering the sickness absence report Members raised the following comments and questions:

- A Member commented that the authority was doing well in terms of reducing sickness absence and asked how an authority had an average of 5.4 days per FTE and the City Council's average was 9.06 days?

The Finance, Governance and Resources Portfolio Holder reminded the Panel that the improvements made to the sickness absence within the Council was excellent. He stated that the Council carried out a number of services in house, such as green spaces and refuse collection, in house which caused an increase in sickness absence, authorities that were primarily office based would have lower absences. The reduction in sickness absence that had occurred in the first quarter of 2013 would reduce Carlisle's average from 9.06 to 7.1 and this was a direct result of the work that had been undertaken over the last eighteen months.

Ms Greenwell added that the Council differed from other authorities as it had managed to reduce the stress related illness. The Other musculo-skeletal problems had increased due to a variety of reasons including an ageing workforce and manual working. Overall the authority continued to improve.

- A Member reminded the Panel that some absence was caused by wider issues and were out of the control of the authority.

The Town Clerk and Chief Executive agreed and stressed that time and effort had been invested in the health and wellbeing of staff to improve their overall health and this included access to the Employee Assistance Programme which provided support outside of work. Members had consistently supported resources in health and wellbeing and basic skills training to ensure the balance of work and home life is achieved and that people had a good day at work.

RESOLVED – 1) That Sharon Greenwell be thanked for her input into the meeting.

2) That report CE.10/13 and the improvements made to sickness absences be welcomed.

ROSP.74/13 LOCALISATION OF BUSINESS RATES (BUSINESS RATED POOLING)

Pursuant to minute excerpt ROSP.60/13 the Director of Resources submitted report RD.38/13 giving an overview of the Localisation of Business Rates.

The Director of Resources reported that the introduction of the Business Rates Retention Scheme on 1 April 2013 had given Councils much greater control over the impact that Business Rates and Business Rates collection had on an area.

He reminded Members that previously the Council had collected all the Business Rates in its area and paid those over to the Government in their entirety. The Government then allocated the nationally collected Business Rates to each Council as part of the annual Formula Grant funding settlement.

From 1 April, however, Councils had been allocated a baseline level of funding as part of the formula grant which they could keep from the income they collected from Business Rates. Of the total income collected, 50% was returned to Central Government, 10% was allocated to the County Council and 40% to the District Council. The Government had then determined whether top-ups or tariffs would apply. For Carlisle, the 40% share related to £15.856 million in 2013/14, but a tariff was payable to Government of £12.942 million, meaning that the baseline was set at £2.914 million.

As a tariff authority, any growth which could be achieved in Business Rates income was shared on the same percentages, with a 50% levy payable to Central Government and 10% growth passed to the County Council. Safety nets were also in place to ensure that no authority suffered significant financial losses should income drop.

The Director of Resources explained that pooling combined the top-ups and tariffs of the individual authorities in the pool as though the pool was a single authority. The County Council was a top-up authority and the Cumbrian Districts were tariff authorities. A single levy rate and safety net threshold was calculated for the pool overall. Since a Cumbria pool would overall be a top-up authority, the pool would pay nothing in levy payments on rateable value growth compared to the total levy payments for individual member authorities. But it also increased the threshold for safety net payments.

The Director of Resources outlined the advantages in forming a pool, together with the governance arrangements, commenting that pooling was likely to be beneficial to Cumbria as the locally retained share of business rates was predicted to be higher than the Business Rates Baseline.

However, because pooling increased the safety net threshold, the pool would have to manage much larger losses before it would be eligible for safety net payments. An authority that expected to be below the safety net threshold would be better off remaining outside the pool. Due to the particular circumstances in Copeland (i.e. most of their rate income came from one business, Sellafield; and due to the impact of outstanding rating appeals the Council had, it was unlikely to benefit from pooling in the immediate future.

Members' attention was also drawn to Appendix 1 which presented scenarios to illustrate potential implications of pooling for Cumbrian authorities i.e. current baseline, 2% growth (Carlisle only), 2% growth across Cumbria (except Copeland) and 2% negative growth.

In terms of the way forward, Carlisle had made an initial decision to join a "pool" with the County and other Cumbrian Districts by 31 October 2013. Whilst the analysis set out at Appendix 1 suggested that Carlisle would benefit from pooling arrangements, several decisions would have to be made Cumbria wide to progress the initiative. Cumbrian Chief Finance Officers would produce proposals for discussion by Cumbrian Chief Executives on issues such as pool membership; how to distribute the shares of additional NNDR income retained in the pool (or sharing out any losses); governance arrangements; and other issues, including obtaining expert advice. A final recommendation on joining a pool would be made by the Executive as part of the 2014/15 budget deliberations.

The Executive considered the matter (EX.99/13) and resolved:

"That the Executive:

1. Agreed, in principle, to enter into pooling arrangements with other Cumbrian Authorities (as appropriate) under the Business Rates Retention Scheme for 2014/15 financial year.
2. Noted the arrangements being progressed to support the in principle decision set out in paragraph 3.1 of Report RD.38/13.
3. Noted that a final recommendation on whether or not to progress business rate pooling arrangements would be submitted to the Executive as part of the 2014/15 budget deliberations.”

The Director of Resources gave a presentation explaining the new arrangements and outlining the advantages and disadvantages of creating a Pool within Cumbria and the associated risks.

RESOLVED – 1) That the Director of Resources be thanked for his informative and detailed presentation.

2) That report RD.38/13 be noted.

ROSP.75/13 CORPORATE RISK MANAGEMENT

The Director of Resources presented report SD.06/13 giving an update on the Corporate Risk Register.

The Director of Resources reported that the Corporate Risk Register had been reviewed and updated and two new corporate risks had been added:

Asset Business Plan – Asset Disposal Strategy

There was a risk of substantial impact to the Council’s revenue position/MTFP and reinvestment plans if there was a significant delay in the disposal of assets. The impact would be quantified as part of the 2014/15 budget deliberations.

Asset Business Plan – Asset Acquisition Strategy

There was a risk that significant delays in acquiring new revenue producing assets would have a substantial impact on the Council’s revenue position during the current MTFP/budget process. The Capital Investment Strategy within the Asset Management Business Case would be reviewed and agreement sought from Executive/Council. The review would cover the key criteria and potential projects for investment including repayment of loans.

The Director of Resources outlined the risk that would remain on the Register and the two risks (Welfare Reform and Promoting Carlisle) which would be removed.

In considering the Corporate Risk Management report Members raised the following comments and questions:

- The Panel requested that an update on the Asset Review Business Plan be brought to the next meeting of the Panel. The update should include information on the assets sold, the returns on the assets before disposal and the reinvestment programme. The Panel had concerns regarding the Central Hotel building on Victoria Viaduct. They

asked for details of the transfer to the Crown, if it was possible to reclaim the money the Council had spent on making the building safe, the Order that was placed on the building and who had overall responsibility for the safety and future of the building.

The Director of Resources agreed to supply Members with a detailed written response.

RESOLVED – 1) That report SD.06/13 be welcomed;

2) That an update on the Asset Review Business Plan be brought to the next meeting of the Resources Overview and Scrutiny Panel.

3) That the Director of Resources provides a written response to the Panel's questions as set out above regarding the Central Hotel, Victoria Viaduct.

ROSP.76/13 MEMBER TRAINING REPORT 2012-13

The Finance, Governance and Resources Portfolio Holder presented report CE.08/13 updating the Panel on the progress made against the Member Learning and Development Framework.

The Finance, Governance and Resources Portfolio Holder gave an overview of the Member Learning and Development Working Group, Member Champions, Member/Leader Reviews, the North West Charter for Member Development and the Member Learning and Development Programme.

He reported that the 2012/13 budget for Member training was £14,300 and overall there had been an under spend at the end of the year of £4,339. The total spend on Member training in 2012/13 equated to £191 per Member compared to £273 in the previous year and was a result of Members choosing to attend more free courses such as ones in the ethical governance programme which were run by internal officers.

The City Council recorded the percentage of Members taking part in learning and development as performance indicator MI 905a and, in 2012/13, all Members took part in some form of learning activity. He did highlight, however, that only one Member had enrolled and completed an e-learning module.

In summing up the Finance, Governance and Resources Portfolio Holder felt that the changes made to Members Training had been very successful in reducing costs and improving attendance,

In response to questions the Finance, Governance and Resources Portfolio Holder reported that the Organisational Development Manager produced a quarterly newsletter for Members and any Member was welcome to contribute to the newsletter. He added that courses held in London were only attended if really necessary.

RESOLVED – That Report CE.08/13 be welcomed.

(The meeting ended at 11.50am)

RESOURCES OVERVIEW AND SCRUTINY PANEL

THURSDAY 28 NOVEMBER 2013 AT 10.00AM

- PRESENT:** Councillor Watson (Chairman), Councillors Allison, Mrs Atkinson, Craig, Dodd, Mallinson J (as substitute for Councillor Bowman S) and Ms Patrick (as substitute for Councillor McDevitt).
- ALSO PRESENT** Councillor Dr Tickner – Finance, Governance and Resources Portfolio Holder
Councillor Mrs Luckley (for Agenda Item A.2) – Chairman of Community Overview and Scrutiny Panel
- OFFICERS** Town Clerk and Chief Executive
Director of Resources
Director of Governance
Property Services Manager
Communities, Housing and Health Manager
Organisational Development Manager
Policy and Performance Officer
Scrutiny Officer

ROSP.77/13 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Bowman S, Layden and McDevitt.

ROSP.78/13 DECLARATIONS OF INTEREST

Councillor Mrs Luckley declared a registrable interest in accordance with the Council's Code of Conduct in respect of agenda item A.2 Asset Review Plan – refresh of Disposal Programme. The interested related to the fact that she was a City Council representative on the Riverside Carlisle Board.

ROSP.79/13 CALL-IN OF DECISIONS

There were no items which had been the subject of call-in.

ROSP.80/13 MINUTES OF PREVIOUS MEETING

RESOLVED – That the minutes of the meeting held on 29 August 2013 be agreed as a correct record of the meeting and signed by the Chairman.

ROSP.81/13 ASSET REVIEW BUSINESS PLAN – REFRESH OF DISPOSAL PROGRAMME

The Chairman welcomed Councillor Mrs Luckley, Chairman of the Community Overview and Scrutiny Panel to the meeting for the consideration of this item.

The Property Services Manager reported (RD.47A/13) that, in discussion with Portfolio Holders, Officers had undertaken a mid-term review of the Disposal Programme, stocktaking the current position in the light of progress, changing circumstances, and the emerging priorities in the Carlisle Plan 2013-2016 to address future housing needs.

Members' attention was drawn to the Disposal Monitoring Schedule (Appendix 1) which set out the current position and work in progress for each of the original 51 assets earmarked for disposal. Also shown (for those assets where sales had been completed) were the target receipts and actual outcomes; the impact on rental income and leases; and the cost to date of realising sales.

The Property Services Manager also summarised the overall position to date in terms of disposals, acquisitions and the impact on rental income. The cost to date of realising sales including marketing, agency fees and ancillary disbursements, amounted to circa £133k which at 2% of gross receipts was within budget targets.

A significant part of the Business Plan delivery, and the re-engineering of the Council's portfolio, hinged on the release and disposal of the latent value in the Council's retail and residential assets at Morton. There was a risk that delays in the disposal of that asset would have a substantial impact on the Disposal Programme, the capital reinvestment plans and revenue position of the Council. That had been recognised and identified on the Council's Corporate Risk Register and was being carefully monitored.

Turning to the issue of Housing priorities, the Property Services Manager indicated that The Carlisle Plan 2013-16 identified the delivery of housing as a priority action for the Council going forward. A number of sites earmarked for disposal in the original Disposal Programme (10 in total) had the potential, subject to market demand and planning to deliver residential development opportunities in the short to medium and longer term. That could be through the private sector, Registered Social Landlords, a mix of both or bespoke initiatives such as self build schemes.

Additionally a recent trawl of the operational portfolio had been undertaken to identify any vacant land, or assets which may become surplus to requirements in the future, and merit consideration for inclusion in the Disposal Programme as a 2nd Phase of asset sales, which potentially may be suitable for release as housing development land. The sift had resulted in a further 9 assets being identified for possible inclusion in the Disposal Programme, those were shown listed within the Disposal Monitoring Schedule Appendix 1 as "Phase 2".

Bringing forward land for residential development for sale in the market place was commonly a resource intensive and time consuming exercise. Much depended upon the planning situation, whether there was a current housing allocation, the prospect if at all for a future allocation and, if that could be realised, whether the timescale was in the short, medium or longer term.

The suitability of the 19 assets in the original Disposal Programme and "Phase 2" to deliver future housing needs had been assessed through a desk top appraisal by Planning, Housing and Property Officers. Site locations for all the assets involved were shown on the Plan, attached as Appendix 2, edged in red and shaded either green, red, orange or yellow. Land shaded light pink on the Plan highlighted the relationship of those sites with other land in Council ownership.

The desktop evaluation had looked at the pertinent criteria most likely to influence the ability to deliver land for residential development including inter alia current use and occupation, planning, site conditions and constraints, end users, value and market demand, and timescales. The conclusions from the exercise had been assembled and

tabled together; and were presented in Appendix 5 for comment, with a proposed recommendation in terms of disposal strategy and a pipeline delivery programme.

The Property Services Manager then outlined the Disposal Programme going forward, highlighting each of the appendices in turn.

The Executive had considered the matter on 28 October 2013 (EX.121/13 refers) and decided:

“That the Executive:

1. Noted the current position and progress with the Disposal Programme.
2. Had considered the proposed changes to the Disposal Programme, and the plans to bring forward potential housing development sites to meet the priorities of the Carlisle Plan, and address future housing needs, as set out in Report RD.47A/13, prior to passing the report to scrutiny for consideration.”

In considering the report Members raised the following comments and questions:

- A Member commented that, although he understood the financial situation and the current economic climate, he did not understand why properties which received a return of 10% had been sold and the capital received was then receiving a lower return in the bank. He reminded the Panel that Montagu Evans had recommended that the Council should not sell properties if they could not get a higher return than they were receiving.

The Property Services Manager reminded the Panel of the overall objective of the Plan to consolidate and rationalise the Council’s portfolio. He agreed that some of the smaller assets had given higher returns but they had been subject to a number of small individual leases which had been relatively expensive to manage and this had not been reflected in the gross returns set out in the Montagu Evans Report.

- A Member sensed some anxiety with regard to the Morton site and asked if the district centre in Morton would be reviewed if the supermarket deal did not proceed.

The Property Services Manager explained that there had been a number of bidders for the Morton site and the Council was hopeful that there would be a capital receipt for the site. He added that the turmoil in the retail market meant that budget expectations would need to be managed accordingly.

- A Member congratulated the Property Services Manager and his team for the excellent work that had been undertaken and asked for further details on some of the potential housing development sites set out in appendix 5 of the report. She was aware that there had been problems with the sites when previous applications for development had been considered.

The Property Services Manager responded that appraisals had been carried out on all of the sites listed and the results showed that potentially all of the sites could be developed and issues resolved with some work and help from partners.

The Communities, Housing and Health Manager assured Members that the analysis had taken into account feedback from developers and partners through the Carlisle Housing

Partnership. She added that there would need to be alternative thinking to progress the developments for housing especially regarding funding streams.

- A Member asked for clarity regarding the £563,000 loss of revenue which was 10.6% of the total gross receipt as set out in appendix 1 of the report.

The Property Services Manager explained that the £563,000 was the total rental loss at the end of all of the disposals which would be made up by the planned acquisitions as shown in the table on page 12 of the report.

In response to a Members question the Property Services Manager clarified the figures set out in appendix 1 of the report and reminded the Panel that the Asset Review Business Plan had to be considered in conjunction with the Local Plan especially with regard to housing development matters.

The Finance, Governance and Resources Portfolio Holder felt that the Panel were being overly negative with regard to the Asset Management Plan. He reminded that Panel of the current economic climate and highlighted the income that had already been generated by the excellent work carried out by Property Services. The liability to the Council had been reduced and the income from rentals had been increased. The 19 pieces of land which had been identified for housing purposes would create homes as well as jobs.

RESOLVED – That the Refresh of the Disposal Programme (Report RD.47A/13) be welcomed.

ROSP.82/13 OVERVIEW REPORT AND WORK PROGRAMME

The Scrutiny Officer presented report OS.27/13 which provided an overview of matters that related to the work of the Resources Overview and Scrutiny Panel.

The Scrutiny Officer reported that the Notice of Key Executive Decisions had been published on 15 November 2013 and the following issues fell within the remit of the Panel:

- KD.027/13 – Polling Station Review 2013/14 – The Executive would consider the matter at their meeting on 16 December 2013 and be asked to make recommendations to Council on polling arrangements within the City Council area.
- Items KD.026/13 Asset Review Business Plan, KD.030/13 Budget Process 2014/15 and KD.031/13 Review of Reserves and Balances had all been included in the agenda for this meeting.

Members did not raise any questions or comments on the items contained within the Notice of Key Decisions.

The Scrutiny Officer highlighted a question which had been raised at full Council regarding the scrutiny of the Corporate Risk Register. She explained that the Panel had agreed at their last meeting to scrutinise the Corporate Risk Register on a six monthly basis and it was next due before the Panel on 3 April 2014.

RESOLVED – That the Overview Report incorporating the Work Programme and Key Decision items relevant to this Panel (OS.27/13) be noted.

ROSP.83/13 BUDGET 2014/15

The Director of Resources gave a presentation to the Panel to assist Members in their consideration of the Budget 2014/15.

The Director outlined the Budget policy context, revenue projections, the main revenue assumptions which had been made, new spending pressures, savings proposals and income projections, potential revised revenue projections, proposed capital programme, capital resource projections and key Budget dates.

The presentation encompassed the following agenda items:

Minutes of the Community and Environment and Economy Overview and Scrutiny Panels

The excerpts of the minutes of the meetings of the Community and Environment and Economy Overview and Scrutiny Panels held on 19 and 21 November 2013 respectively were submitted for consideration.

2013/14 Revised Revenue Base Estimates and Updated Medium Term Financial Plan Projections: 2014/15 to 2018/19

Report RD.51/13 provided a summary of the Council's revised revenue base estimates for 2013/14, together with base estimates for 2014/15 and updated reserve projections to 2018/19. The base estimates had been prepared in accordance with the guiding principles for the formulation of the budget over the next five year planning period as set out in the Medium Term Financial Plan (MTFP) and Charging Policy; Capital Strategy; and Asset Management Plan agreed by Council on 10 September 2013. The report set out known revisions to the Medium Term Financial Plan projections, although there were a number of significant factors affecting the budget that were currently unresolved, and the Director of Resources reported on those key issues which included:

- (a) Government Finance Settlement - RSG and NNDR
- (b) Welfare Reform Act
- (c) Triennial Revaluation of the Pension Fund
- (d) Transformation

The Director of Resources informed Members that the potential impact of any new spending pressures and new savings identified was not reflected within the report, as there were a number of options for Member consideration. Decisions would need to be made to limit budget increases to unavoidable and high priority issues, together with maximising savings and efficiencies (and probable use of reserves) to enable a balanced budget position to be recommended to Council in February 2014.

He summarised the movements in base budgets and highlighted for Members the updated MTFP projections; the projected impact on revenue reserves; together with a summary of the financial outlook and budget discipline 2014/15 to 2018/19.

The Executive had considered the matter on 18 November 2013 (EX.128/13 refers) and decided:

“1. That the revised base estimates for 2013/14 and base estimates for 2014/15 be noted.

2. That the current Medium Term Financial Plan projections, which would continue to be updated throughout the budget process as key issues became clearer and decisions were taken, be noted.”

Summary of New Revenue Spending Pressures

Report RD.53/13 summarised the new revenue spending pressures and reduced income projections which would need to be considered as part of the 2014/15 budget process. All of the issues had to be considered in the light of the Council's corporate priorities.

The pressures were identified in the report. All of the pressures could not be accommodated within existing resources (including the use of reserves) and decisions would need to be made throughout the budget process to limit pressures to high priority and unavoidable issues to ensure that a balanced budget position was recommended to Council in February 2014.

The Executive had considered the matter on 18 November 2013 (EX.134/13 refers) and agreed that report RD.53/13 be received and forwarded to the relevant Overview and Scrutiny Panels for consideration as part of the 2014/15 budget consultation process.

Summary of New Saving Proposals and Additional Income

Report RD.54/13 summarised proposals for savings and additional income generation to be considered as part of the 2014/15 budget process. The Savings Strategy approved by Council on 10 September 2013 focussed on the following areas to deliver the savings required to produce a balanced longer term budget:

- (a) Asset Review;
- (b) Service Delivery Models; and
- (c) Transformation Programme.

The Director of Resources reported that, at this stage, the Executive and Overview and Scrutiny were being asked to give initial consideration to the new proposals for further permanent reductions in base expenditure budgets and also increases to income budgets from 2014/15 onwards. The requests needed to be considered in the light of the projected budget shortfall outlined in Report RD.51/13 and also the spending pressures in RD.53/13.

He summarised the proposed savings, and also highlighted the new savings proposals and additional income projections.

The Executive had considered the matter on 18 November 2013 (EX.135/13 refers) and decided:

“1. That the proposed reductions to the base budget from 2014/15 onwards, as set out in Report RD.54/13, be received and forwarded to the relevant Overview and Scrutiny Panels for consideration as part of the budget consultation process.

2. That it be noted that the Senior Management Team would continue to investigate efficiencies and savings in accordance with the Transformational Savings Strategy.”

In considering reports RD.51/13, RD.53/13 and RD.54/13 Members raised the following comments and questions:

- A Member asked for more detail with regard to 'Digital by Default'.

The Director of Resources explained that electronic Council Tax bills had been available for approximately five months. The Council had been concentrating on signing up new customers initially but the Digital by Default initiative would be moved forward and would result in all householders automatically receiving an electronic bill unless they opted for a paper bill.

- Was there scope to increase the recovery period with regard to the Pension Tri-annual Review?

The Director of Resources confirmed that it was a viable option to increase the recovery period up to 25 years and this had previously been considered. The current recovery period was 19 years and it was hoped that this period would be sufficient.

- Would the replacement street cleansing vehicles be leased or purchased?

The Director of Resources explained that the vehicles would last an extra year to allow for the completion of the Waste Services Review. It was cheaper to purchase the vehicles than to lease them and it was hoped that the savings achieved through the Review would be used to make the purchase of the refuse vehicles on an "Invest to Save" initiative.

- How would voluntary redundancy costs be covered if there was slippage in the leaving dates of staff?

The Director of Resources responded that the redundancy costs would be met from the 2014/15 salary costs to make a saving in 2015/16. If there was any delay in staff leaving the costs would have to be met from the Council's reserves.

- A Member asked if it would be a prudent time to borrow.

The Director of Resources responded that the "long term" borrowing rate was 4.4% compared to 0.5% on investments, if an asset investment gave an 8% return he would have advised the Council to consider borrowing.

- A Member had strong doubts with regard to the invest to save scheme at the Sands Centre.

The Town Clerk and Chief Executive reminded the Panel that there would be an opportunity for the scrutiny of the business case when it had been prepared. The scheme would only move forward if the business case showed clear savings that could cover any loan repayments.

- Cumbria County Council were preparing proposals to introduce on street car parking charges, how would this impact on the City Council car parking income?

The Director of Resources informed the Panel that the Director of Local Environment felt that the introduction of on street charges should have a positive effect for the City Council car parks.

RESOLVED – 1) That the budget overview be welcomed and reports RD.51/13, RD.53/13 and RD.54/13 be received.

- 2) That the Minutes of the Community and Environment and Economy Panel meetings be noted.
- 3) That the comments and concerns of the Committee as set out above be forwarded to the Executive for their consideration.

ROSP.84/13 REVIEW OF CHARGES

a) Local Environment

Report LE.30/13 setting out the proposed fees and charges for 2014/15 relative to those services falling within the responsibility of the Local Environment Directorate was submitted.

Referring to the issue of City Centre events and in view of the current economic climate, it was proposed to retain the current charge levels for 2014/15 as set out in Option 1, Table 1 to help maintain demand and the current budgeted level of revenue. Based upon anticipated usage, the proposed charges in Table 1 for 2014/15 would still meet the MTFP budget target requirement of £26,200.

A new charging structure for car parks had been introduced in March 2012 under which car parks were grouped into four categories to reflect the varying demand from users for each car park. No increases in charges had been made since that time, and the existing charges for each category of car park; together with proposed amendments to special event charges to reflect the daily charge for parking; and car park ticket sales were set out at Section 3.2 of the report.

The revised charging structure also included the introduction of Pay by Phone facilities. Table 3a showed that such measures had not prevented a continuing decline in Pay and Display ticket sales, although the introduction of Pay by Phone had helped. The ticket sales from car parks had declined by an average of 11% over the last 2 years.

The report also provided details of the existing Contract Parking Permit (Saver Parking Permits) charges and, as there were no proposals to change the standard parking charges, it was proposed that the contract parking charges remain unchanged.

It was further proposed to introduce a new charge of £6.00 per day for Builders Permits into the car parking scheme.

The summary of the car park ticket income over the last 2 years for the first 6 months of each year showed that the situation was more optimistic than with ticket sales. Overall income had increased by 1.2% in the past 12 months but still showed an overall fall of 6.3% over the last 2 years. If that improvement was sustained it may indicate the start of an upward trend. The economic situation had not yet shown much improvement and there was evidence to suggest that increasing charges would trigger a fall in car park usage. It was therefore proposed that charges remain unchanged for another year as set out in Table 2, at which time data would be available on whether the recovery in income had accelerated making an increase in charges more justifiable.

Three options for proposed increases in charges for football and rugby pitches, which were substantially in accordance with the MTFP target, were detailed at Tables 6, 7 and 8 – Option 2 being the Officer recommendation.

The report outlined the charging proposals for Waste Services and Street Cleansing (set out on pages 29 - 32 of the bound budget book).

It was noted that, due to low demand for bulky waste collections, it could be difficult to cover the costs of the service. Two options were therefore presented within the report.

Details of the proposed charges in relation to Allotments; use of Parks and Green Spaces; Play Area Inspection Fee; Talkin Tarn Car Parking / Other Charges; Bereavement Services; and Environmental Health were also provided.

With the exception of Talkin Tarn, the income from which was ring-fenced, acceptance of the charges highlighted within the report would result in an anticipated level of income of £2,415,000 against the Medium Term Financial Plan target of £2,539,000. That represented a shortfall of £178,000 against the MTFP target.

The Executive had considered the matter on 18 November 2013 (EX.129/13 refers) and agreed for consultation the charges as set out in Report LE.30/13 and relevant appendices with effect from 1 April 2014; noting the impact of those charges on income generation, as detailed within the report.

RESOLVED – That report LE.30/13 be received.

b) Community Engagement

The Director of Resources submitted report CD.53/13 setting out the proposed fees and charges for the Hostel services and Disabled Facilities Grants (DFGs) falling within the responsibility of the Community Engagement Directorate.

The Report gave an overview of the current position with regard to the provision of housing related support within the Hostel Services and outlined proposed charges for 2014/15. Pending Executive approval for the revised rent charges, a projected £30,000 deficit on the proposed 2014/15 revenue budget for the Hostels was highlighted. A further review of hostel expenditure would be undertaken to bridge the shortfall and ensure that expenditure was in line with the budget.

The report outlined details of the proposed DFG fees for 2014/15, highlighting the need to review the MTFP for DFGs to accurately reflect the income as part of a review in 2013/14.

The introduction of the hostel charges and DFG proposed fee charges were forecast to generate income of £516,500 and £123,800.

The Executive had considered the matter on 18 November 2013 (EX.130/13 refers) and agreed for consultation the increase in charges, as set out in Report CD.53/13, with effect from 1 April 2014; and noted the impact thereof on income generation as detailed within the report.

RESOLVED – That report CD.53/13 be received.

c) Economic Development

The Director of Resources submitted joint report (ED.35/13) setting out the proposed fees and charges for areas falling within the responsibility of the Economic Development

Directorate. The proposed charges related to Economic Development and Tourism; and Planning Services.

Acceptance of the charges highlighted within the report, with the exception of Building Control which was self financing, would result in an anticipated level of income of £595,600 against the Medium Term Financial Plan target of £595,600.

The Executive had considered the matter on 18 November 2013 (EX.131/13 refers) and agreed for consultation the charges, as set out in the relevant Appendices to Report ED.35/13, with effect from 1 April 2014; noting the impact those would have on income generation as detailed within the report.

A Member reminded the Panel that a Task and Finish Group had previously scrutinised the Enterprise Centre. As part of the scrutiny the Group had been informed that the Enterprise Centre would be re-roofed with a plastic coating which would have a 25 year guarantee. He asked if the work would be going ahead.

The Director of Resources explained that the plastic roofing was a short term solution which would allow the Council to give further consideration to the future of the Enterprise Centre.

Members commented that they supported the work that was being undertaken in the Enterprise Centre but agreed that the building was no longer suitable. They were satisfied that the occupancy rate had remained steady at 60% in such an uncertain climate.

RESOLVED – That report ED.35/13 be received.

d) Governance

The Director of Resources submitted report GD.55/13 setting out the proposed fees and charges for areas falling within the remit of the Governance Directorate.

The report outlined the proposed charges in respect of Electoral Registers; Minute Books, Room Bookings and Access to Information Requests; Health and Safety; and MOT charges.

The decline in land charges income was of great concern. In an attempt to maintain overall income levels the authority had adopted a policy of increasing charges annually. However, in view of the present economic climate and the presence of competitors in the market, it was recommended that the Council did not increase its fees for 2014/15.

The introduction of the proposed charges was forecast to generate income of £152,600 in 2014/15.

The Executive had considered the matter on 18 November 2013 (EX.132/13 refers) and agreed for consultation the charges as detailed within Report GD.55/13 and set out in Appendix A, with effect from 1 April 2014; and noted the impact thereof on income generation as detailed within the report.

RESOLVED – That report GD.55/13 be received.

e) Licensing

The Director of Resources submitted report GD.50/13 setting out the fees and charges for areas falling within the responsibility of the Licensing Section of the Governance Directorate. He advised Members that the Regulatory Panel had responsibility for determining the licence fees, with the exception of those under the Scrap Metal Dealers Act 2013, which fell to the Executive.

The Executive had considered the matter on 18 November 2013 (EX.133/13 refers) and decided

“That the Executive:

1. Noted the charges which would be submitted for consideration by the Regulatory Panel on 20 November 2013.
2. Had considered and approved the appropriate fees under the Scrap Metal Dealers Act 2013, as outlined at paragraph 4.7 and Appendix ‘A’(C) of Report GD.50/13.”

RESOLVED – That report GD.50/13 be received.

ROSP.85/13 REVISED CAPITAL PROGRAMME 2013/14 AND PROVISIONAL CAPITAL PROGRAMME 2014/15 to 2015/19

The Director of Resources submitted report RD.56/13 detailing the revised Capital Programme for 2013/14, together with the proposed method of financing. The report summarised the proposed programme for 2014/15 to 2015/19 in the light of the new capital pressures identified, and summarised the estimated and much reduced capital resources available to fund the programme.

Details of the current commitments and seven new spending proposals were provided.

The Director of Resources highlighted for Members the summary of the estimated resources available to finance the capital programme for 2014/15 to 2018/19. A summary of the estimated resources compared to the proposed programme year on year was also provided.

The Executive had considered the matter on 18 November 2013 (EX.136/13 refers) and decided

“That the Executive:

1. Noted the revised capital programme and relevant financing for 2013/14 as set out in Appendices A and B of Report RD.56/13;
2. Recommended that the City Council approve reprofiling of £710,000 from 2013/14;
3. Had given initial consideration to the capital spending requests for 2014/15 to 2018/19 contained in Report RD.56/13 in the light of the estimated available resources;

4. Noted that any capital scheme for which funding had been approved by Council may only proceed after a full report, including business case and financial appraisal, had been approved.”

RESOLVED – That report RD.55/13 be noted.

ROSP.86/13 CORPORATE ASSETS - 3 YEAR REPAIR AND MAINTENANCE PROGRAMME

The Director of Resources submitted report RD.58/13 setting out the maintenance programme and budget proposals for the Council’s Corporate Property assets for the three year period 2014/15 to 2017/18, required to ensure that the legal responsibilities of the City Council were met.

He reminded Members that local authorities had a duty to manage their property assets, particularly operational assets, in a safe and efficient manner which contributed to the quality of service delivery. The maintenance strategy was fully integrated with the Asset Management Plan and Environmental Policy. In addition, the Council followed good practice by, where practical, allocating its budget 70% planned maintenance and 30% reactive maintenance.

The revenue maintenance budget amounted to approximately £664,600 spread across a wide range of assets. In accordance with recommendation R6 in the 2012 Audit of Facilities Management the maintenance budgets for next year and those for the next three years (based on a continuation basis as set out in the Medium Term Financial Plan) were included at Appendix A. It was emphasised that, whilst the allocation was necessary for budget purposes, the Building Services Manager (authorised by the Director of Resources) could redistribute funding to meet specific or emergency needs. That element of flexibility was essential to avoid any service disruption.

The Director of Resources further reported that the Council had a capitalised major repairs and improvement programme with a provision of £300,000 included in the capital programme. That sum was allocated according to need, with priority being given to those projects with health and safety; legal compliance and preservation of assets arising from the five year plan.

Each Council asset had a 5-year maintenance programme and those were updated every year following inspection by the Facilities Team. The data collected was fed into the Asset Management Plan and was used to produce key performance indicators.

The Director of Resources then drew Members’ attention to the suggested prioritisation as set out in the Table at Section 2.1 of the report. He added that the maintenance backlog figure was currently £3.325m, being a reduction from the previous year’s figure of £3.66m.

The Executive had on 18 November 2013 (EX.137/13) considered the report and decided that:

“1. That the three year revenue maintenance programme set out in Appendix A to Report RD.58/13 be noted with the budget of £664,600 for 2014/15 considered as part of the budget process.

2. That the 2014/15 capital budget of £300,000 be noted for consideration as part of the budget process.

3. That the list of capital projects selected to meet the budget of £300k be noted.”

RESOLVED – That report RD.58/13 be received.

ROSP.87/13 TREASURY MANAGEMENT JULY – SEPTEMBER 2012 AND FORECASTS FOR 2013/14 TO 2017/18

The Director of Resources submitted report RD.55/13 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management estimates for 2014/15 with projections to 2018/19, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

The Executive had on 18 November 2013 (EX.138/13) considered and received the report.

RESOLVED – That report RD.55/13 be received.

ROSP.88/13 BACKGROUND FINANCIAL REPORTS

The following reports had been circulated to the Committee by way of background information:

- RD.52/13 – Revenue Budget Overview and Monitoring Report: April to September 2013;
- RD.50/13 – Capital Budget Overview and Monitoring Report: April to September 2013.

RESOLVED – That reports RD.52/13 and RD.50/13 be received.

ROSP.89/13 REVIEW OF RESERVES AND BALANCE

The Director of Resources reported (RD.60/13) that a fundamental review of all of the Council's reserves was last undertaken in 2003. It was therefore timely that, given current budgetary constraints, a further review be carried out to establish whether all current reserves held were still required. He further outlined the legislative and governance requirements relative thereto.

Reserves could be held for three main purposes:

- (i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – that formed part of general reserves;
- (ii) A contingency to cushion the impact of unexpected events or emergencies – that also formed part of general reserves; and
- (iii) A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

Members' attention was drawn to the current actual reserves held by the Council as at 31 March 2013, details of which were provided at Section 4.1 of the report.

The Director of Resources reiterated that, as there were significant budgetary pressures on the Council in the coming years, the reserves highlighted above had been reviewed to determine whether they were adequate, still required and whether any potential existed for

the release of any funds back to the General Fund. He added that certain reserves were still business critical, for example Welfare Reform, Transformation and Cremator Replacement. It was proposed that those reserves remain untouched at the present time.

Guidance in relation to the purpose of the various Reserves, and how and when they could be used was also provided at Section 5 of the report.

The Executive had on 18 November 2013 (EX.139/13) considered and received the report.

“That the Executive:

1. Had considered the level and type of reserves held by the Council, noting their designated use as outlined in Section 5 of Report RD.60/13, and;
2. Approved, for recommendation to Council, the release of the LSVT warranties reserve to the General Fund Reserve. “

RESOLVED – That report RD.60/13 be welcomed.

ROSP.90/13 CORPORATE PROGRAMME BOARD

The Town Clerk and Chief Executive presented report CE.14/13 providing an update on projects being delivered by Carlisle City Council.

The Town Clerk and Chief Executive drew Members attention to the dossier of projects detailed in the report, the majority of which were progressing to schedule. He highlighted the key activities in the last quarter including the completion of the Civic Centre Foyer Redesign, the Dalton Avenue contract was ready for the formal sign off and planning permission had been granted for the gypsy and traveller transit site.

RESOLVED – That the Corporate Programme Board Update, report CE.14/13, be received.

ROSP.91/13 QUARTER TWO PERFORMANCE REPORT 2013/14

The Policy and Performance Officer submitted report PC.20/13 updating the Panel on the Council’s service standards that helped measure performance and customer satisfaction. He also updated the Panel on key actions contained with the Carlisle Plan.

The Policy and Performance Officer reported that a new Service Standard would be introduced from the winter called Customer Satisfaction with Environmental Services. The Standard would be measured from customer feedback from the website and the Carlisle Focus magazine readers survey.

The Town Clerk and Chief Executive highlighted the additional narrative regarding the Corporate Plan which had been included in the report and asked the Panel if this information was helpful to them.

The Panel agreed that the additional information should remain in future reports and asked that additional information also be added to the Enforcement Update.

Members discussed the issues regarding dog fouling and fly tipping and made a number of suggestions to officers to help tackle the issues. The suggestions included the use of

spray paints and stencils in hot spot areas, highlighting dog fouling by spray painting and cameras in fly tipping areas

The Town Clerk and Chief Executive supported the ideas made by the Panel and agreed to gain further information on the legality of using cameras in fly tipping areas.

The Scrutiny Officer informed the Panel that the Environment and Economy Overview and Scrutiny Panel had considered the Quarter Two Performance Report and had asked for a further more detailed report on dog fouling and fly tipping.

RESOLVED – That the Quarter Two Performance Report 2013/14 (PC.20/13) be noted.

ROSP.92/13 ORGANISATIONAL DEVELOPMENT PLAN 2013-15

The Organisational Development Manager presented the Organisational Development (OD) Plan 2013-15 (CE.15/13) setting out key objectives, outcomes for employees, key actions and measures of success for organisational development issues.

The Organisational Development Manager reminded the Panel that the key actions set out in the Organisational Development Plan 2011-13 had been delivered and a new plan for 2013-15 had been developed. The new Plan reflected the vision and priorities of the Carlisle Plan and reference other organisation initiatives. The priorities were organisational culture, partnership working, a skilled workforce and health and wellbeing. The key actions had been prepared using actions from the previous plan, issues identified in the Employee Opinion Surveys and the need to making savings.

The Organisational Development Manager highlighted the work being undertaken against each of the key actions as set out in the report.

She informed the Panel of two events which would be taking place in December. The first was the Celebration of Learning event which would take place at Tullie House on 3 December, approximately 40 of the 100 staff who had achieved a qualification would be attending the event. The second event was a 'Wear your Christmas Jumper to Work Day' which would take place on 13 December 2013 in aid of Save the Children.

A Member asked if the City Council charged external people who attended City Council run courses and the Organisational Development Manager confirmed that the Council charged £60 per half day session and £120 per full day session.

A member asked if the Organisation Development team could investigate the possibility of a discount on mobile phone contracts for staff and Members. The Organisational Development Manager agreed to investigate the possibility with the Council's existing providers.

RESOLVED – That the Organisational Development Plan 2013-15 (CE.15/13) be welcomed.

(The meeting ended at 12.23pm)

RESOURCES OVERVIEW AND SCRUTINY PANEL

MONDAY 6 JANUARY 2014 AT 10.00AM

PRESENT: Councillor Watson (Chairman), Councillors Allison, Mrs Atkinson, Bowman S, Craig, Dodd, Ms Patrick (as substitute for Councillor McDevitt) and Layden.

ALSO PRESENT Councillor Dr Tickner – Finance, Governance and Resources Portfolio Holder
Councillor J Mallinson - Observer

OFFICERS Town Clerk and Chief Executive
Director of Resources
Scrutiny Officer

ROSP.01/14 APOLOGIES FOR ABSENCE

An apology for absence was submitted on behalf of Councillor McDevitt.

ROSP.02/14 DECLARATIONS OF INTEREST

Councillor Ms Patrick declared an interest in accordance with the Council's Code of Conduct in respect of Agenda Items A.3(a), (b)(i), (b)(ii) and (b)(iii) Budget 2014/15. The interest related to the fact that she was the Chairman of the Council's Audit Committee.

ROSP.03/14 CALL-IN OF DECISIONS

There were no items which had been the subject of call-in.

ROSP.04/14 MINUTES OF PREVIOUS MEETING

RESOLVED – That the minutes of the meeting held on 10 October 2013 and 28 November 2013 be agreed as a correct record of the meeting and signed by the Chairman.

ROSP.05/14 OVERVIEW REPORT AND WORK PROGRAMME

The Scrutiny Officer presented report OS.01/14 which provided an overview of matters that related to the work of the Resources Overview and Scrutiny Panel.

The Scrutiny Officer reported that the Notice of Key Executive Decisions had been published on 16 December 2013. The only item that fell within the remit of this Panel was KD.030/13 Budget Process 2014/15 which was on the agenda for this meeting.

The Scrutiny Officer drew the Panel's attention to Minute Excerpt EX.150/13 as set out in appendix 2 of the report. The Excerpt detailed the response of the Executive to the comments made by the Overview and Scrutiny Panels in response to the first round of Budget scrutiny, namely:

“That the Overview and Scrutiny Panels be thanked for their consideration of the draft Budget reports; and their comments, as detailed within the Minutes submitted, would be taken into account as part of the Executive’s deliberations on the 2014/15 Budget.”

The minutes of the Scrutiny Chairs Group held on 12 December had been included in the report. The Scrutiny Officer highlighted minute 11/13 and informed the Panel that the options set out in the minutes would be put into action to increase public awareness of Overview and Scrutiny.

The Chairman also raised minute 14/13 which looked at the structure of Scrutiny. The Group had agreed to ask their relevant Groups for feedback on the future of Scrutiny and the Scrutiny Officer would gather further information on available models and everyone would report back to the next meeting on 6 February 2014.

The Scrutiny Officer drew Members attention to the Work Programme and the high number of monitoring reports which were scheduled for the February meeting. She also asked Members to consider areas for Task and Finish work to be discussed at the next meeting.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to this Panel (OS.01/14) be noted.

2) That the decision of the Executive (EX.150/13) be received.

3) That the minutes of the Scrutiny Chairs Group held on 12 December 2013 be noted.

ROSP.06/14 BUDGET 2014/15

(1) Executive Draft Budget Proposals 2014/15

There was submitted the Executive draft Budget proposals 2014/15 which had been issued for consultation purposes.

The draft Budget proposals comprised –

Section	Detail
A	Background and Executive Summary
B	Revenue Budget 2013/14 to 2018/19 <ul style="list-style-type: none"> • Schedule 1 - Existing Net Budgets • Schedule 2 - Proposed Budget Reductions • Schedule 3 - Recurring Budget Increases • Schedule 4 - Non-Recurring Budget Increases • Schedule 5 - Summary Net Budget Requirement • Schedule 6 - Total Funding and Provisional Council Tax
C	Capital Programme 2013/14 to 2018/19 <ul style="list-style-type: none"> • Schedule 7 - Estimated Capital Resources • Schedule 8 - Proposed Capital Programme • Schedule 9 - Summary Capital Resource Statement
D	Council Reserves Projections to 2018/19 <ul style="list-style-type: none"> • Schedule 10 - Usable Reserves Projections

E	Budget Discipline and Saving Strategy
F	Statutory Report of the Director of Resources
G	Glossary of Terms

The draft Budget proposals were based on detailed proposals that had been considered by the Executive over the course of the last few months. In particular, reports of the Director of Resources considered at the Executive meeting of 16th December 2013.

The Finance, Governance and Resources Portfolio Holder reported that the budget proposals assumed that significant savings must be found within the next five year period; £3.939million in total, with £1.839million to be found by 2015/16 with £2.1million in later years.

The Executive had a history of achieving savings, having identified and achieved approximately £6million since 2010/11. That was due to cuts in funding from central Government.

Despite having to make these savings, which included an approximate 38% reduction in Government grant, due to prudent financial management, the Council had a sound financial base upon which to set its 2014/15 budget. The Executive was still able to deliver on their proposals despite savage cuts.

The Executive's budget:

- Had frozen car parking charges for the third year running
- Maintained the Council's ambitious capital programme including the Arts Centre
- Provided additional funding for Council events in promoting Carlisle
- Maintained the popular 'Clean Up Carlisle' initiative, which had been well received by businesses and the community
- Supported the recruitment and development of four new apprentices for a two year period

It was with some reluctance that the Executive required to recommend a 1.99% increase in Council Tax for 2014/15 after four years of maintaining a council tax freeze.

(2) Background Information reports

(a) Revenue Estimates: Summary of Overall Budgetary Position 2014/15 to 2018/19

The Director of Resources submitted report RD.62/13 summarising the Council's revised revenue base estimates 2013/14, together with base estimates for 2014/15 and updated projections to 2018/19. The report had been updated since the Executive meeting in November 2013 and set out the potential impact of new savings and new spending pressures currently under consideration, together with the potential impact on the Council's overall revenue reserves.

He added that it was clear, even at this stage of the budget process, that all of the pressures currently identified could not be accommodated without identifying additional savings. Decisions would need to be made to limit budget increases to unavoidable and high priority issues, together with maximising savings and efficiencies.

The Director of Resources informed Members that there were still a large number of significant issues affecting the projections that were not yet known, but which were nonetheless key to the Council's budget process including the Government Finance Settlement – RSG and NNDR; Welfare Reform Act; Triennial Revaluation of the Pension Fund; and Transformation.

The decision of the Executive on 16 December 2013 (EX.151/13) was:

“That the Executive:

1. Noted the updated budget projections for 2013/14 to 2018/19, and made recommendations in the light of the budget pressures and savings submitted to date, together with the potential use of balances and reserves, in order to issue a draft Budget for consultation purposes.
2. Approved, for recommendation to Council as part of the budget process, the 2014/15 Local Support for Council Tax Scheme.”

(b) Provisional Capital Programme 2014/15 to 2018/19

The Director of Resources submitted report RD.65/13 providing revised details of the capital programme for 2013/14, together with the proposed method of financing. He informed Members that a Corporate Programme Board of senior Officers continued to take the lead on the prioritisation of investment and the monitoring and evaluation of schemes, with a view to improving performance monitoring and business case analysis of capital projects.

The report also summarised the proposed programme for 2014/15 to 2018/19 in light of the capital pressures identified; and summarised the estimated capital resources available to fund the programme.

The decision of the Executive on 16 December 2013 (EX.152/13) was:

“That the Executive:

1. Noted the revised Capital Programme and relevant financing for 2013/14 as set out in Appendices A and B of Report RD.65/13.
2. Recommended that Council approve reprofiling of £710,000 from 2013/14.
3. Made recommendations on the Provisional Capital Programme for 2014/15 to 2018/19 in the light of the capital bids submitted to date, together with the estimated available capital resources for budget consultation purposes.
4. Noted that any capital scheme for which funding had been approved by Council may only proceed after a full report, including business case and financial appraisal, had been approved.”

(c) Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy 2014/15

The Director of Resources submitted report RD.63/13 setting out the Council's Treasury Management Strategy Statement for 2014/15 in accordance with the CIPFA Code of Practice on Treasury Management.

He informed Members that the Investment Strategy and the Minimum Revenue Provision Strategy for 2014/15 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

The decision of the Executive on 16 December 2013 (EX.153/13) was:

“That the Executive approved the draft Treasury Management Strategy Statement for 2014/15 incorporating the Investment Strategy and Minimum Revenue Provision Strategy, together with the Prudential Indicators for 2014/15 for draft Budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D to Report RD.63/13.”

In considering the Executive's draft Budget proposals 2014/15 and supporting reports Members raised the following comments and questions:

- The Executive's budget proposals stated that “the consultation responses will be considered by the Executive and Resources Overview and Scrutiny Panel in January”. The Resources Overview and Scrutiny Panel did not get the opportunity to scrutinise the consultation responses as stated in the document. The Panel Members felt that they should be given the opportunity to scrutinise the responses to enable them to give accurate advice on the budget to the Executive or the document itself should be changed to accurately reflect the actual process.

The Director of Resources agreed that the wording in the document was incorrect and that the text actually referred to the scrutiny of the budget documents at this meeting. He explained that the timetable did not allow for the consultation responses to come back to Overview and Scrutiny before the Executive meeting in January. He reminded the Panel that they would have the opportunity to see the consultation responses alongside the Executive's final budget proposal at full Council.

The Town Clerk and Chief Executive added that a special meeting of the Panel could be arranged to consider the consultation responses if the Panel so wished or the Chairman of the Panel could attend the consultation meetings.

- What was the difference between the 1.99% increase in Council Tax and the Council Tax Freeze Grant settlement?

The Director of Resources explained that the Council Tax Freeze Grant was non-recurring and when it stopped there would be a shortfall in income as the Council had not increased the Council Tax for four years

- A Member asked for clarity with regard to the funding for the moving of the swimming pool.

The Director of Resources clarified that it was proposed that the Council would take a 25 year mortgage to move the swimming pool into the Sands Centre so that there was one leisure facility to run. It was hoped that this would result in a saving on the leisure contract that would pay for the mortgage. The business case would also look at the best way of borrowing the £5m and would include looking at internal borrowing.

The Town Clerk and Chief Executive reminded Members that the swimming pool was subject to a business case and approval by Members. If it was possible to borrow the money over 25 years and reduce the management fee by at least £250,000 to off set the mortgage then it would be a feasible business case. If this could not be achieved alternative solutions would have to be considered.

- A Member asked for clarity with regard to the Voluntary Redundancy initiative, the Transformation savings and the Council's reserves.

The Director of Resources reported that there was a saving of £1.89m to be achieved in 2015/16 which was addressed by the 2014/15 budget reports. It was proposed that up to £1m would be achieved through the Voluntary Redundancy initiative, £250,000 achieved from the reduction in grants and further savings achieved by initiatives such as Digital by Default. The Transformation Board would then look to make the necessary savings to achieve any shortfall in the £1.89m savings.

The Director added that Appendix 1 of the Budget proposals gave a detailed overview of how the Council's minimum reserve provision was calculated.

The Finance, Governance and Resources Portfolio Holder added that it was difficult yet necessary for the Council to find creative ways to deliver services and to keep an ambitious capital programme scheme to help Carlisle grow.

- Members valued the Small Scale Community Fund but it had not been included in the Executive's budget proposals.

The Finance, Governance and Resources Portfolio Holder confirmed that the Fund had not been included but it was being considered.

- Was the Voluntary Redundancy initiative on target?

The Director of Resources responded that there had been several applications submitted and significant savings were expected. Some of the applications would impact on services so the £1m target would not be reached. There would be a special Senior Management Team meeting on 13 January and Joint Management Team meeting on 20 January 2014 to discuss the applications.

- A Member asked for clarification with regard to Note 4 of Schedule 8 of the Executive's budget proposals which stated that the provision for acquisitions had been removed from the budget.

The Director of Resources reminded the Panel that the original Asset Management Plan had intended to sell and purchase assets. The Council had sold some assets but had not had the opportunity to make acquisitions which had a good return. The acquisitions had been removed from the Capital Programme until the opportunity to make good acquisitions arose.

- A Member asked if the Business Rates growth was still estimated at £600,000 as set out in Schedule 6 of the budget proposals.

The Director of Resources explained that the estimated additional £600,000 growth from Business Rates had been calculated before the Autumn Statement and this figure had now been amended to £500,000.

- Was the Existing Non Recurring Commitment Approval for the Lanes Income as set out in Schedule 5 a shortfall?

The Director of Resources reported that the £138,000 Lanes income was a shortfall but the Lanes management were negotiating good deals with tenants to keep the units full.

- Did the £170,000 shortfall in car parking income reflect a reduction in usage?

The Director of Resources explained that, on the advice of consultants, the car parking charges had been reduced with the intention that the use of car parks would increase. The changes had stopped the decline but had not resulted in an increase in usage. The Director of Local Environment was to review the car parks charges and usage again in 2014.

The Finance, Governance and Resources Portfolio Holder highlighted national issues with regard to car parking because of the change in patterns of retail.

RESOLVED – 1) That the Director of Resources make the necessary changes to the Consultation Responses section of the Executive's Budget Proposals to accurately reflect the budget consultation process.

2) That the comments and concerns of the Committee as set out above regarding the Executive draft Budget Proposal be forwarded to the Executive for their consideration.

3) That reports RD.62/13, RD.65/13 and RD.63/13 be welcomed.

(The meeting ended at 10.45am)



The Annual Audit Letter for Carlisle City Council

Year ended 31 March 2013

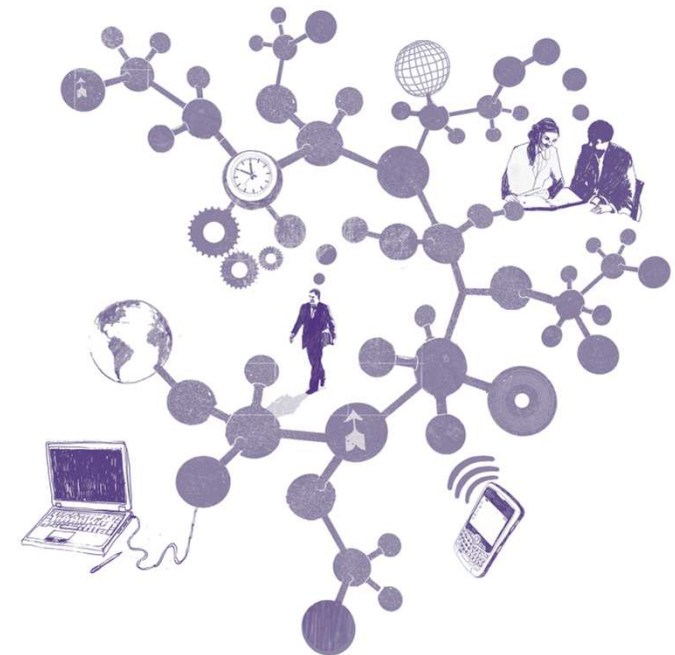
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Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Carlisle City Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 26 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission www.audit-commission.gov.uk

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 27 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the Council's Whole of Government Accounts submission
- we have certified the National non-domestic rates return without amendment. Work is on-going on the Housing benefit and council tax benefit claim and we will need to issue a qualification letter.

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

- For Carlisle City Council the financial impact of the Comprehensive Spending Review (CSR) 2010 equated to a £3.011 million reduction in central government support for the lifetime of the review (a 28% total reduction in the four year period). It is likely that the 2013 Spending Round, which announced a further 10% funding reduction, could cost the Council an additional £260,000 per annum from 2015/16.

-
- The reductions in central government funding has been a significant financial challenge for the Council. Savings have been spread over the next four years as a way of maintaining the Council's future financial health. However the temporary use of revenue reserves to cushion the funding cuts has been necessary, these falling below minimum levels the Council had set as a target in 2013/14 and 2014/15, before increasing again. Members will need to closely monitor the general fund balance position.
 - Our work on financial resilience identified the need to improve the profiling and delivery of the capital programme and to forecast the year end revenue and capital outturn from quarter two onwards. This will allow Members to provide further challenge on forecasting and delivery.
 - Our work on economy, efficiency and effectiveness has highlighted that in 2012/13 public reporting of performance has been limited. There needs to be clear arrangements in place to publically report performance against the Carlisle Plan 2013-2016. Members will also need to ensure that Internal Audit recommendations to improve contract monitoring arrangements for outsourced contracts are implemented.
 - We identified two significant inconsistencies in the accounts which required amendment. Ensuring that Quality Assurance (QA) procedures include internal consistency checks between the financial statements and agreement with grants, returns and other information will help minimise potential errors in the accounts.

Acknowledgements

This Letter has been agreed with the Director of Resources and the Financial Services and HR Manager and will be as presented to the Audit Committee on 24 January 2014.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: *Audit of the accounts*

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Good quality working papers were made available from the start of the audit fieldwork, which commenced on 1 July 2013.

Issues arising from the audit of the accounts

We did not identify any adjustments which would affect the Council's reported financial position. However, we made two significant amendments to correct misclassification errors in the Collection Fund and Trading Services income and expenditure. We also made a number of adjustments to improve the presentation of the financial statements and ensure that they fully comply with the Code of Practice on Local Authority Accounting 2012/13.

Annual governance statement

The Annual Governance Statement (AGS) was based on the updated draft CIPFA / SOLACE Delivering Good Governance in Local Government guidance issued in August 2012. However the guidance was finalised in an Addendum in December 2012 and included several more areas which were included in an updated AGS within the audited accounts.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 26 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 27 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control

Our work highlighted the Council had adequate systems and processes in place to manage financial risks effectively. This has helped it secure a stable financial position that enables it to continue to operate for the foreseeable future. Our work identified that the Council's General Fund balance at 31 March 2013 was £2.542 million and that will not reach its target level of £2.6 million until the 31 March 2015. We also identified the need to improve the profiling and delivery of the capital programme and to forecast the year end revenue and capital outturn from quarter two onwards. The details of our findings can be found in our separate report 'Review of the Council's arrangements for securing financial resilience for Carlisle City Council' issued in September 2013.

Challenging economy, efficiency and effectiveness

We reviewed whether the Council had prioritised its resources to take account of the tighter constraints it is required to operate within and whether it had achieved cost reductions and improved productivity and efficiencies.

Our work highlighted that the Council's 'Transformation Programme' has provided a good basis for its strategic approach to delivering spending reductions. Some benchmarking has been undertaken to compare Carlisle's 2011/12 position against the district council average and historic cities group. Our work identified that public reporting of performance has been limited to an assessment against five service standards but there needs to be an improved focus on how performance against the Corporate Plan is reported. Internal Audit has highlighted the need to improve contract monitoring arrangements for outsourced contracts.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Certification of grant claims and returns

Summary of progress to date

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Our work on certification of grant claims is on-going. We certified the National non-domestic rates return on 24 September 2013 without amendment or the need for a qualification letter. Work is on-going on the Housing benefit and council tax benefit claim but errors identified in the initial testing of cases means further testing is required and a qualification letter will be needed. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	70,153	70,153
Grant certification fee	22,150	22,150
Total fees	92,303	92,303

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013
Certification report	December 2013 (Estimate)



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Audit Committee Update for Carlisle City Council

Year ended 31 March 2014

January 2014

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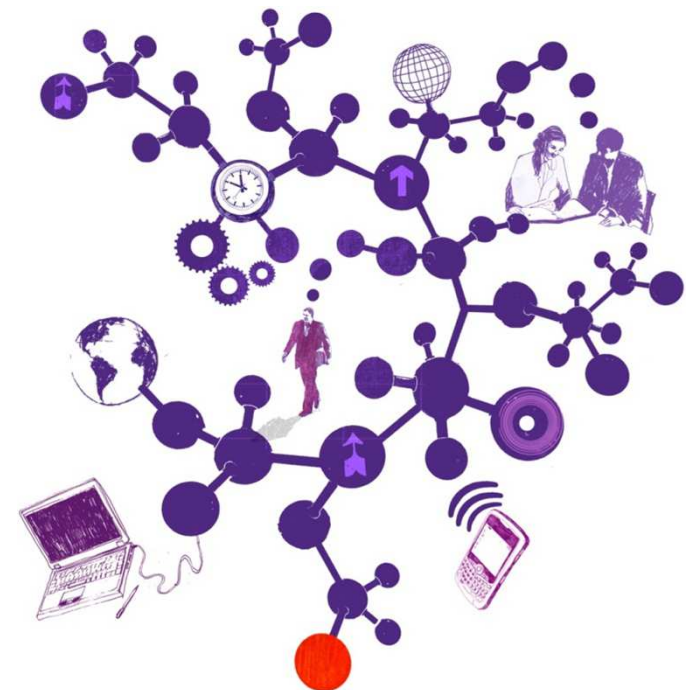
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a district council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publication:

- Local Government Governance Review 2013
- 2016 tipping point - Challenging the current
- Towards a tipping point
- The migration of public services
- The developing internal audit agenda
- Preparing for the future
- Surviving the storm: how resilient are local authorities?

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at 13 January 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	April 2014	No	The Audit Plan will include the results of the interim visit. The interim visit work is scheduled to be completed by mid April 2013. The Plan will be presented to the next Audit Committee after that date. This report provides an update on current progress, highlights emerging issues and gives the Audit Committee an understanding of the audit process at Grant Thornton.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment including Information Technology (IT) • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January to April 2014	Partial	<p>Work on the interim audit is scheduled to be completed by mid April 2014. We will discuss with Officers the key financial systems for which we need to gain an updated understanding for 2013/14.</p> <ul style="list-style-type: none"> • We will meet with senior finance staff and internal audit to assess the internal control environment. • An Information Technology risk assessment was undertaken by a Grant Thornton IT specialist. • We will complete our initial risk assessments for our Value for Money Conclusion.
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	1 July 2014 to early September 2014	No	<p>We will have discussions with the Financial Services & HR Manager and other Senior finance staff on key accounting and audit issues to assist the smooth running of the final accounts audit.</p> <p>We will provide a local government final accounts workshop in February or March 2014.</p>

Progress at 13 January 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • Securing Financial Resilience <ul style="list-style-type: none"> - Financial Governance - Financial Planning - Financial Control • Securing Economy, Efficiency and Effectiveness <ul style="list-style-type: none"> - Prioritising Resources - Improving Efficiency and Productivity • An output from this work is a 'financial resilience' report for the Council which will be a summary of: <ul style="list-style-type: none"> - the Council's comparative position in terms of key financial ratios - progress on implementing the recommendations from our 2012/13 report - identification of, and recommendations on, areas for improvement in 2013/14 	<p>By early September 2014</p>	<p>No</p>	<p>There are no significant changes in approach to the VfM conclusion work from that carried out in previous years. However, there is continued emphasis on financial resilience with a separate report produced on this for your Council. It will be reported in September alongside the ISA+ 260 Audit Findings Report.</p> <p>Our detailed VfM risk assessment will direct the work we carry out.</p>

Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published '[Income from charging: Using data from the VFM Profiles, September 2013](#)'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Issues to consider:

- When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?
- Do your officers monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the Council's financial objectives and complying with legal requirements?
- Has the Council reviewed its charging policy and levels of income against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published '[Business rates: using data from the VFM profiles October 2013](#)'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Issues to consider:

- Has the Council reviewed its costs and performance against similar organisations?
- What steps could the Council take to increase the amount it collects from business rates?
- Is an action plan in place?
- Has the Council made a robust estimate for its provision for business rate appeals?

Emerging issues and developments

Grant Thornton

Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide people are not in a position acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Issues to consider:

- Does the Council have a properly functioning procurement process, where duties are clearly segregated?
- Does the Council maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

Issues to consider:

- How are you planning to improve the preparation of your financial statements for 2013/14?
- Do your financial statements provide a clear overall picture of the financial performance of the Council?
- Has your finance team carried out a de-cluttering exercise to ensure that disclosures are relevant, material and up to date?

Emerging issues and developments

Accounting and audit issues

Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.

Issues to consider:

- Has your finance team reviewed the proposed amendments to the 2014/15 Code and assessed the potential impact?

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Issues to consider:

- Are both your finance team and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- Has your finance team reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure the Council complies with other aspects of the Code requirements?
- Where the Council is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Issues to consider:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect the Council?



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Report to Audit Committee

Agenda
Item:

A.4

Meeting Date: 24 January 2014
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: FINAL ACCOUNTS PROCESS 2013/14
Report of: DIRECTOR OF RESOURCES
Report Number: RD72/13

Purpose/Summary:

This report provides information regarding the 2013/14 Final Accounts process with a summary of the key issues arising from the previous year's process and how these issues have been addressed. The report also includes the accounting policies that will be used in the closedown of the 2013/14 accounts.

Recommendations:

Members are asked to note the report and to consider the accounting policies to be used in the preparation of the 2013/14 accounts.

1. BACKGROUND

- 1.1 The Accounts and Audit Regulations 2011 require that the City Council's Statement of Accounts for 2013/14 be submitted to a relevant body of the Council (the Audit Committee) for approval by 30 September 2014. Prior to formal approval, the S.151 Officer is required to sign the accounts off by 30 June. Members should note that these accounts are based upon information contained within the provisional out-turn reports which are presented to the Executive and Resources Overview and Scrutiny Committee in early June.
- 1.2 The External Auditors (Grant Thornton) will commence its audit of the Accounts in early July, which must be completed by 30 September. The Auditors will then produce its Annual Audit Findings Report. This report, which summarises the audit work undertaken, conclusions reached and any subsequent recommendations, will be considered by the Audit Committee at its September meeting. The Director of Resources may provide a response report to that same meeting.
- 1.3 The Auditors will issue their Audit Certificate and formal opinion on the accounts once the Audit Committee has approved the Findings Report. The Accounts must then be published and will be available in hard copy and on the Council's website.
- 1.4 In order to provide a set of Accounts by these deadlines which are also in accordance with relevant Codes of Practice, Regulations and Guidance, the final accounts process commences in January with the production of an internal timetable for the completion of the various tasks involved. This timetable is monitored by Financial Services officers and progress reported to the Senior Management Team throughout the final accounts process as it is essential that a corporate approach be taken to achieve a set of Accounts which gives a true and fair view of the financial position of the Authority.

2. IMPROVEMENTS

2.1 The 2012/13 Annual Audit Findings Report considered by the Audit Committee on 26 September 2013 acknowledged continuing significant improvements in the final accounts process compared to previous years. However it also set out two recommendations in respect of the final accounts process, namely;

- **Ensure that Quality Assurance (QA) procedures include internal consistency checks between the statements and agreement with other grants and returns. This would highlight errors such as the incorrect disclosure of capital expenditure and the NNDR figures in the Collection Fund not agreeing to the NNDR3 claim.**

The QA process will be strengthened to ensure that the statements agree to prime records and that all disclosure notes are consistent.

- **Ensure the Annual Governance Statement published within the financial statements is compliant with the latest guidance.**

Relevant guidance will be reviewed to ensure compliance.

3. SUMMARY OF THE CHANGES ARISING FROM THE 2013 CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

3.1 The main change for 2013/14 year end is the changes required to the Collection Fund for the new Business Rate Retention Scheme. There are also changes to the way pension costs are accounted in line with changes to IAS19 (International Accounting Standard). Further guidance on the accounting treatment for these two issues will be provided in the CIPFA year end LAAP bulletin.

4. ACCOUNTING POLICIES

4.1 The existing Statement of Accounting Policies has been reviewed to reflect the changes in the 2013 Code of Practice and also to provide further explanation of other existing policies. These are attached at **Appendix A** and are based upon the Code of Practice. Members are asked to consider the accounting policies as outlined to provide the basis for the preparation of the 2013/14 Accounts.

4.2 To facilitate Members understanding of the accounts, the accounting policies and the main changes required as a result of the 2013 Code of Practice, a training session is proposed for Members in June/July.

5. RECOMMENDATIONS

Members are asked to note the report and to consider the accounting policies to be used in the preparation of the 2013/14 accounts.

Contact Officer: Steven Tickner **Ext:** 7280

Appendices attached to report: Appendix A – Draft Accounting Policies 2013/14

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Economic Development – not applicable

Governance – The Audit Committee's terms of reference require it to consider the Council's compliance with its own and other published standards and controls and to consider whether appropriate accounting policies have been followed.

Local Environment – not applicable

Resources – contained within body of the report

Draft Accounting Policies 2013/14

4.0 Accounting Policies

4.0.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

4.0.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as work in progress and included within inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

4.0.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

4.0.4 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

4.0.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

4.0.6 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover these costs but is required to make an annual contribution to reduce its overall borrowing requirement. This is known as the Minimum Revenue Provision and is calculated as 4% of the Council's capital financing requirement at the start of the financial year. Depreciation, impairment losses, revaluation losses and amortisations are therefore replaced by a revenue provision in the Movement in Reserves Statement by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

4.0.7 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not

taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Cumbria County Council.

The scheme is a funded defined benefit scheme meaning that the scheme provides retirement lump sums and pensions, earned as employees work for the Council. As a defined benefit scheme it is shown within the Council's accounts using the following principles:

- The liabilities of the Cumbria Local Government Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.
- Liabilities are discounted to their value at current prices using a real discount rate of 4.2%.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value

Around 87% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

- The change in the net pension liability is analysed into seven components and recognised in the Statements as follows:

Service Cost comprising:

- **Current service cost** – the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement.
- **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Comprehensive Income and Expenditure Statement.
- **Net Interest on the defined pension liability (asset)** – i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- **The return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Contributions paid to the Cumbria Local Government Pension Fund** – cash paid as employers' contributions to the pension fund. This is not accounted for as an expense.
- **Contributions paid to the Cumbria Local Government Pension Fund** – cash paid as employers' contributions to the pension fund. This is not accounted for as an expense.

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note 4.48 to the Accounts.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. This therefore means that within the Movement in Reserves Statement, there are appropriations to and from the Pensions Reserve to remove the notional transactions for retirement benefits and replace them with debits for the amounts paid to the pension fund in the year and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision and accounted for using the same policies as are applied to the LGPS.

4.0.8 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

4.0.9 Financial Instruments

Financial instruments held by the Council are all classed as either financial liabilities or financial assets (loans and receivables) under the 2013/14 Code.

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

(i) Borrowing

Borrowing is classed as either a long-term liability, repayable after 12 months or longer, or a current liability if it is repayable within a 12 month period. Borrowing is shown in the Balance Sheet at amortised cost using the effective interest rate that applies to the individual loans comprising the total borrowing held by the Council. For borrowing held by the Council, this means that the amount shown in the balance sheet represents the outstanding principal payable to the lender and the interest on the borrowing that is charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year under the loan agreement.

(ii) Creditors

Creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of the creditors recognised in the balance sheet represents the current value of the outstanding liabilities of the Council at 31 March as a proxy for amortised cost.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They

are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

(i) Loans and Receivables

Investments

Investments are classed as either long-term assets, repayable after 12 months or longer, or as current assets if repayable within a 12-month period. Investments are shown in the Balance Sheet at amortised cost using the effective interest rate of the individual investments. For all the investments that the Council has made, this means that the amount shown in the balance sheet is the amount of principal due to be repaid to the Council and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable by the Council under the loan agreement.

Debtors (including mortgages)

Debtors are recognised when a contractual arrangement is entered into between the council and a debtor for the Council to provide goods and services for an agreed sum. The value of debtors in the balance sheet represents the current value of the outstanding debts owed to the Council at 31 March as a proxy for amortised cost.

Car Loans

Car Loans are provided to staff deemed to be essential users at a discounted rate of interest and therefore meet the definition of a soft loan within the 2013/14 Code. The value of car loans provided has not been recalculated at fair value as the difference between interest at fair value and the actual loan interest charged is not considered material.

Further details on Financial Instruments can be found in note 4.36 to the Financial Statements.

4.0.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

4.0.11 Heritage Assets

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

The majority of the Council's Heritage Assets are held in the Council's Museum. The Museum has four collections of heritage assets, Archaeology, Social History, Natural History and Fine and Decorative Arts, which are held in support of the primary objective of the Council's Museum, i.e. increasing the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as described below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's primary collections of heritage assets are accounted for as follows.

Museum Collection

The Council's museum collection consists of a significant number of artefacts including pictures, prints, sculptures, china, glass, porcelain, coins, medals archaeological items, as well as significant numbers of social and natural history items, costumes and firearms. Museum collections are reported in the Council's balance sheet at insurance valuation which take into account current market values. These insurance valuations are reviewed on an annual basis as part of the overall insurance premium renewal process.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations being based on appropriate insurance values. The Museum has a defined acquisitions and disposals policy for the period 2010-2015 that sets out the policy for the development of collections at the museum.

Heritage assets will not be subject to depreciation as it is not deemed appropriate to estimate a useful life for the assets held.

Statues, Monuments and other historical buildings

The Council has a number of statues and monuments and other historical buildings that it does not consider that reliable cost or valuation information can be obtained. This is due to the historical significance of such items. However, in some cases, historical cost information is recorded, particularly those that were previously classified as Community assets. Therefore, those items that were previously categorised as Community Assets will be recognised at their historic cost. This will

be re-evaluated so that the most appropriate valuation basis is used, and those previously not recognised (primarily statues and monuments) will not be recognised on the balance sheet although appropriate disclosures made.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 4.0.18 in this summary of significant accounting policies. The trustees of the Council's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

4.0.12 Intangible Asset

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

4.0.13 Inventories and Long Term Contracts

Stocks are reflected in the balance sheet at current prices. This is a departure from the requirements of the Code and IAS 2 Inventories, which requires stocks to be shown at the lower of cost or net realisable value where they are acquired through an exchange transaction.

4.0.14 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

4.0.15 Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

4.0.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over

the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

4.0.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2013/14* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

4.0.18 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Deminimis levels have been set at:

- £5,000 for expenditure on individual items of vehicles, plant and equipment;
- £20,000 for expenditure on land, buildings and other structures.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

Asset Category	Rate	Basis
Dwellings & Other Buildings	Useful Life	Straight Line
Infrastructure Assets	Useful Life	Straight Line
Vehicles, Plant, furniture & Equipment	Useful Life	Straight Line
Intangible Assets	Useful Life	Straight Line

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

The Council has a policy on componentisation where any asset with a Gross Book Value of more than £1million and is subject to depreciation will be considered for componentisation where a component is deemed to be more than 5% of the assets value. This will primarily apply to buildings and the major components to be considered will be:

Component
Heating and Ventilation System
Windows
Electrical
Water Systems
Roofing
Lifts

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

4.0.19 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

4.0.20 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

4.0.21 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

4.0.22 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Report to Audit Committee	Agenda Item: A.5
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Meeting Date: 24 January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: Not Applicable:
 Within Policy and Budget Framework YES
 Public / Private Public

Title: REVIEW OF FINANCIAL PROCEDURE RULES – RETENTION OF DOCUMENTS
 Report of: Director of Resources
 Report Number: RD73/13

Purpose / Summary:
 This report provides Members with details of proposed changes to the Authority’s Financial Procedure Rules in respect of the retention of documents.

Recommendations:
 Members are requested to approve the proposed changes for recommendation to Council on 4th March 2014.

Tracking

Audit Committee:	24 January 2014
Overview and Scrutiny:	Not applicable
Council:	4 March 2014

1. BACKGROUND

- 1.1 As defined by the Audit Committee's Rules of Governance, Members of this Committee have the responsibility to maintain an overview of the Council's Constitution in respect of Financial Procedure Rules (FPR's).
- 1.2 The FPRs are reviewed on a regular basis, in order that they reflect changes in legislation, Government and Council Policy, changes in the Council's financial practices and any changes to the organisation structure.

2. PROPOSED CHANGES TO THE FINANCIAL PROCEDURE RULES

- 2.1 The proposed changes are detailed below and are in relation to the Council's policy on the retention of documents. In order to comply with audit certification guidelines and to protect any grant funding received it may be necessary to retain documents longer than the timeframes set out in the Financial Procedure Rules. Therefore it is prudent to include a caveat to this effect within the Constitution as proposed below.

Current wording:

There is a legal requirement to retain certain records for periods between three years and permanently. A grid, which gives guidelines on how long documents should be held, is shown below.

Proposed additional narrative:

However, other contracts, partnerships, agreements and grant related certification requirements may stipulate longer timeframes and these should take precedence over such obligations. Relevant responsible officers should provide the necessary information on retention periods to Financial Services.

Members should note that following the Internal Audit review of 'Records Management' which is considered elsewhere on the agenda, a project group is being established whose remit is to develop a corporate Records Management Policy and to review the Council's retention schedule in more depth. The aim is to complete this piece of work by the end of March 2014.

3. CONCLUSIONS AND REASONS FOR RECOMMENDATIONS

- 3.1 Members are requested to approve the proposed changes for recommendation to Council on 4th March 2014.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 4.1 To ensure that the Council has sound systems of internal control and that the governance arrangements in place comply with statutory requirements.

Contact Officer: Alison Taylor

Ext: 7290

Appendices attached to report: Appendix A – Proposed Changes to the Financial Procedure Rules

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Economic Development – not applicable

Governance – Contained within the Report.

Local Environment – not applicable

Resources – included in the main body of the report

Report to Audit Committee	Agenda Item: A.6
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Meeting Date: 24 January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: Not Applicable:
 Within Policy and Budget Framework YES
 Public / Private Public

Title: CODE OF CORPORATE GOVERNANCE – ACTION PLAN
 Report of: Director of Resources
 Report Number: RD74/13

Purpose / Summary:

This report updates Members on the Council’s governance arrangements and its systems of internal control in line with CIPFA’s Good Governance Framework.

It includes a progress report on areas of weakness identified during the preparation of the 2012/13 Annual Governance Statement for Members consideration.

Recommendations:

Members are requested to note the attached action plan and the current position relating to the issue which has been identified.

Tracking

Audit Committee:	24 January 2014
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1. BACKGROUND

- 1.1 The Council's Code of Corporate Governance was approved by Council in 2008 in line with the CIPFA/SOLACE Framework document 'Delivering Good Governance in Local Government'.
- 1.2 In line with the framework the Audit Committee have previously considered any areas of significant weakness in the Council's governance arrangements by reviewing at each meeting of the committee the action plans put in place to ensure that continuous improvement in the system of internal control is addressed.
- 1.3 Furthermore an Annual Governance Statement, signed by the S151 Officer, Leader and Chief Executive, is prepared which summarises the Council's governance arrangements and which sets out any areas of significant weakness. This is formally approved as part of the audit of the Statement of Accounts process.
- 1.4 Since the original framework was prepared, CIPFA has issued guidance statements on 'The Role of the Chief Financial Officer in Local Government' and 'The Role of the Head of Internal Audit' both of which the Council must consider when preparing its Annual Governance Statement. An updated guidance note has also been issued (December 2012) which provides a revised framework for corporate governance incorporating these two CIPFA Statements. This revised framework was adhered to in preparing the 2012/13 Annual Governance Statement.

2. ANNUAL GOVERNANCE STATEMENT & ACTION PLAN

- 2.1 The Annual Governance Statement for 2012/13 highlighted one area of weakness (related to contract monitoring) in the Council's governance arrangements, and progress made against this area is contained within **Appendix A**. There are no new significant issues which need to be brought to Members' attention, nor are there any new areas of risk arising from the Audit reviews or from the Risk Registers that need to be drawn to Members' attention. Notwithstanding this, any areas of significant weakness identified in Internal Audit Reviews considered elsewhere on the agenda, will form part of the next action plan.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 3.1 Members are requested to note the attached action plan and the current position relating to the issue which has been identified.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

4.1 To ensure that the Council has sound systems of internal control and that the governance arrangements in place comply with statutory requirements.

Contact Officer: Alison Taylor **Ext:** 7290

Appendices attached to report: Appendix A – Code of Corporate Governance – Action Plan

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Community Engagement – not applicable

Economic Development – not applicable

Governance – *Delivering Good Governance in Local Government: Framework* has been given 'proper practices' status by the Department for Communities and Local Government through non-statutory guidance in respect of the requirement for local authorities to prepare an annual governance statement which must accompany the statement of accounts.

Local Environment – not applicable

Resources – included in the main body of the report

ACTION PLAN – UPDATE JANUARY 2014

	<u>WEAKNESS IDENTIFIED</u>	<u>RESPONSIBILITY</u>	<u>TARGET DATE</u>	<u>CURRENT STATUS AND ACTION REQUIRED</u>
1.	<p>Contract Monitoring Procedures:</p> <p>During 2012/13 and as part of the delivery of the annual audit plan, internal reviews identified a significant weakness with regard to the internal monitoring of Council key contracts with recommendations being made to improve internal procedures and processes. Action plans to address these weaknesses have been developed and further consideration of the issues have been debated by the Council's Corporate Risk Management Group. Relevant Directors will have regard to the issues raised when implementing any revised staffing structures. Completion of the</p>	<p>Deputy Chief Executive & Director of Local Environment</p>	<p>January 2014 (original deadline for consideration of formal 'follow up' review from Audit Services)</p>	<p>Revised staffing structures will facilitate this improvement with responsibilities for the monitoring of outsourced contracts being identified within job descriptions.</p> <p>A specific post within the Deputy Chief Executive's Team has been created, Contracts and Community Services Manager, whose responsibilities include managing the business relationship with the two significant contracts i.e. Tullie House and Carlisle Leisure Ltd within the Deputy Chief Executive's Team, and to monitor and evaluate performance against the contract.</p> <p>The Director has ensured that responsibilities for contract monitoring and performance monitoring of the in house services are embedded within roles and responsibilities in the new Technical Team. This is necessary</p>

	<p>action plans will be subject to a formal audit follow up during 2013/14 and be reported to and closely monitored by the Audit Committee.</p>			<p>as the service is reactive to daily customer demands and requires planned performance monitoring across both contracted out and in house services.</p> <p>The new technical team was implemented in December 2013 and vacant posts are being filled internally wherever possible. The existing staff were transferred into the new team and are bedding into their new roles. This has strengthened contract monitoring arrangements and will enable the project work on the major “rethinking waste” to be undertaken. Work continues on developing back office systems to support monitoring and supervision of the contracts and in house services</p>
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<h1>Audit Committee</h1>	Agenda Item: A.7
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Meeting Date: 24th January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework: Yes
 Public

Title: Internal Audit Progress Report 2013-14 (No. 3)
 Report of: Director of Resources
 Report Number: RD79/13

Purpose / Summary:

This report summarises the work carried out by Internal Audit and details the progress made on delivery of the approved 2013-14 Audit Plan.

Recommendations:

Members are requested to:

- Receive this report and note the progress made against the agreed 2013/14 Audit Plan referred to in section 2.
- Note the amendments to the 2013/14 Audit Plan as detailed in section 3.
- Note the position on the follow up of previous audit recommendations as outlined in section 4.
- Receive the completed audit reports referred to in section 5.

Tracking

Audit Committee	24 th January 2014
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1 **BACKGROUND**

- 1.1 Management is responsible for the system of internal control and should put in place policies and procedures to ensure that systems are functioning correctly.
- 1.2 Internal Audit examine, appraise and report on the effectiveness of financial and other risk, governance and internal controls to enable it to provide an opinion on the adequacy of the control environment and report any significant control issues.
- 1.3 This report summarises the work carried out by Internal Audit and details the progress made on delivery of the approved Audit Plan during the third quarter period of 2013/14.

2 **AUDIT PERFORMANCE AGAINST THE 2013/14 AUDIT PLAN**

- 2.1 The 2013/14 Strategic and Annual Risk Based Audit Plans were presented to the Audit Committee on 15th April 2013 – report RD 06/13 refers.
- 2.2 To assist Members in monitoring the progress made against the agreed annual plan, **Appendix A** illustrates the current position of the plan up to the end of December 2013. The position can be summarised as follows:

	Allocated Days	Actual Days
High Risk	182	190
Value for Money & Efficiency	40	0
Main Financial System	148	61
ICT	25	1
Project Support	20	0
Fraud	25	12
Other	100	71
Total Audit Days 2013-14	540	335

- 2.3. The Plan calls for 540 direct audit days – 335 days (62%) have been delivered in the third quarter period. Time has been spent on the following areas:

- 5 audit reviews have been finalised. These final reports are considered in more detail within section 5 of this report.
- There are a 3 reports at draft stage; Procurement, Customer Services and Organisational Development (Devolved Development and Training). All audit

fieldwork and testing has been completed and the draft reports have been issued. Further discussions with management are now required to finalise these audit reports.

- The audits of Council Tax, Housing and Council Tax Benefit and National Non Domestic Rates, which are delivered by the Revenues and Benefits Shared Service, are being undertaken as joint reviews. This is a new audit approach which aims to achieve savings (time and cost) and provide a fuller assurance opinion for each of these core service areas.
- All the recommended data matches raised by the National Fraud Initiative (NFI) have now been examined. On conclusion of this work, a report on the findings will be prepared. .
- Planned audit reviews are ongoing in the areas of recycling, debtors, payroll and car parking income.
- An unplanned investigatory piece of work was concluded in the period.

2.4. Members are asked to note the progress made against the agreed Audit Plan.

3. AMENDMENT TO THE 2013/14 AUDIT PLAN

- 3.1. There are 20 days allocated in the plan to Project Support. This time has not been utilised to date so it is proposed that this time should be redirected to support the additional requirements which have been necessary to implement and monitor the revised arrangements for reporting of previous audit recommendations.
- 3.2. There are 40 days allocated in the Plan to undertake two Value for Money reviews but there is insufficient time to deliver both reviews in the remainder of the year due to necessary additional time being spent on certain high risk reviews (predominantly Procurement and Revenues Recovery). The Value for Money allocation will therefore be reduced to one review of 20 days to accommodate this additional time spent.
- 3.3. The above proposed amendments to the Plan have been discussed and agreed with the Director of Resources.
- 3.4. Members are asked to note the above changes to the Audit Plan.

4. FOLLOW-UP OF PREVIOUS AUDIT RECOMMENDATIONS

- 4.1. A report on the position of all follow ups of previous audit recommendations monitored via Covalent is attached as **Appendix B**. Attention is drawn to the colour coding used to highlight the progressive action taken against each audit recommendation.
- 4.2. In summary, a total of 69 recommendations have been monitored in this reporting period; 58 where sufficient action is reported and these recommendations are now closed. Of the remaining 11 'open' recommendations; 6 are in progress and 5 are where insufficient information has been provided to determine whether or not appropriate action has been taken to date. For those recommendations which have not had an adequate response, further enquiries with managers have been made.
- 4.3. Members are asked to note the position on the follow up of previous audit recommendations.

5. REVIEW OF COMPLETED AUDIT WORK

- 5.1. There are 5 audit reports to be considered by Members at this time. Guidance on the grading of audit recommendations, the audit follow up procedure and audit assurance ratings is attached as **Appendix C**.
- 5.2. The Management Summary and a copy of the Summary of Recommendations / Action Plan for each completed audit review listed below have been provided within **Appendices D-H**.

<u>Audit of:</u>	<u>Assurance Evaluation</u>	<u>Appendix</u>
External Funding	Substantial	D
Electoral Registration	Substantial	E
Performance Service Standards	Reasonable	F
Revenues Recovery	Reasonable	G
Records Management	Partial	H

6. CONSULTATION

Not applicable

7. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 7.1. Good progress has been made in delivering the Audit Plan in quarter 3. Priority work in quarter 4 will focus on the remaining material system reviews and the formal follow up audits of previous audits which were given lower level assurance.
- 7.2. The recommendations made in this report will enable Members to track the progress made on the delivery of the 2013/14 Audit Plan and gain assurance on the independent audit work undertaken in the period.

8. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 8.1. To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

Contact Officer: Gill Martin Ext: 7294
Audit Manager
(Cumbria Shared Internal Audit Service)

Appendices A-G attached to report:

- Appendix A – 2013/14 Audit Plan Monitoring Update**
- Appendix B – Follow Up of Previous Recommendations**
- Appendix C – Grading of Audit Recommendations and Assurance Evaluations**
- Appendix D – Audit of External Funding**
- Appendix E – Audit of Electoral Registration**
- Appendix F – Audit of Performance Service Standards**
- Appendix G – Audit of Revenues Recovery**
- Appendix H – Audit of Records Management**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable
Community Engagement – not applicable
Economic Development – not applicable
Governance – not applicable
Local Environment – not applicable
Resources – not applicable

CARLISLE CITY COUNCIL AUDIT PLAN 2013/14 (up to 31 December 2013)

Directorate	Audit Area	Audit Days Allocated	Status	Assurance Evaluation	Audit Committee Date
<u>High Risk Reviews</u>					
Community Engagement	Revenues Recovery (inc. Housing Benefit Overpayments)	15	Completed	Reasonable	24-Jan-14
Community Engagement	Customer Contact Centre	12	Draft Issued		
Community Engagement	Leisure Services Contract	10			
Community Engagement / Economic Development	Projects and Partnerships - Stewardship arrangements	20			
Governance	Electoral Payments	10	Completed	Substantial	24-Jan-14
Local Environment	Carlisle Cycle Way	10	Completed	Reasonable	26-Sep-13
Local Environment	Recycling Contracts	15	Ongoing		
Local Environment	'Clean up Carlisle' - Street Cleaning (education & enforcement)	15			
Resources	Procurement - Tendering and Contracting	20	Draft Issued		
Resources	External Funding - Compliance and Monitoring Arrangements	15	Completed	Substantial	24-Jan-14
Corporate	Records Management Arrangements	15	Completed	Partial	24-Jan-14
Corporate	Performance Management - Service Standards	10	Completed	Reasonable	24-Jan-14
Corporate	Organisational Development & Corporate Training	15	Draft Issued		
		<u>182</u>			
<u>Value for Money and Efficiency Reviews</u>					
Corporate	Improvement, Efficiency and VFM Programme	20			
Corporate	Charging and Trading - income generation	20			
		<u>40</u>			
<u>Main Financial System Reviews</u>					
Community Engagement	Council Tax	12	Ongoing		
Community Engagement	Housing and Council Tax Benefits	20	Ongoing		
Community Engagement	National Non Domestic Rates	12	Ongoing		
Resources	Main Accounting System	20			
Resources	Fixed Assets	15	Completed	Substantial	26-Sep-13
Resources	Creditors	10			
Resources	Debtors	10	Ongoing		
Resources	Payroll	12	Ongoing		
Resources	Treasury Management	10			
Resources	Income Management	12			

Local Environment	Car Parking Income	15	Ongoing
		148	
ICT Reviews			
Resources - ICT Connect	Project Management	10	
Resources - ICT Connect	IT Developments - use of electronic forms	15	Ongoing
		25	
Project Support			
Community Engagement Resources	Welfare Reform Changes	5	
	Procurement - e-Purchasing	15	
		20	
Fraud			
Corporate	National Fraud Initiative	15	Ongoing
Corporate	Counter Fraud Arrangements / Awareness	10	Ongoing
		25	
Other Audit Work			
Audit Management, Committee, Planning & Reporting		50	Ongoing
Follow Up of Previous Recommendations		10	Ongoing
Contingency		40	Ongoing
Total Audit Days 2013-14		540	

APPENDIX B

Summary of Audit Recommendations - Monitoring Report (from April 2012 to-date)

RED - Overdue
Amber - In progress
Green - Actioned

	Current Position Jan-2014	Previous Position Sept -2013
Overall total number of recommendations	69	42
Total number of open actions - other	5	13
Total number of open actions - in progress	6	6
Total number of closed actions	58	23

OPEN ACTIONS

Date of Final Report	Audit of:	Directorate	Recommendation	Grade	Agreed action	Responsible Officer	Action completed by	Progress Update as at 10th January 2014	Revised Action complete by date
19/12/2012	Tullie House - Management of Assets	Community Engagement	R1 - Financial Services must liaise with Tullie House management to a) implement a valuation process that is robust & will maintain the requirements of the Collection Loan Agreement & this should be reflected in the Collections database b) Ensure that the insurance valuation of the Collection is brought up to date.	B	To be considered as part of the Insurance Tender renewal process that will hopefully see a new Fine Arts policy added to the insurance schedule. As part of this revised valuations will be undertaken, either formal valuations or desk top exercise.	Financial Services Manager, Chief Accountant	01/05/2013	Valuations have been delayed in order that they are taken out on the same valuation programme as the Council's other property assets. Work is ongoing to prepare lists of assets and associated documents, e.g. photos, in preparation of approaching a valuer to undertake the task. It is hoped	31/03/2014

								valuations will be undertaken by 31 March 2014.	
04/09/2012	Data Quality	Chief Executives Team	R6 All partners should be required to sign a 'data quality statement' to ensure that they comply with the same quality standards as the Authority. This requirement should be incorporated into both the revised Data Quality Policy and the Partnership Protocols in detail.	B	Partners will sign a data quality statement and this requirement will be incorporated into the Data Quality Policy and strengthened within the Partnership Protocols.	Policy & Communications Manager / Development & Support Manager	31/03/2013	On going as per progress report 17th September 2013	31/12/2013

04/09/2012	Data Quality	Chief Executives Team	R7 The risks associated with the availability of Authority data should be considered carefully and suitable mitigating actions applied to each. These should then be included within the relevant risk register(s) where appropriate.	B	Consider forming a data quality risk register or incorporating risks into existing registers.	Policy & Communications Manager	31/01/2013	Ongoing as per progress report 17th September 2013	31/12/2013
04/09/2012	Data Quality	Chief Executives Team	R10 The data quality checking measures should be centrally monitored via the completion of assurance statements from a senior officer, that declares that they are satisfied that the data quality is of the highest level achievable and also take ownership for data quality in accordance with the policy.	B	Assurance statements will be produced by a senior officer (TBC) stating their satisfaction with data quality.	Policy & Communications Manager	31/01/2013	Will be incorporated into 2013/14 end of year sign off service standards; including data quality, actual data and method statements.	31/05/2014
30/08/2012	Development Control/Management	Economic Development	R2 Applications from City Council employees should be formally recorded in Acolaid under a specific reference for statistical and transparency purposes.	C	New City Council Employee field to be set up in Acolaid and employees recorded	Planning Manager/LLPG-Acolaid Development Officer/Technical Officer(s)	01/10/2012	E mails sent 20/11/13 and 8/1/14. Awaiting progress report.	

25/03/2013	Systems Administration	ICT	R2 - A weeding process in line with the Authority data retention and data protection policies should be undertaken for aged records in Local Environment from 2003 onwards.	B	Systems & Development Officer to set in place data retention policy in line with legislation and to co-ordinate the weeding process.	Systems & Development Officer	30/09/2013	E mails sent 20/11/13 and 9/1/14. Awaiting progress report.	
25/03/2013	Systems Administration	ICT	R3 - MASS system administration support should be widened in line with the legislation of the new in-house database.	C	MASS is being phased out and replaced by new internal property database (PAD) which is being developed at the moment.	Property Manager	30/04/2013	E mails sent 20/11/13 and 8/1/14. Awaiting progress report.	
25/03/2013	Systems Administration	ICT	R5 Defined roles and responsibilities should be identified for staff with regards to the processing and parameter changes within the Flare system. Staff with data processing and system administration duties should be issued with separate passwords.	B	A defined structure of Users, Super Users and Administrators to be put in place by the Systems & Development Officer in consultation with Local Environment Service Managers. Separate password to be issued to the Technical Clerks.	Systems & Development Officer	30/09/2013	E mails sent 20/11/13 and 9/1/14. Awaiting progress report.	

25/03/2013	Systems Administration	ICT	R10 Staff should be requested to sign a declaration form before using each system regarding proper system use and control of data. This should be retained for reference and aid data protection purposes.	B	Agreed. Retention period should be established and the use of e-forms.	Corporate Information Officer	31/03/2013	Call logged with DIS helpdesk to add data protection/confidentiality text to login screen on all computers. Email to be sent to all staff alerting them to the fact that they will have to read and ok this screen every time they log in from next week.	17/01/2014
25/03/2013	Systems Administration	ICT	R12 The Zeus system should be updated to end all leavers from the authority upon receipt of the leavers form.	C	Currently Service Support (Personnel & Payroll) informs the flexi administrator of leavers on a monthly basis. Look at the possibility of including the flexi administrator in the Trent Leaver Workflow.	Service Support Team Leader	30/09/2013	Leavers are noted on Zeus but have to be left on the system in order to produce retrospective reports. The flexi administrator will be included in the workflow for starters and leavers once the Council moves onto its new payroll/HR system in April 2014.	01/04/2014

25/03/2013	Systems Administration	ICT	R14 Numerous issued were highlighted from the FLARE Extended Systems Development visit which need addressed.	C	Systems & Development Officer to investigate and co-ordinate actions.	Systems & Development Officer	30/09/2013	E mails sent 20/11/13 and 9.1.14. Awaiting progress report.	
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CLOSED ACTIONS

Date of Final Report	Audit of:	Directorate	Recommendation	Grade	Agreed Action	Responsible Officer	Action completed by	Action taken	Action completed date
04/09/2012	Data Quality	Chief Executive's Team	R1 The outstanding Transparency Code and the Localism Act requirements be actioned as soon as possible. Specific attention be given to the adding the Authority's policy relating to the publication of and access to information relating to remuneration to chief officers within the actual Pay Policy Statement in accordance with section 38 of the Localism Act. This statement should then be published on the Transparency page of the Authority's website in accordance with this statement.	B	Information relating to the remuneration of chief officers will be included in the Pay Policy Statement and published on the Council's website on the Transparency pages.	Policy & Communications Manager	31/01/2013	Link to Pay Policy Statement added to Transparency web page 2/1/13	31/01/2013
04/09/2012	Data Quality	Chief Executive's Team	R2 The Transparency pages on the Authority Website should be updated on a timelier basis.	B	Review of the content of the Transparency pages will be conducted quarterly.	Policy & Communications Manager	30/11/2012	Link to Pay Policy Statement added to Transparency web page 2/1/13	31/01/2013

04/09/2012	Data Quality	Chief Executive's Team	R3 The Data Quality Policy for Carlisle City Council requires updating to reflect current requirements and revised working practices.	B	Data Quality Policy will be updated.	Policy & Communications Manager	31/01/2013	Complete - policy updated January 2013	31/01/2013
04/09/2012	Data Quality	Chief Executive's Team	R4 The Policy and Communications Manager should consider the merits (or otherwise) of internal audit verifying a number of performance indicators. If decided not necessary, the partnership should also be made aware of this decision. Any decision should be made in conjunction with the Audit Services Manager.	B	Benefits of internal audit verifying PIs to be considered and fed back to Audit Services Manager.	Policy & Communications Manager	31/12/2012	Audit Services has been requested to look at service standard:SS002 The percentage of missed waste or recycling collections	21/12/2012
04/09/2012	Data Quality	Chief Executive's Team	R5 The quality of data should be assessed at source document stage in addition to the data transfer to Covalent stage to assure accuracy of information. The requirement of this should be included in the revised Data Quality Policy.	B	Requirement of data quality to be assessed at source document stage to be incorporated into revised Data Quality Policy.	Policy & Communications Manager	31/01/2013	Completed- included in revised policy.	31/01/2013

04/09/2012	Data Quality	Chief Executives Team	R8 Consideration should be given to include responsibility for data quality within the senior officers and Performance staff job descriptions.	D	Consideration will be given to include responsibility for data quality within the senior officers and Performance staff job descriptions.	Policy & Communications Manager	31/03/2013	Completed - included in Chief Executive's job description.	31/03/2013
04/09/2012	Data Quality	Chief Executive's Team	R9 On updating the Policy, the opportunity should be taken to enhance the existing Policy by including more specific roles and responsibilities that are measurable so these too can be monitored to ensure compliance and assist in embedding data quality standards throughout the Authority.	B	The Data Quality Policy update will include specific roles and responsibilities that can be measured and monitored.	Policy & Communications Manager	31/01/2013	Complete - included in revised policy.	31/01/2013
04/09/2012	Data Quality	Chief Executive's Team	R11 It is important that after the revision of the Data Quality Policy, that staff are made aware of its existence and location, so that they are aware of their responsibilities regarding data quality from the outset and the importance of compliance. Staff training regarding data quality and the importance of such day to day working arrangements should	B	Revised Data Quality Policy will be highlighted to staff. Consideration will be given to producing a learning pool module.	Policy & Communications Manager	31/03/2013	Importance of ensuring data is accurate and up to date is covered in the Data Protection Act training. Data Quality Policy is available on the internet.	31/03/2013

			be made available.						
04/09/2012	Data Quality	Chief Executive's Team	R12 The homelessness statistics provided from the hostels and the final CLG P1E return should be reconciled prior to submission to ensure that all information input into the database is correct. Any deletions from the system that may affect any previously reported performance information should be logged separately and include a brief explanation for the deletion so that a report can be ran at any time and the information will be accurate.	B	Checks will be made to ensure the CLG P1E return matches the current homelessness stats and is correct. Deletions will be recorded with a reason for deletion.	Policy & Communications Manager	30/11/2012	The database is now checked on a monthly basis to ensure the accuracy of the information contained within the database. There are now no deletions made from the system that may affect any previously reported performance information. A log is kept of any amendments.	10/01/2014
04/09/2012	Data Quality	Chief Executive's Team	R13 Resources permitting the Authority should consider compliance to either of the best practice frameworks.	D	Consideration will be given to working towards best practice frameworks.	Policy & Communications Manager	31/03/2013	Existing policy will be revised based on the learning taken from practice.	17/09/2013
04/09/2012	Data Quality	Chief Executive's Team	R15 A designated trained officer should be given ultimate responsibility for managing records retention and providing guidance within the Authority.	B	A designated officer will be given responsibility for managing records and providing guidance.	Policy & Communications Manager	31/03/2013	Responsibility lies with Policy & Communications Manage. Changes are being made to this role within the team to help deliver on all these recommendations.	31/03/2013

08/11/2012	Housing Benefit Overpayments - Follow up	Community Engagement	R1 - Once an overpayment case has been heard at appeal stage, the Senior Appeals Officer should inform the Overpayments Team immediately so that recovery can restart or the system can be updated.	B	Complete	Housing Benefits Manager	30/09/2012	Completed	30/09/2012
08/11/2012	Housing Benefit Overpayments - Follow up	Community Engagement	R2 Due notice should be given to the Overpayments Team to be able to prepare the write-off information for the Director of Resources so that the due consideration can be given to each write-off and they are all viable and justified.	B	Complete	Housing Benefits Manager	01/10/2012	Completed	01/10/2012
08/11/2012	Housing Benefit Overpayments - Follow up	Community Engagement	R3 - It is recommended that a) ensuring all recovery and payments arrangements procedures so they can identify what is standard and not standard practice, and b) ensuring that notebooks are used in all cases so that if an overpayment appears unjustifiably low for the amount of debt, it can easily be identified why and/or questioned.	B	Complete	Housing Benefits Manager	10/10/2012	Completed	10/10/2012

30/08/2012	Development Control/ Management	Economic Development	R1 The Development Management Service Support staff should all be following the same procedures relating to the receipt, banking and reconciliation of Planning Fees.	A	Protocol guidance to be prepared and implemented by ED Admin team	Planning Manager / Senior Administrator Performance Management	01/10/2012	Implemented.	01/12/12
30/08/2012	Development Control/ Management	Economic Development	R3 Refunded Planning Application fees should have a letter accompanying the cheque to the applicant stating why the refund has been made and a copy put on file. The actual process of how the letter accompanies the cheque will need to be agreed between the Planning Office and Creditors Section.	B	Letter to be set up in Acolaid to be completed and issued with refund request to ED Admin and dispatched with refund cheque	Planning Manager / LLPG-Acolaid Development Officer	01/12/2012	Notifying applicants/agents when they require a refund	30/11/2012
30/08/2012	Development Control/ Management	Economic Development	R4 Creditor requests should be copied to file following authorisation.	C	Change in procedure to be implemented	Planning Manager / Senior Administrator Performance Management	01/10/2012	Procedure notes for dealing with creditor requests updated.	1/12/12
30/08/2012	Development Control/ Management	Economic Development	R5 Hard copy file information should be completed in full where appropriate.	C	Change in procedure to be implemented	Technical Officer(s)	01/12/2012	File notes completed	30/11/2012

17/09/2012	Gifts & Hospitality	Governance	R1 The Employee and Members Code of Conduct training should be mandatory for all. This may be achieved through the use of e-learning module supported by supplementary workshop sessions if appropriate.	B	As many courses as required will be provided; the issue is getting attendance. We do not have the power to compel Members to attend.	Director of Governance / Support Officer (SHE)	31/01/2013	The Ethical Governance Group has approved mandatory training for all. E-learning editing training is to be undertaken by a nominated member of staff. The package will then be rolled out to all staff and members.	09/01/2013
17/09/2012	Gifts & Hospitality	Governance	R2 Awareness surrounding the records of declined gifts and hospitality require to be addressed further.	C	E-learning may also assist this.	Director of Governance/Support Officer (SHE)	31/01/2013	Governance has written to all staff reminding them of the requirement	26/11/2012
17/09/2012	Gifts & Hospitality	Governance	R3 The Chief Executive's Gifts and Hospitality pro-forma should only be authorised by the Deputy Chief Executive.	C	Agreed and DoG will action. Not necessarily agreed that DoG is the responsible officer as to the level of delegation given to the CEO's PA	Director of Governance / Support Officer (SHE)	31/10/2012	Completed.	31/10/2012
17/09/2012	Gifts & Hospitality	Governance	R4 Staff should ensure that all appropriate boxes are completed when checking / scanning the Gifts & Hospitality forms.	C	Agreed.	Director of Governance / Support Officer (SHE)	31/10/2012	Instruction given.	31/10/2012
17/09/2012	Gifts & Hospitality	Governance	R5 Thought should be given to further developing the Mayors engagements schedule to accommodate space	C	Agreed.	Director of Governance / Support Officer (SHE)	31/10/2012	Registration system set up.	31/10/2012

			for registering gifts received or submitting an e-mail on a weekly basis to Committee Clerks a daily listing on any gifts or hospitality received when attending functions. This could be filed with the weekly engagements schedule forming a Mayors Gifts & Hospitality register.						
03/04/2013 -	Bereavement Services	Local Environment	R1 An actions plan should be prepared detailing specific objectives, responsible owners and target timescales.	D	Noted.	Neighbourhood & Green Spaces Manager	16/04/2013	Noted.	16/04/2013
03/04/2013	Bereavement Services	Local Environment	R2 The manual cash receipting system (the Kalamazoo book) should be replaced with an electronic system - ICON the Corporate Cash Receipting system should be directly utilised by Bereavement Services.	B	Service migration and transfer of office will be completed by June 2013.	Neighbourhood & Green Spaces Manager	30/06/2013	Completed	15/07/2013
03/04/2013	Bereavement Services	Local Environment	R3 Invoices should be raised through the Council's corporate debtor system and the centralised debt recovery procedures should be applied.	B	Service migration and transfer of offices will be completed by June 2013.	Neighbourhood & Green Spaces Manager	30/06/2013	Completed	15/07/2013

03/04/2013	Bereavement Services	Local Environment	R4 The identification of outstanding debts and appropriate follow up action to be taken (including write off where relevant) should be through the Council's main debtors system.	B	Service migration and transfer of offices will be completed by June 2013.	Neighbourhood & Green Spaces Manager	30/06/2013	Completed	15/07/2013
03/04/2013	Bereavement Services	Local Environment	R5 Staff should be reminded of the need to test check a sample of the service charges on debtors invoice in particular when commencing a new financial year to verify fee/charge rate applied are in accordance with the latest fees/charges booklet.	B	The Bereavement Services team leader will instigate 'test checks' on a sample of Debtors invoices to ensure they are being charged at the up-to-date rate.	Neighbourhood & Green Spaces Manager	30/04/2013	Staff have been reminded that charges have changed and to check a sample of debtors invoices to ensure the up-to-date charges are being implemented.	15/07/2013
03/04/2013	Bereavement Services	Local Environment	R6 BACS should be reconciled to the Kalamazoo (or electronic record when recommendation R1 is implemented) to ensure its completeness and accuracy.	B	Service migration and transfer of offices will be completed by June 2013.	Neighbourhood & Green Spaces Manager	30/06/2013	Completed	15/07/2013

03/04/2013	Bereavement Services	Local Environment	R7 As part of the 2013/14 Cemeteries and Crematoriums budget setting process, budgets should be removed when not utilised and reviewed when there is evidence of being under-utilised in previous years. In addition budget holders should be reminded of the need to ensure that expenditure should not be incurred when no budget is available.	B	A continuous review of budgets is ongoing involving the service manager and senior accountancy assistant to identify under-utilised budgets and use them to offset spending pressures elsewhere in Bereavement Services. Recurring virements will be prepared as necessary. Officers will be reminded of the Financial Procedures which prohibit the use of codes where no budget is allocated.	Neighbourhood & Green Spaces Manager	30/04/2013	A process of reviewing and reallocating budgets is underway. Officers have been reminded that no expenditure should be incurred against zero budgets.	30/04/13
06/09/2012	CCTV	Local Environment	R1 Policies and procedures should be reviewed and updated where necessary to ensure there is full coverage over the activities of the CCTV service and appropriate guidance for relevant officers. Policies and Procedures should: * Be electronic to aid review and update; * Record details of	B	Agreed.	Environmental Health Manager	31/12/2012	15/11/12: Code of Practice updated and ready to go on the shared drive. Operating Procedures finished. Policies to be circulated to staff with signing sheet	11/01/2013

			review and update to include date undertaken and by whom; * Be brought to the attention of relevant staff, who should sign and date that they have been read and understood and; * Be accessible to all relevant staff - either hard copy (CCTV Operators etc) or electronic (e.g. management or those with access to a pc).						
06/09/2012	CCTV	Local Environment	R2 A review of all records and documents relating to the CCTV service should be undertaken so that only those are retained that are in current use and required by statute.	B	Agreed.	Environmental Health Manager	31/12/2012	Material removed via confidential waste – this exercise is ongoing. 3 x operatives completed DPA training in Oct. All recent documents are DPA compliant.	11/01/2013
06/09/2012	CCTV	Local Environment	R3 A complete and accurate register of all CCTV cameras and their location details should be maintained.	B	Agreed.	Environmental Health Manager	31/10/2012	4/11/12: Accurate list available. Information also on consultation document.	04/01/2012
06/09/2012	CCTV	Local Environment	R4 Consideration should be given to whether there are better ways or arrangements, to deliver the recording and monitoring of the Brampton & Longtown camera images.	C	This will be very dependent on the savings identified to be achieved in the latest savings round.	Environmental Health Manager	29/10/2012	19/11/12 Executive Report and recommendations on general CCTV provision and savings. Consultation process to start from 28/11/12.	11/01/2013

06/09/2012	CCTV	Local Environment	R5 A review of performance monitoring requirements should be undertaken to establish what measures are important to the service in order to evidence decision making, aid continuous CCTV service improvement and ensure the effective deployment of human resources.	B	Agreed.	Environmental Health Manager	03/12/2012	Stats now recorded on types of incidents; how reported and whether they are day or evening shifts of the days monitored. Monthly report data available from September 12.	21/11/2012
17/09/2012	Early & Flexible Retirements /Redundancy	Resources	R1 The Organisational Development Manager should be notified by the HR Manager and/or HR Advisor, at the beginning of any re-organisation likely to involve redundancy to enable the OD Section to formulate training plans and, if possible, tailored support packages.	B	The Organisational Development Manager will be notified by the HR Manager and/or HR Advisor, at the beginning of any re-organisation likely to involve redundancy to enable the OD Section to formulate training plans and, if possible, tailored support packages.	Personnel Manager	31/10/2012	Details passed to OD as/when available	31/10/2012

17/09/2012	Early & Flexible Retirements /Redundancy	Chief Executive's Team	R2 Managers should receive formal training to provide them with skills in managing early retirements and redundancies in addition to the day to day informal ad-hoc working support provided by HR Advisors.	B	Skills based training courses on managing early retirements and redundancies will be included in the corporate training programme, E-learning modules will also be developed.	Organisational Development Manager	31/03/2013	Training course on managing redundancies was organised for November '13 but has been postponed due to low numbers - will now take place in January '14.	31/03/2013
17/09/2012	Early & Flexible Retirements /Redundancy	Resources	R3 Leaver files should retain the sequentially dated documentation, divided into sub-sections they had when they were "current" files.	D	EDMS will hold the information electronically in sub-divided format. Hard-copy filing process to be reviewed.	Support Services Team Leader	31/03/2013	Work on EDMS on-going; manual files reviewed but time/resources insufficient to do this for benefit that would be achieved.	31/03/2013

17/09/2012	Early & Flexible Retirements /Redundancy	Resources	R4 Details used to calculate estimates/final calculations to support information in communications with staff and payroll should show the following information: * the actual salary used; * the grade and salary point: *whether the salary is affected by a protection period; *date of calculation. *ascertainment of weekly rate.	B	Details used to calculate estimates/final calculations to support information in communications with staff and payroll will show the following information: · The actual salary used. · The grade and salary point. · Whether the salary is affected by a protection period. · Ascertainment of weekly rate. Date of calculation.	Personnel Manager	03/10/2012	Format to meet this is now included in supporting documentation.	03/10/2012
25/03/2013	Systems Administration	ICT	R1 - Monitoring compliance with legislative requirements for the FLARE system must be formally assigned to and undertaken by responsible officers.	B	Systems & Development Officer designated as the responsible officer and to support Service Managers in identifying legislation regarding their area within the Local Environment and the FLARE system and monitor	Systems & Development Manager	30/04/2012	Currently meeting regularly to monitor compliance with legislation.	30/04/2013

					accordingly. Systems & Development Officer to implement a system of monitoring compliance.				
25/03/2013	Systems Administration	ICT	R4 - Management should ensure that as far as possible, system administrators have limited/no processing responsibilities within Academy.	B	Administration privileges are contained within ICT Connect and the Members of the Performance Team. Members of the Performance Team may amend a Council Tax or NNDR account or a Benefit Claim but that would be by exception rather than anything routine. The types of accounts/claims they would amend are those with exceptional integrity problems that cannot be resolved without specialist knowledge and administrator	Shared Service Performance Manager - Revenues & Benefits	16/04/2013	Complete before final audit report issued.	16/04/2013

					access. These are very much the exception rather than of any volume and it is safer that administrators deal with these problems as they can affect financial balancing, subsidy and batch processes if not corrected and corrected appropriately/holistically.				
	Systems Administration	ICT	R6 - The LLPG/Acolaid Technical Officer should (a) Contact system suppliers (Idox) to identify the possibility of implementing a program to prompt users to change their passwords regularly and; to ensure that passwords require the system administrator to reset password access after numerous failed password attempts.	C	This has been noted and will be discussed at the next maintenance visit from Idox. This recommendation is suspected to be treated as a development item which could take some time.	LLPG/Acolaid Technical Officer	01/04/2014	Recommendations can be implemented and will be done on next maintenance visit scheduled for 06/06/13.	07/06/2013
25/03/2013	Systems Administration	ICT	R9 A 'New Users' form should be developed for each corporate system and e-mails and all other appropriate documentation should be retained for	B	Once the 'New Users' form is developed by Service Support a retention period should be established	Service Support	31/03/2013	Personnel & Payroll inform ICT of all starters and leavers and managers inform them which corporate system employees require. Response ICT - The existing new users form has	10/01/2014

			future reference if required.		by the Corporate Information Officer. Also, the use of e-forms should be investigated to make the process more efficient.			been updated and now contains details of specific applications that users require access to and contact details of the line manager who is authorising access. Leaver's forms are also being updated accordingly and procedures put in place to ensure that employees that are changing role are also managed. All future requests for new users, leavers and movers will only be accepted in the future electronically from the authorising line manager. At the moment all requests are retained - this is being reviewed with the Corporate Information Officer.	
25/03/2013	Systems Administration	ICT	R11 - An email to all staff should be issued with a reminder regarding data protection and -Code of Conduct responsibilities. This also may be pursued through the e-learning system.	C	Data protection workshops are currently taking place which all staff are enrolled on which are facilitated by the Corporate Information Officer.	Learning & Development Co-ordinator	01/04/2014	Data Protection - there is a rolling programme of data protection workshops being facilitated in-house. These are currently taking place, which all staff including new starters are enrolled	31/01/2013

04/09/2013	Carlisle & Currock Cycleway	Local Environment	R1 The Director of Local Environment should ensure that the funding arrangements and restrictions on moving the Carlisle & Currock Cycleway Project 2012 Revised Plan forward is reported to the CPB that the cycleway will not be completed within a defined period as it is dependent on funding becoming available.	C	Agreed.	Director of Local Environment	06/11/2013	Minutes of the Corporate Programme Board meeting of 23/10/13 state the project is closed. An alternative project for the use of the s106 funding will be developed (cycling and pedestrian related scheme).	23/10/2013
04/09/2013	Carlisle & Currock Cycleway	Local Environment	R2 Once funding is received, the Carlisle & Currock Cycleway Project 2012 Revised Plan should be updated to record the date it is received and the project timescales reported to the Project Sponsor and where appropriate to the Corporate Programme Board.	C	Agreed. The Project Plan will be updated each time any funding for the Project is received and the date of receipt will be noted. The Director of Local Environment, the Project Sponsor, will be advised of any such funding being received.	Highways Manager	06/11/2013	The project plan was updated on 26/11/13 to show latest progress and funding.	26/11/2013
04/09/2013	Carlisle & Currock Cycleway	Local Environment	R3 Cycleway adoption reports to the joint Carlisle City and County Council Highways & Transport Working Group to recommend adoption for maintenance purposes should be	C	Agreed. Any reports sent to the HTWG regarding adoption of the cycleway are retained centrally by the Executive Assistant and	Highways Manager	06/11/2013	Project plan updated to show latest adoption details. Section between Holme Head and Viaduct Estate was adopted on 09/09/13.	26/11/2013

retained centrally. The Carlisle & Currock Cycleway Project 2012 Revised Plan should be updated to show the date of the adoption request to the joint Carlisle City and County Council Highways & Transport Working Group and the date the Local Committee approved adoption.

also by the County Council. At the meeting of the HTWG on the 12th August 2013 it was recommended that the remaining completed sections of Cycleway which have been constructed between Holmehead and Viaduct estate Road should be adopted, excluding the Railway Bridge over the Caldew. When adoption is approved the Project Plan will be updated. It is then likely to be some considerable time before other sections are ready for adoption.

04/09/2013	Carlisle & Currock Cycleway	Local Environment	R4 The project management arrangements for cycleway projects should be reviewed and approved by the Corporate Programme Board in accordance with corporate project management arrangements.	B	Key control documents have been reviewed and are now in accordance with Corporate Programme Board requirements.	Policy & Communications Manager	06/11/2013	Key control documents have been reviewed and are now in accordance with Corporate Programme Board requirements.	30/04/2013
04/09/2013	Carlisle & Currock Cycleway	Local Environment	R5 A project issues and exceptions log should be completed for each project and the Project Management check sheet and standard forms should be updated to include these.	B	Action doc0.28 on Project Management pro-forma, to include Exception and Issues Log considerations. Create Exception Reports and Issue log pro-forma. Transfer elements to main monthly report.	Resource Planning Manager	06/11/2013	Amended doc to include Exception and Issue Log considerations. Created Exception Report and Issue Log pro-forma. Transfer elements as necessary to main monthly report.	05/08/2013
04/09/2013	Carlisle & Currock Cycleway	Local Environment	R6 A risk owner should also be identified and recorded against each risk on the risk assessment and the risk register should be updated throughout the projects life. Wider consideration of the risk detailing the uncertainty over the future 'ownership' of the cycle way and ongoing maintenance	C	Agreed. Amend Doc.026 on Project Management W drive pro-forma, to include Ownership and status. Update current Risk log to include new criteria. Regular reviews as necessary.	Resource Planning Manager	06/11/2013	Amended doc to include ownership and status. Updated current risk log to include new criteria. Regular reviews as necessary.	05/08/2013

			costs should also be detailed in all cycleway project risk registers						
04/09/2013	Carlisle & Currock Cycleway	Local Environment	R7 When no project board is appointed the delegated authority to the Project Sponsor and Project Manager should be clearly defined i.e. approving project plans, changes to project requirements and project timescales, costs etc.	B	Agreed. Corporate programme Board (CPB) has agreed a new Project Lifecycle which deals with this issue. The Directorate and the regular DMT meetings link in with the CPB.	Policy & Communications Manager	06/11/2013	Corporate Programme Board (CPB) has agreed a new project lifecycle which deals with this issue. The Directorate and the regular DMT meetings link in with the CPB. The Lifecycle included the monitoring of projects through the Directorates DMT's and CPB. This is particularly important when no project board is appointed.	31/07/2013
04/09/2013	Carlisle & Currock Cycleway	Local Environment	R8 Guidance should be provided to project managers to define what is considered "a major project issue" to be reported to the Corporate Programme Board i.e. changes to project plan, timescale and cost.	C	Agreed. Clear matrix for projects now in place. This links to the lifecycle and the level of control required by the CPB.	Policy & Communications Manager	30/11/2013	Clear matrices for projects now in place, this links to the lifecycle and the level of control required by the CPB. The scoring matrix is completed with advice from Programme Office. The Project Managers are reminded that guidance on a major issue is available on the Prince2 manual. The Project Manager is expected to begin the evaluation of the impact of the issue using the key criteria.	31/05/2013
21/10/2013	Performance Service Standards	Chief Executive's Team	R2 Where performance service standards are amended, any amendments should be approved by the SMT.	C	Ongoing activity. First amendments made at SMT on 6th August 2013.	Policy & Communications Manager.	06/11/2013	First amendments made at SMT on 6th August 2013.	06/08/2013

06/06/2013	IT Service Desk	ICT	R3 - The quality of call log data could be improved if a more consistent approach was adopted by service desk staff when recording information.	C	Best practise within the service desk to be adopted by the whole of D & IS to ensure consistency in approach.	Lead ICT Officer	01/09/2013	All staff, including service desk officers, have been instructed to ensure that all call logging, actions and subsequent resolution contain comprehensive details relating to the call. An emphasis has been placed on ensuring that call details are completed fully to enable any officer to have a complete understanding of the situation or technical issue without having to investigate further. Best practise has been identified with the approach taken by one officer and this is now being shared with colleagues.	10/01/2014
06/06/2013	IT Service Desk	ICT	R4 Incidents or requests should only be closed following user approval.	B	Procedures and practise to be introduced to ensure that incidents are only closed after authorisation from the user. Details of this authorisation to be included within the incident record.	Lead ICT Officer	01/09/2013	All staff have been advised to include details of correspondence between the service desk and the user as part of the call close procedure. For example an email from a user is now added into the call notes as part of call closure. Where a telephone conversation has taken place this is also included in the notes. When closed, the system automatically sends the user a call closure notification. Once completed the call instigator is sent a user satisfaction survey with the results discussed at team meetings. Areas of best practice or improvements required are identified and appropriate actions implemented. D & IS management are to ensure	10/01/2014

								adherence going forward.	
06/06/2013	IT Service Desk	ICT	R6 The service should consider increasing the level of monitoring against achieved service levels and comparison against the agreed service level targets.	C	Formal reporting and performance monitoring to be introduced against agreed service level targets.	Lead ICT Officer	01/11/2013	<p>The service desk software is configured to meet the service level requirements of Carlisle City Council. To ensure that this SLA is reviewed and maintained weekly key performance indicators have been introduced:</p> <ul style="list-style-type: none"> • calls open • calls on hold • calls resolved by 1st & 2nd line support • calls resolved by 3rd line support • emails received and logged • number of calls logged by the intranet self service portal • calls in breach of SLA • total number of telephone calls • telephone calls unanswered • calls specific to the Revenues and Benefits shared service <p>Meeting the Carlisle City Council SLA is treated as a high operational priority within D & IS and as such has now been added as a standing agenda item for the KPI's to be reviewed as part of the D & IS operational management meetings.</p>	10/01/2014

06/06/2013	IT Service Desk	ICT	R7 There should be documentary evidence that performance reports are monitored and reviewed on a regular basis by IT management and that key performance indicators are regularly reports to senior managements.	C	Monitoring and performance to be reviewed quarterly by the D & IS's management team. Reports to be produced for the shared service operations board.	Lead ICT Officer	01/11/2013	The service desk performance figures are now a standing agenda item for discussion at team meetings and the D & IS operational management meeting.	10/01/2014
06/06/2013	IT Service Desk	ICT	R8 The service should consider introducing a formal lessons learned approach following major problems or incidents.	C	Major incidents to be recorded in a formal lesson log. This is to be incorporated and with reference to business continuity and disaster recovery planning.	Lead ICT Officer	01/11/2013	Formal lessons learnt log has been introduced. This enables a "full picture" to be available for all major problems or incidents. These are aligned to service desk incident reference numbers. This will be periodically reviewed by the D & IS management team to ensure all actions / recommendations are implemented which will ensure D & IS adopts a proactive approach to reducing impact upon service.	10/01/2014

Grading of Audit Recommendations and Assurance Evaluations

(1) Audit Recommendations

Each audit recommendation arising from an audit review is allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of or failure to comply with a key control leading to a fundamental weakness and /or non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of or failure to comply with a system control leading to a significant system weakness.
C	Lack of or failure to comply with any other control leading to system weakness.

Where audit recommendations are arising from an audit review, a Summary of Audit Recommendations is attached to the audit report in the form of an Action Plan. This Action Plan is required to be completed by the lead client officer and provide details of proposed action to be taken to address the recommendation, the timescales for implementation and name of the responsible officer.

Internal Audit follow up all audit recommendations 6 months after the issue of the final report, with the exception of the material system reviews which are followed up as part of the next annual audit. When it is considered that insufficient or no action taken has been taken to address audit recommendations and there is no good reason to support the lack of action, the matter is reported to the Audit Committee.

(2) Audit Assurance Evaluations

Audit assurance evaluations are applied to each review to assist Members and officers in an assessment of the overall level of control and potential impact of any identified weaknesses. Internal Audit's assessment of internal control forms part of the annual assessment of the system of control, which is now a statutory requirement. The assurance evaluation given to an audit area can be influenced by a number of factors including stability of systems, number of significant recommendations made and impact of not applying audit recommendations, non adherence to procedures etc. The levels of assurance are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Partial	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

APPENDIX D



SHARED INTERNAL AUDIT SERVICE

FINAL INTERNAL AUDIT REPORT

**FOR:
RESOURCES DIRECTORATE**

**ON:
Audit Follow Up
GRANTS AND EXTERNAL FUNDING**

Draft Report Issued: 8 November 2013

Final Report Issued: 12 December 2013

Section 1 – Management Summary

1. REASON FOR THE AUDIT

- 1.1. The 2013/14 Audit Plan includes the follow up of the Grants and External Funding review undertaken during 2012/13. The final report was dated 26 November 2012 and presented to the Audit Committee on 11 January 2013.

2. BACKGROUND INFORMATION

- 2.1. The previous audit review assigned a 'restricted' level of assurance over the administration of Grants and External Funding. The reasons for this opinion were because:

- There were concerns that the central grant monitoring arrangements and the records maintained by Financial Services for 2011-12 and prior years were not as accurate and up to date as they should be. This was largely due to directorates not keeping Financial Services informed of external funding they have obtained;
- Arrangements were found to be in place for quality checking of Disabled Facility Grants but a lack of communication led to the late submission of the 2011/12 claim;
- Improvements were identified for actions to be taken to make the Financial Services External Funding Monitoring Sheets more robust. These included the timeliness and completeness of the external funding information form received from directorates and the overall accuracy and reliability of the information collated and reported upon;
- Improvements were identified for actions to be taken on the Strategic & Private Sector Housing Section's electronic monitoring of Disabled Facilities Grant's, due to the current system not following sound accounting practices, i.e. financial years not updated or stated incorrectly, incorrect formulae and a lack of cross-checks and referencing on column and line totals; and
- The need for a more joined-up approach between directorates to the needs of individuals applying for Disabled Facilities Grants to reduce the likelihood of duplicated payments to grant applicants and time invested by council employees.

- 2.2. Grant Thornton 'Grant certification work plan for Carlisle City Council' year ended 31 March 2013, dated July 2013 stated the most significant claims and returns in 2011/12 were the Housing & Council Tax Benefit claim and the National Non-Domestic Rates return. N.B there have been no single programme claims required to be certified since 2010/11.

3. SCOPE AND OBJECTIVES

- 3.1. The scope and objectives of this review is to perform a detailed follow up of the recommendations contained within the previous audit report in order to evaluate and report upon whether appropriate and timely actions have been taken by management to strengthen corporate governance, system controls and risk management arrangements within the Council's administration of Grants and External Funding.

- 3.2. Follow up audit testing, verification and discussions with management have been carried out to form an opinion over the following areas examined:

- Policies and Procedures;
- Financial Administration;
- Submission of Grant Claims;
- Retention of Information; and
- Supervision and Review.

Section 1 – Management Summary

4. RECOMMENDATIONS AND STATEMENT OF ASSURANCE

- 4.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.

- 4.2. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Partial	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

5. EVALUATION AND RECOMMENDATIONS ARISING

- 5.1. From the areas discussed with management, examined and tested as part of this follow up of Grants and External Funding, we consider the current controls operating within provide **Substantial** assurance. The overall evaluation of the 13 recommendations noted 12 have been implemented and one was considered to be no longer relevant

6. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 6.1. The Substantial assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.

- 6.2. *Areas of good practice noted:*

Finance

- Policies and procedures covering the area of grants and external funding are regularly reviewed and updated;
- The processes and procedures are closely monitored and continuously being improved by Finance in what is currently an ever changing environment;
- Grants and External Funding training is provided annually facilitated by the Financial Services, to aid awareness and compliance with the guidance notes. This is over and above the e-mailing to relevant officers to aid the awareness, location and access to the guidance notes raised within the previous audit review;

Section 1 – Management Summary

- Officers in Financial Services who are involved with the grants and external funding process are highly experienced and have been involved within the process for many years; and
- Records maintained within Financial Services are clearly summarised and cross referenced. They also reflect the financial information recorded within the main ledger.

Housing

- The Housing Team members involved within the Disabled Facilities Grants administration are highly experienced and knowledgeable;
- The team has taken action to implement the previous audit recommendations and has done so successfully; and
- The contact with the County Council 's Occupational Therapists has been strengthened with the re-introduction of weekly progress meetings and good communication has been seen with Financial Services to ensure completion, certification and submission of the DFG to the stated deadline.

- 6.3. It is concluded that sufficient progress has been made to implement the 12 previous audit recommendations. One of the recommendations was considered to be no longer relevant. A number of opportunities to further enhance the guidance notes, system and controls have been identified and discussed with relevant officers. These matters are detailed within the relevant sections of this report for consideration.

REPORT DISTRIBUTION

The audit report has been distributed to the following officers.

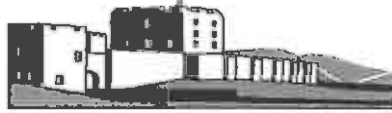
Recipient	Action Required
Director of Resources	Report to be noted.
Director of Economic Development	Report to be noted.
Financial Services Manager	Report to be noted.
Chief Accountant	Report to be noted.
Communities, Housing & Health Manager	Report to be noted.

Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	Report to be noted.
Audit Committee	To consider the Report/Executive Summary at its next meeting on 24 January 2014.

APPENDIX E

**CARLISLE
CITY COUNCIL**



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SHARED INTERNAL AUDIT SERVICE

INTERNAL AUDIT REPORT

**FOR:
GOVERNANCE DIRECTORATE**

**ON:
ELECTORAL REGISTRATION**

Draft Report Issued: 18 December 2013

Final Report Issued: 9 January 2014

Section 1 – Management Summary

1. REASON FOR THE AUDIT

- 1.1. The audit of Electoral Registration was identified for review as part of the agreed Audit Plan for 2013/14.

2. BACKGROUND INFORMATION

- 2.1. Electoral Registration is a statutory service situated within the Governance Directorate and is maintained by the Electoral Services Officer and 2 Deputy Electoral Services Officers. This audit review is to concentration upon the most recent Cumbria County Council Elections process and administration.

3. SCOPE & OBJECTIVES

- 3.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. The key objectives for review were to ensure that for the Cumbria County Council Elections:
- Procedures are in place and comply with the most recent legislation and staff are aware of these;
 - All income due is identified, claimed promptly, receipted, accurately recorded and banked; and
 - All payments made are correct and accurate, appropriately authorised and in accordance with legislation and Council's approved guidance.
- 3.2. Detailed findings are shown in Section 2 of this report - Matters Arising.
- 3.3. The scope and testing undertaken as part of this review reflects inherent risks specific to Electoral Registration and those which have been raised through the Council's corporate risk management arrangements.
- 3.4. This audit reviewed the day to day operation of undertaking the work undertaken by the Electoral Registration Section at the request of the Returning/Deputy Returning Officer. In particular the process and operation implemented for the May 2013 Cumbria County Council election was reviewed to provide assurance that the systems and process remain effective.

4. RECOMMENDATIONS AND STATEMENT OF ASSURANCE

- 4.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.

- 4.2. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Section 1 – Management Summary

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Partial	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

5. EVALUATION AND RECOMMENDATIONS ARISING

- 5.1. From the areas examined and tested as part of this audit review, we consider the current controls operating within Electoral Registration provide **substantial assurance**. There were no recommendations arising from this review.

6. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 6.1. The substantial assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.
- 6.2. *Areas of good practice noted:*
- It is a well established function within Carlisle City Council;
 - Whilst the Deputy Electoral Officers are relatively new members to the team the lead officer has extensive knowledge and experience over the administration of Electoral Registration;
 - There are detailed procedures in place and staff are aware and have ready access to these;
 - Agreement and direction was sought and received from the relevant County Council Officer's before the administration of the Election was commenced; and
 - There is a good working relationship with the Financial Services Manager, Service Support Team Leader and Finance Assistant who are integral to the delivery of the Electoral Registration service for the Cumbria County Council Elections.
- 6.3. No key issues are arising from this review. However, there are to be major changes in the foreseeable future to the administration of Electoral Registration through 'Individual Electoral Registration' this is being planned for implementation alongside the current day to day operations and it was requested that this be reviewed by Internal Audit once implemented.

REPORT DISTRIBUTION

The audit report has been distributed to the following officers.

Recipient	Action Required
Governance, Electoral Services Officer	Report to be noted along with consideration of suggested (management discretionary) improvements.
Resources, Financial Services Manager	Report to be noted.
Director of Governance	Report to be noted.
Director of Resources	Report to be noted.

Other recipients of the final report:

Chief Executive Deputy Chief Executive	Report to be noted.
Audit Committee	To consider the Executive Summary at its next meeting on 24 January 2014.



SHARED INTERNAL AUDIT SERVICE

INTERNAL AUDIT REPORT

**FOR: POLICY AND COMMUNICATIONS
CHIEF EXECUTIVE'S TEAM**

**ON:
AUDIT OF PERFORMANCE SERVICE STANDARDS**

Draft Report Issued: 27th August 2013

Final Report Issued: 21st October 2013

Section 1 – Management Summary

1. REASON FOR THE AUDIT

- 1.1. The audit of Performance Service Standards was identified for review as part of the agreed Audit Plan for 2013/14.

2. BACKGROUND INFORMATION

- 2.1. The abolishment of the National Indicator Set created a gap in the Council's performance reporting. Alongside the Council's Corporate Plan performance reporting it agreed a set of service standards based on the services that mattered most to the Council's key stakeholders ie. customers, employees and members. These standards are long term measures of the standard of the service and will enable continuous improvement through comparison with trends and benchmarking with similar authorities, especially during the year on year budget cuts.
- 2.2. The 6 service standards set for 2012-13 are detailed as follows:
 - Percentage of household planning applications processed within eight weeks
 - Missed waste or recycling collections
 - Percentage of waste sent for recycling
 - Overall satisfaction with council services
 - Days to process new benefit claims
 - Staff Satisfaction with "working at Carlisle City Council".
- 2.3. On an annual basis Carlisle City Council will continue to review these service standards adding/amending or removing were appropriate.
- 2.4. The Policy and Communications Manager, supported by a team of Policy and Performance, is responsible for assisting Directorates in setting, reporting and publicising the Council's 6 key service standards. On a monthly basis the service standards are reported to each directorate and publicised at the Council's main foyer and on its website. In addition on a quarterly basis the service standards are reported to each Overview and Scrutiny Panel.

3. SCOPE & OBJECTIVES

- 3.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. The key objectives for review were to ensure that:
 - the service standards have been approved and are aligned to the Council's Corporate Plan priorities and/or Service Plans;
 - the service standards are calculated and documented in accordance with the agreed methodology/definitions; and
 - the monitoring and reporting arrangements in place both internal and external to Carlisle City are adequate.
- 3.2. Detailed findings are shown in Section 2 of this report - Matters Arising.
- 3.3. The scope and testing undertaken as part of this review reflects inherent risks specific to Performance Service Standards and those which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.

Section 1 – Management Summary

4. RECOMMENDATIONS AND STATEMENT OF ASSURANCE

- 4.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.

- 4.2. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Partial	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

5. EVALUATION AND RECOMMENDATIONS ARISING

- 5.1. From the areas examined and tested as part of this audit review, we consider the current controls operating within Performance Service Standards provide **reasonable** assurance.

Report Ref	Control Area	Evaluation	Recommendations		
			A	B	C
7.1	The service standards have been approved and are aligned to the Corporate Plan priorities and/or Service plans.	Reasonable	0	1	1
7.2	The service standards are calculated and documented in accordance with the agreed methodology/definitions.	Reasonable	0	1	1
7.3	The monitoring and reporting arrangements in place both internal and external to Carlisle City are adequate.	Reasonable	0	1	1
Overall Evaluation / No. of Recommendations		Reasonable	0	3	3

Section 1 – Management Summary

6. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 6.1. The **reasonable** assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.
- 6.2. *Areas of good practice noted:*
- a performance standard methodology was in place to implement the first 6 service standards
 - technical notes were available for each service standard; and
 - in majority of cases there is transparency between results shown on Covalent and those recorded at a departmental level.
- 6.3. A number of opportunities to further enhance controls have been identified; these matters are detailed in Section 2 – Matters Arising and summarised in the Action Plan which is attached as Appendix B.
- 6.4. The key issues arising from this review are:
- audit testing noted for 3 of the 6 service standards there is no relationship to service plans. However it is noted that there is the intention that the service standard *days to process new benefit claims* would be changing to relate to the existing service plan in place. For the other two *missed waste or recycling collections and percentage of waste sent for recycling* it is noted although the service plan is a work in progress these have continued to be reported at a departmental level as one was previously reported a performance indicator and the other a local indicator;
 - the technical notes lack formality to their content and use, leading to a lack of departmental ownership and accountability for these and for the service standards calculated and reported etc.
 - prior to reporting and publicising service standard results there is no formal sign off by the owners of these service standards that these are accurate and complete.
 - there is a need to ensure the service standards reported and publicised have been independently checked to the relevant systems and supporting documents, are accurately reported in compliance with the Data Quality Policy and not altered thereafter.

REPORT DISTRIBUTION

The audit report has been distributed to the following officers.

Recipient	Action Required
Director of Resources, Resources	Report to be noted.
Policy and Communications Manager, Chief Executive's Team	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan.

Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix B) at its next meeting on 24 th January 2014.

CHIEF EXECUTIVE'S TEAM

Audit of Performance Service Standards (2013/14)

SUMMARY OF RECOMMENDATIONS & ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	RISK IF NOT ACTIONED	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE TO BE FULLY ACTIONED BY
R1	The Performance Service Standard methodology states that the "service standards for ...work areas ...must relate to service plans." Internal Audit testing of a sample of 3 service standards; days to process new benefit claims, missed waste or recycling collections and percentage of waste sent for recycling, noted that the "days to process new benefit claims" service standard does not relate to the existing Shared Service Plan for Revenue & Benefits which measures "average time (days) for processing new claims". For the other two service standards "missed waste or recycling collections" and "percentage of waste sent for recycling" service plans are not yet formulated.	In accordance with the Performance Service Standard methodology standards should relate to existing or new service plans.	Lack of accountability and monitoring over the standard of the service provided. Non-compliance with service standard methodology.	B	A new template and approach to service planning will be rolled-out for 2014/15. This template will list the service standards for all customer-facing services.	Chief Executive / Deputy Executive Chief Executive	April 2014
R2	Internal Audit noted that since the 5 th July when the SMT formally approved the 6 published service standards, amendments have been made	Where performance service standards are amended, any amendments should be approved by the SMT.	Lack of accountability when unauthorised amendments are made.	C	Ongoing activity. First amendment made at SMT on 6 August 2013	Policy and Performance Officer	6 August 2013

APPENDIX B

R3	<p>to the service standards in particular to the days to process new benefit claims and there is insufficient evidence that these amendments have been approved.</p> <p>Internal Audit's testing of the service standard's technical notes, noted that there is no evidence:</p> <ul style="list-style-type: none"> • of a formal approval process in place where the managers' assigned responsibility to manage the service standards have approved the details of the technical notes; • that there is a standard format or defined criteria to the content of the technical notes; • that potential risks have been identified and documented should there be difficulties with the availability of systems and the dependency on others to obtain complete and timely information/data to calculate and report the service standards; • documented showing the period and frequency of reporting ie monthly, year-to-date; and • how often these service standards and notes will be reviewed. 	<p>The technical notes should be reviewed and updated::</p> <ul style="list-style-type: none"> • to include the service standard's purpose/objective, method of collating data, formula guidance, how to measure, source of data etc • content should be in a standard format; • any potential risks should there be difficulties with the availability of systems and the dependency on others to obtain complete and timely information/data to calculate and report the service standards; • document the period and frequency of reporting ie monthly, year-to-date; • to define a unit of measurement more meaningful to the objective of the service standard; and • to detail how often the service standard and technical notes will be reviewed. 	<p>Non-compliance as a result of lack of understanding and awareness of expectations.</p> <p>Lack of consistency and accuracy</p> <p>Objective not achieved when there is a lack of clarity over risks that may occur.</p> <p>Lack of ownership accountability</p>	B	<p>New technical notes are being written these will include:</p> <ul style="list-style-type: none"> • to include the service standard's purpose/objective, method of collating data, formula guidance, how to measure, source of data etc • any potential risks should there be difficulties with the availability of systems and the dependency on others to obtain complete and timely information/data to calculate and report the service standards; • document the period and frequency of reporting ie monthly, year-to-date; • to define a unit of measurement more 	Policy and Performance Officer	30 November 2013
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	<p>Internal Audit noted that the methodology states that "...percentages are the favoured" unit measurement for all service standards. In Internal Audit's opinion in using percentages for all service standards may not be meaningful to the objective of certain service standard in particular missed waste or recycling collections reported as 0.02 or 0.03%. In addition when using percentages readers may make the assumption it is the intention to achieve a 100% which not always be achievable</p>	<p>The technical note should be approved by the department manager assigned responsible for it. The "assignee" responsible for collating the source data should input the service standard results on Covalent.</p>			<p>meaningful to the objective of the service standard; and</p> <ul style="list-style-type: none"> to detail how often the service and standard technical notes will be reviewed. <p>These notes will be signed off by Service Manager and Director.</p>		
R4	<p>There is no evidence the individual named as responsible for managing each service standards independently checks the monthly results on Covalent prior to being reported to the Policy Team. Internal Audit noted the lack of independent checks prior to inputting data to Covalent had been previously highlighted in Internal Audit's Review of Data Quality. Internal Audit testing noted instances where the data on Covalent does not agree to department's supporting documentation.</p>	<p>The service standard data on Covalent should be independently validated prior to reporting to the Policy Team and evidence should be documented.</p>	<p>Inaccurate and/or inconsistent data reported. Non compliance with Data Quality Policy.</p>	C	<p>Guidance on Data Quality will be given to 'assignees' and officer providing validation. Validation will be recorded prior to submission.</p>	<p>Policy and Performance Officer</p>	<p>30 November 2013</p>
R5	<p>Internal Audit testing noted that although there is email evidence of Directors' commenting on the service standards to be reported and</p>	<p>Performance Service Standard results should be formally signed off by a responsible manager or Director prior to reporting and publicising.</p>	<p>Lack of responsibility and accountability</p>	C	<p>Process map will be updated to reflect the email 'signing off'.</p>	<p>Policy and Performance Officer</p>	<p>31 October 2013</p>

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R6	<p>published there is no evidence of formal sign off of the monthly results prior to reporting and publicising.</p> <p>Internal Audit testing of a sample of 3 service standards; processing new benefit claims, the percentage of waste sent for recycling, the missed waste or recycling collections; published on the poster at reception and the Council's website for November 2012 and February 2013 noted that:</p> <ul style="list-style-type: none"> for process new benefit claims the October 2012 results published in November 2012 did initially agree to that months results shown on Covalent however since that date the results had been updated and now don't agree; the percentage of waste sent for recycling the September 2012 results published in November 2012, 47.6% do not agree to that months result of 48%, shown on Covalent however agree to the department's supporting documents for that month 47.63%. The November results published in February 2013, 42% do not agree to that month's results of 41.35% shown on Covalent and on the department's supporting documents. <p>Internal Audit testing of a</p>	<p>There is a need to ensure that prior to and after reporting and publicising the service standard data and the supporting data shown on Covalent is not altered.</p> <p>In compliance with the Data Quality Policy there is a need to independently check the service standard results reported to Directorates, SMT, O&S and published on posters and the Council's website matches the data on Covalent and the department's supporting documentation attached to Covalent.</p>	<p>Inconsistency and lack of audit trail of results reported.</p> <p>Non-compliance with Data Quality Policy.</p>	B	<p>We will internally validate the data based on the information available. We will then request an annual audit of some or all of the data.</p>	Policy and Comms Manager	April 2014
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APPENDIX B

	<p>sample of 3 service standards; processing new benefit claims, percentage of waste sent for recycling, the missed waste or recycling collections; on Directors' monthly reports for November 2012 and February 2013 noted:</p> <ul style="list-style-type: none"> • for process new benefit claims the year to-date "YTD" results, 68.4%, for October 2013 reported in November 2012 and January 2013, 63.9% reported in February 2013 do not agree to the results of 59.27%, 53.82% calculated from the department's supporting documents; • for the percentage of waste sent for recycling the YTD results for September 2012, 49.4%, reported in November 2012 and November 2012, 49%, reported in February 2013 do not agree to the YTD results of 49.68% and 47.98% calculated from the department's supporting documents; and • for missed waste or recycling collections the YTD results for October 2012, 0.03%, reported in November 2012 do not agree to the YTD results, 0.02% calculated from the department's supporting documents. The YTD results for January 2013, 0.03%, reported in 						
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<p>February do not agree to the YTD results of 0.02% calculated from the department's supporting documents.</p> <p>Internal Audit testing of the 3rd Quarterly report of 2012/13 (December 2012/January results) for 3 service standards; processing new benefit claims, percentage of waste sent for recycling and missed waste or recycling collections noted that:</p> <ul style="list-style-type: none"> • processing new benefit claims the YTD results of 63.9% did not agree to the results shown on Covalent; and • for missed waste or recycling collections the YTD results, 0.03%, did not agree to the YTD results of 0.02% reported on Covalent. 						
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SHARED INTERNAL AUDIT SERVICE

INTERNAL AUDIT REPORT

**For:
RESOURCES**

**On:
REVENUES RECOVERY**

Draft Report Issued: 25th November 2013

Revised Draft Issued: 17th December 2013

Final Report Issued: 3rd January 2014

Section 1 – Management Summary

1. REASON FOR THE AUDIT

- 1.1. The audit of Revenues Recovery was identified for review as part of the agreed Audit Plan for 2013/14.

2. BACKGROUND INFORMATION

- 2.1. Carlisle City Council, Allerdale District Council and Copeland Borough Council have operated a Revenues and Benefits Shared Service since October 2010. Carlisle City Council is the 'host' authority of the shared service, the management of which now comes under the remit of the Resources Directorate.
- 2.2. Within Revenues and Benefits there are several types of debt for recovery; the main being Housing and Council Tax Benefit overpayments, Council Tax and NNDR. The recovery procedures for these three key service areas are not yet fully aligned across the shared service.
- 2.3. This audit concentrates in detail on the recovery of Housing and Council Tax Benefit overpayments and Council Tax and concerns the recovery arrangements in place at Carlisle City Council.
- 2.4. The Carlisle Recovery Team consists of the Senior Recovery Officer and 3 Recovery Officers and reports to the Revenues Manager. The Housing Benefit Overpayment Team consists of the Senior Overpayments Officer and 3 Overpayment Officers (2 temporary until 2014). This team reports to the Benefits Manager.

3. SCOPE & OBJECTIVES

- 3.1. Audit testing and verification have been carried out to form an opinion over the effectiveness of systems and controls in place relating to the risks identified. The key objectives for review were to ensure that:
 - All established recovery procedures are documented, maintained and compliant with legislation.
 - Arrangements are in place for determining the way in which debts are targeted and identified as requiring specific recovery action.
 - Recovery action ensures that recovery is correctly calculated and enforced in line with agreed procedures.
 - There is regular monitoring of debts undertaken by the Revenues and Benefits Shared Service which provides senior management with relevant and timely details of the scale of debts and recovery performance achieved.
- 3.2. Detailed findings are shown in Section 2 of this report - Matters Arising.
- 3.3. The scope and testing undertaken as part of this review reflects inherent risks specific to Revenues Recovery and those which have been raised through the Council's corporate risk management arrangements. Where applicable, other emerging risks have also been included in the scope and testing undertaken.

4. RECOMMENDATIONS AND STATEMENT OF ASSURANCE

- 4.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

Section 1 – Management Summary

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.

- 4.2. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Partial	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.

5. EVALUATION AND RECOMMENDATIONS ARISING

- 5.1. From the areas examined and tested as part of this audit review, we consider the current controls operating within Revenues and Housing Benefit Overpayment Recovery provide *REASONABLE* assurance.

Report Ref	Control Area	Evaluation	Recommendations		
			A	B	C
7.1	Established Procedures – Compliance to legislation	Reasonable	0	1	0
7.2	Operational Processes	Reasonable	0	1	1
7.3	Compliance to Procedures	Reasonable	0	1	2
7.4	Performance Monitoring	Substantial	0	0	0
Overall Evaluation / No. of Recommendations		REASONABLE	0	3	3

6. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

- 6.1. The **Reasonable** assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.

- 6.2. *Areas of good practice noted:*

- Excellent in-team knowledge.
- Local awareness which assists in effective recovery.
- On-going efforts to align processes.
- Effective monitoring arrangements.

Section 1 – Management Summary

6.3. A number of opportunities to further enhance controls have been identified; these matters are detailed in Section 2 – Matters Arising and summarised in the Action Plan which is attached as Appendix B.

6.4. The key issues arising from this review are:

- **Established Procedures.**

Council Tax Revenue Recovery documented procedures are out of date. This is currently a work in progress with no specific deadline for completion. Management aim to ensure that once recovery procedures have been aligned throughout the shared service, then the updating of the documented procedures will then take priority.

- **System Processes.**

Management regularly review to identify where and how procedures can be adjusted to improve efficiency. Where processes are amended, management must ensure that all system documentation is updated accordingly.

- **Data Protection**

Staff in the Revenues and Benefits Shared Service should all undertake the updated Data Protection Training that is currently available either in course or e-learning format. The importance of keeping all Carlisle City Council staff updated on the developments with Data Protection legislation should be extended throughout the whole organisation.

- **Compliance to Procedures.**

Alignment of the bailiff recovery processes between the 3 districts within the shared service should be addressed with a revised SLA incorporating the requirements of the forthcoming laws regarding bailiffs that are to be introduced in 2014.

- **Performance Monitoring.**

There are adequate monitoring procedures in place for both Council Tax and Housing Benefit Overpayment Recovery.

REPORT DISTRIBUTION

The audit report has been distributed to the following officers.

Recipient	Action Required
Director of Resources.	Report to be noted.
Shared Services Partnership Manager (Revenues and Benefits) Resources Directorate.	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
Benefits Manager Resources Directorate.	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
Revenues Manager Resources Directorate.	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan
Performance Manager Resources Directorate.	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan

Other recipients of the final report:

Chief Executive Deputy Chief Executive	Report to be noted.
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix B) at its next meeting on 24 th January 2014.

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RESOURCES DIRECTORATE

Audit of Revenues Recovery (2013/14)

SUMMARY OF RECOMMENDATIONS & ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	RISK IF NOT ACTIONED	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE TO BE FULLY ACTIONED BY
R1	Revenues Recovery Processes within the Shared Service are not aligned.	Management should set a realistic timescale to complete and agree the Recovery alignment processes across the shared service so that the approach to recovery is consistent across the districts and maximise the potential for recovery. Once this process is complete, a unified procedure manual should be developed and circulated throughout the relevant staff in the shared service.	Recovery methods are not consistent throughout the shared service leading to confusion in effective recovery, staff training etc.	B	Agreed	Revenues Manager.	31 st March 2014
R2	The HBOP Procedure manual does not accurately reflect the current recovery process.	The HBOP Procedure Manual requires updating to show that there is now only 14 days between invoice and first reminder stage. If it is also decided after the trial period that the additional letter also be adopted as common practice then this procedure must also be incorporated into the manual.	Outlined procedures are outdated.	C	Agreed	Benefits Manager.	31 st March 2014
R3	Staff would benefit from updated in house Data Protection Training to	It would be beneficial for all Revenues and HBOP Recovery staff to undertake the most recent Data Protection Training	Data Protection knowledge is not current. Opportunities	B	Agreed	Shared Services Partnership	30th June 2014

APPENDIX B

	comply with best practice recommendations from the regulator, the Information Commissioners Office.	to ensure that they are fully conversant with Data Protection requirements. The importance of relevant current Data Protection knowledge should be emphasised authority-wide.	to access in house training are missed.		Manager.	
R4	Current procedure notes do not reflect the importance for new and inexperienced staff to have any payments arrangements authorised by a Team Leader during training.	The shared service composite procedural notes for revenues recovery should be updated to include the provision that all trainee / new recovery staff must consult a line manager prior to making any payment arrangement	Higher potential for ineffective / inappropriate payment arrangements.	C	Revenues Manager.	30th June 2014
R5	The Service Level Agreement with Bailiff Rossendale's Services requires updating.	Alignment of the bailiff recovery processes between the 3 districts within the shared service should be made a priority. A revised SLA should be agreed on the back of this incorporating the requirements of the forthcoming laws regarding bailiffs that are to be introduced in 2014.	Recovery is not effective. Bailiff action does not operate in line with revised legislation.	B	Revenues Manager	31 st May 2014
R6	The HBOP overpayment letters to the claimant on occasion do not sufficiently reflect the reason for the overpayment.	Management should remind Officers of the importance of ensuring that overpayment notifications with the classification 'other' should be manually adjusted to reflect the reason for the overpayment.	Claimants are issued with an overpayment notification letter that does not explain the reason for the overpayment which if uninformative and may hinder the right to appeal.	C	Benefits Manager.	30 th Jan 2014.

APPENDIX H



SHARED INTERNAL AUDIT SERVICE

FINAL INTERNAL AUDIT REPORT

For:

Chief Executive's Team

On:

Follow Up of Records Management

Draft Report Issued: 15th October 2013

Final Report Issued: 9th January 2014

Section 1 – Management Summary

1. REASON FOR THE AUDIT

- 1.1. The Audit of Records Management was originally reported in September 2012. This review awarded a restricted assurance level and identified 3 high level recommendations. In line with the agreed arrangements for following up previous recommendations which relate to significant findings, this area was identified for a follow up review as part of the Audit Plan for 2013/14.

2. BACKGROUND INFORMATION

- 2.1. The previous restricted assurance level reflects the significance of the key findings arising from the initial review which highlighted concerns regarding the lack of systems, policies and procedures being in place over the administration of records management within the Council.

3. SCOPE AND OBJECTIVES

- 3.1. The objective of this review is to perform a detailed follow up of the 3 recommendations contained within the previous audit report in order to evaluate and report upon whether appropriate and timely actions have been taken by management to strengthen corporate governance, system controls and risk management arrangements within the Council's administration of Records Management.
- 3.2. Follow up audit testing, verification and discussions with management have been carried out to form an opinion over the following areas covered by the previous audit recommendations:
- Best practice framework;
 - Records management policy; and
 - Designated responsibility.

4. RECOMMENDATIONS AND STATEMENT OF ASSURANCE

- 4.1. Recommendations arising from this audit review have been allocated a grade in line with the perceived level of risk. The grading system is outlined below:

GRADE	LEVEL OF RISK
A	Lack of, or failure to comply with, a key control leading to a *fundamental weakness as a result of non-compliance to statutory requirements and/or unnecessary exposure of risk to the Authority as a whole (e.g. reputation, financial etc).
B	Lack of, or failure to comply with, a key control leading to a significant system weakness.
C	Lack of, or failure to comply with, any other control, leading to system weakness.

- 4.2. Audit assurance levels are applied to each review to assist Members and Officers in an assessment of the overall level of control and potential impact of any identified weaknesses. The assurance levels are:

Level	Evaluation
Substantial	Very high level of assurance can be given on the system/s of control in operation, based on the audit findings.
Reasonable	Whilst there is a reasonable system of control in operation, there are weaknesses that may put the system objectives at risk.
Partial	Significant weakness/es have been identified in parts of the system of internal control which put the system objectives at risk.

Section 1 – Management Summary

Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk.
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5. EVALUATION AND RECOMMENDATIONS ARISING

5.1. From the areas examined and tested as part of this follow up of Records Management, we consider the current controls operating within provide **Partial** assurance.

Control Area	Evaluation	Recommendations		
		A	B	C
Best practice framework	Partial	1	3	-
Records management policy	Partial	-	1	-
Designated responsibility	Reasonable	-	1	-
Overall Evaluation / No. of Recommendations	Partial	1	5	-

6. KEY FINDINGS ARISING FROM THE AUDIT REVIEW

6.1. The Partial assurance level given to an audit area can be influenced by a number of factors including the stability of systems, number of significant recommendations made, impact of not applying audit recommendations, non adherence to procedures etc.

6.2. *Areas of good practice noted:*

- Recognition, by those charged with corporate governance, of the need to address the lack of system and controls operating with regards to records management within the Council; and,
- There is a designated officer post - the Policy & Communications Manager - to progress the implementation of a formal system of records management throughout the Council with the necessary assistance (SMT, Directors and Service Managers).

6.3. Appendix B lists the 3 previous audit recommendations made and the actions that were agreed to be taken, in order to evaluate overall progress to date of the implementation of the recommendations.

6.4. It is concluded that there has been a lack of progress made to implement the 3 previous audit recommendations with a significant time delay in commencing the actions required. The recommendations arising from this review (either new or restated/modified) are contained within the Summary of Recommendations / Action Plan attached as Appendix B.

6.5. The key areas for further address can be summarised as follows:

6.5.1. The Council is to adopt a recognised corporate standard for its records management arrangements, but there is still much work to do to develop a suitable framework which reflects relevant legislation, recommended practice and which supports the management of potential risks in this area.

6.5.2. A Records Management Policy still needs to be prepared which sets the Authority's aim and standards to be achieved, along with supporting guidance notes for staff. With no formalised records management system documented and implemented, staff will not have a 'corporate' awareness of requirements, no reference point and no specific/tailored training. The intention is that there will be widespread awareness raising and targeted training but these arrangements are still to be implemented.

Section 1 – Management Summary

6.5.3. Some progress has been made to implement the use of retention schedules within some service areas and this does alleviate a degree of risk that the Council would otherwise face. However, it is difficult to evaluate the effectiveness of these retention schedules when there is no set direction in terms of a framework, procedures and guidance. The use and roll out of retention schedules will be a core element of the improvement work to be undertaken.

REPORT DISTRIBUTION

The audit report has been distributed to the following officers.

Recipient	Action Required
Policy and Communications Manager (Chief Executive's Team)	Action required. Please refer to Appendix B - Summary of Recommendations / Action Plan.
Policy and Performance Officer (Chief Executive's Team)	Report to be noted.

Other recipients of the final report:

Chief Executive	Report to be noted.
Deputy Chief Executive	
Director of Governance	Report to be noted.
Director of Resources	Report to be noted.
Audit Committee	To consider the Summary of Recommendations / Action Plan (Appendix C) at its next meeting on 24 January 2014.

CHIEF EXECUTIVE'S TEAM

Follow Up Audit of Records Management

SUMMARY OF RECOMMENDATIONS & ACTION PLAN

REF	ISSUE RAISED	RECOMMENDATION	GRADE	AGREED ACTION	RESPONSIBLE OFFICER	DATE ACTIONED BY
R1	<p>Exposure to unnecessary risk of non compliance to statutory requirements.</p> <p>There is no established Records Management Policy.</p>	<p>The Code of Practice FOI Section 46 should be adopted by the Council in line with recommended practice.</p> <p>Resources should be concentrated on establishing an Authority-wide Records Management Policy. This policy should comply with the requirements of relevant legislation and also embrace recommended practice.</p>	A	<p>The following policy statement has been agreed by SMT:</p> <p><i>The corporate standard for records management is Code of Practice FOI Section 46 or equivalent standard (ISO 15489-1:2001(E)).</i></p> <p><i>It is the responsibility of every Service Manager to manage a Retention Schedule for their service area based on the corporate template.</i></p> <p><i>A well managed Retention Schedule is evidence for the Management Competency Framework, specifically 'Delivering the Service'.</i></p> <p>A draft Records Management Policy will be ready for consultation in January.</p> <p>The implementation of this policy is dependent upon available resources within each Directorate. The draft Project Plan will help to identify when and where these resources will be needed. Monitoring of the implementation will</p>	<p>Policy & Communications Manager, Corporate Information Officer</p> <p>Policy & Communications Manager</p> <p>Policy & Communications Manager</p>	<p>Statement completed – Completion date November 2013</p> <p>Draft policy January 2014</p> <p>Final Policy target date - March 2014</p>

APPENDIX B

R2	<p>There is no project group set up to implement the corporate records management system.</p> <p>It is difficult to evaluate the retention schedules when there is no set direction in terms of a framework, procedures and guidance. These are requirements that are set out within the code of practice FOI Section 46. Lack of sufficient trail of actions.</p> <p>There is no risk management of the project group to meet its aims and objectives.</p>	<p>A project group should be set up to ensure there is a defined and systematic approach to the implementation of a proper records management system within the Council.</p> <p>The project group should give consideration to the following improvements regarding the retention schedules to provide a full trail, including:</p> <ul style="list-style-type: none"> - Details of preparer and date prepared; and, - Details of reviewer and date reviewed <p>The project group should give appropriate regard to related risk exposure as part of its remit and within the set up arrangements and administration of the records data management system implementation of the records management process.</p>	B	<p>take place through the Directorate Management Teams.</p> <p>A Records Management Project has been scored and a business case will be brought to the Corporate Programme Board on 9th January 2014.</p> <p>Following on from the above a Project Board/Lead will be appointed. The project brief will include the recommendation requirement to include full audit trail relating to the retention schedules as recommended.</p> <p>The risks associated with the new Records Management Project will be captured and managed within the Project Risk Register.</p>	<p>Policy & Communications Manager</p> <p>Policy & Communications Manager</p>	<p>9th January 2014</p> <p>February 2014</p>
R3	<p>Lack of structure to operational requirements for all officer's expected to be involved within the system and ensuring that the officer's hold</p>	<p>- Guidance notes and procedures detailing responsibilities, requirements and expectations should be prepared, accessible and communicated to</p>	B	<p>The Corporate Information Officer and Policy & Communications Manager have completed a 'Records Management' 1 day training course. This will be utilised in preparing the guidance notes and procedures and communicated through the Project Team. This will be included</p>	<p>Policy & Communications Manager, Corporate Information Officer</p>	<p>February 2014</p>

APPENDIX B

	<p>the relevant awareness to efficiently and effectively perform their responsibilities within the system as intended.</p>	<p>- relevant officers, and Provision of training, assistance and advice in records management should be available to officers who have responsibilities in operational administration within this area.</p>	<p>in the project plan deliverables.</p> <p>Training and ongoing professional development will be dealt with in the draft Project Plan. Advice is available on request, the first batch of retention schedules have been developed under the guidance of the Corporate Information Officer. This will be included in the project plan deliverables.</p>	<p>Policy & Communications Manager, Corporate Information Officer</p>	<p>February 2014</p>
R4	<p>Lack of overall guidance contained within the Council's Constitution.</p>	<p>The Constitution should provide clearer direction on the Council's arrangements in place for the retention of records.</p>	<p>Coverage on the retention of records within the Constitution (Appendix F - Financial Procedure Rules) will be revisited. General reference to the corporate arrangements for retention of records will remain within the Constitution.</p> <p>Specific guidance on record types and the statutory/recommended retention periods will now be maintained elsewhere, as it is at this level where the project team will establish the detailed guidance required in order to meet the requirements of the Records Management Policy.</p>	<p>Financial Services Manager Director of Governance</p>	<p>March 2014</p>
R5	<p>Knowledge of documents retained and when they have been disposed of assists with ensuring speedy access to meet Data Protection Act and Freedom of Information requirements when necessary.</p>	<p>A log should be kept to show when information has been destroyed.</p>	<p>A 'Disposal Log' will be developed as part of the suite of templates.</p>	<p>Corporate Information Officer</p>	<p>January 2014</p>

APPENDIX B

R6	<p>There should be overall ownership of the system to be implemented regarding the stewardship role of [corporate] records management.</p>	<p>Proper arrangements for the current or recent records of a local authority should involve the skilled supervision of their management by an appropriately trained member of staff who should be referred to (by post) within the Records Management Policy and within the associated job description.</p>	B	<p>The critical roles of: Senior Information Risk Owner (SIRO) and Information Asset Owners (IAO's) Corporate Information Officer will be clarified within the Records Management Policy. These roles will have overall ownership for managing information risk.</p>	<p>Policy & Communications Manager</p>	<p>January 2014</p>
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Audit Committee

Agenda
Item:

A.8

Meeting Date: 24 January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref:KD30/13
 Within Policy and Budget Framework YES
 Public / Private Public

Title: TREASURY MANAGEMENT STRATEGY STATEMENT,
 INVESTMENT STRATEGY AND MINIMUM REVENUE
 PROVISION STRATEGY 2014/15
 Report of: DIRECTOR OF RESOURCES
 Report Number: RD63/13

Purpose / Summary:

This report sets out the Council’s Treasury Management Strategy Statement for 2014/15, in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2014/15 are also incorporated as part of the Statement. So too are the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

Recommendations:

Members of the Audit Committee are asked to note and make comments on the proposed Treasury Management Strategy for 2014/15.

Tracking

Executive:	16 December 2013
Audit Committee:	24 January 2014
Council:	4 February 2014

Report to Executive	Agenda Item:
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Meeting Date: 16 December 2013
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref:KD30/13
 Within Policy and Budget Framework YES
 Public / Private Public

Title: TREASURY MANAGEMENT STRATEGY STATEMENT,
 INVESTMENT STRATEGY AND MINIMUM REVENUE
 PROVISION STRATEGY 2014/15
 Report of: DIRECTOR OF RESOURCES
 Report Number: RD63/13

Purpose / Summary:

This report sets out the Council’s Treasury Management Strategy Statement for 2014/15, in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2014/15 are also incorporated as part of the Statement. So too are the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

Recommendations:

The Executive is asked to approve the Draft Treasury Management Strategy Statement for 2014/15, which incorporates the Investment Strategy and the MRP Strategy, together with the Prudential Indicators for 2014/15 for draft budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D.

Tracking

Executive:	16 December 2013, 15 January 2014
Overview and Scrutiny:	6 January 2014
Audit Committee:	24 January 2014
Council:	4 February 2014

1. BACKGROUND

- 1.1 The CIPFA Code of Practice on Treasury Management in Local Authorities was first issued in 1992 and updated in 1996 and 2001. The City Council formally adopted this Code in March 2002 and adopted the 2011 revision in February 2012. The updates made are minor, and centre around the changes in housing finance, Localism Act and the introduction of General Powers of Competence.
- 1.2 Under the requirements of the revised Code, the Council will receive each year the following reports:-
- Annual strategy and plan in advance of the year
 - A mid year review
 - Annual report after its close.

2. TREASURY MANAGEMENT STRATEGY STATEMENT

- 2.1 As required under the Code, the Treasury Management Strategy Statement for 2014/15, which also incorporates both the Investment Strategy for that year and the Minimum Revenue Strategy, is set out in **Appendix A**. The Strategy Statement was issued as part of the consultation period on the draft budget for 2014/15. The schedule of approved investment vehicles is contained in **Appendix B**. **Appendix C** includes a summary of current economic forecasts on interest rates that have been utilised in preparing the Strategy.
- 2.2 Also included within Appendix A are the **Prudential Indicators** that must be determined under the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements came into operation on 1 April 2004 under the provisions of the Local Government Act 2003. Part 1 of the Act allows a local authority to borrow money for any purpose that is within its control or for the purposes of the prudent management of its financial affairs. The main purpose for borrowing money is to fund capital expenditure although some short-term borrowing is permitted to cover temporary cash flow needs.
- 2.3 Since 1 April 2004 there has been no statutory limit to the amount that can be borrowed. There is, however, a requirement for full compliance with CIPFA's Prudential Code; the key objectives of which are to demonstrate that the proposed capital investment plans have been assessed by the Council as affordable, prudent and sustainable. Section 3(1) of the Act puts a duty on the Council to determine before the start of the financial year and keep under review the maximum amount

that it can afford to borrow. This amount is called the **Authorised Limit** and is discussed in Appendix A.

2.4 The Prudential Indicators will be monitored via the quarterly Treasury Management monitoring reports.

3. CONSULTATION

3.1 The Council has appointed Capita Asset Services Treasury Services as its Treasury Advisers and they have been involved in the Strategy and proposals contained within this report.

4. RECOMMENDATIONS

4.1 The Executive is asked to approve the Draft Treasury Management Strategy Statement for 2014/15, which incorporates the Investment Strategy and the MRP Strategy, together with the Prudential Indicators for 2014/15 for draft budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D.

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

5.1 To ensure the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact Officer: Steven Tickner Ext: 7280

Appendices attached to report:
Appendix A – Treasury Management Strategy Statement
Appendix B – Approved Investment Instruments
Appendix C – Interest Rate Forecasts
Appendix D – Treasury Management Policy Statement

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Economic Development – not applicable

Governance – The Council has a fiduciary duty to manage its resources effectively for the benefit of its area and the delivery of its services. Treasury Management is an important part of this function and it is appropriate that the Council has a strategy and takes account of the available specialist internal and external advice. The Treasury Management Strategy forms part of the Budget and Policy framework and, therefore, ultimately requires approval by Council.

Local Environment – not applicable

Resources – contained within the report.

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Statement

Carlisle City Council

2014/15

1. INTRODUCTION

- 1.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next 3 years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 9 of this report); these set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 1.3 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009 and 2011.
- 1.4 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) was adopted by this Council in February 2012. The updates made were minor, and centred around the changes in housing finance, Localism Act and the introduction of General Powers of Competence.
- 1.5 The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury consultants. The strategy covers the following issues:
 - Treasury limits in force that will limit the treasury risk and activities of the Council;
 - Prudential and Treasury Indicators;
 - Current treasury position;
 - Borrowing requirement;
 - Prospects for interest rates;
 - Borrowing strategy considerations;
 - Debt rescheduling opportunities.

- Investment Strategy
- Minimum Revenue Provision Strategy

1.6 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future

2. TREASURY LIMITS 2014/15 TO 2016/17

2.1 It is a statutory duty, under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the 'Affordable Borrowing Limit'.

2.2 The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit. This essentially requires it to ensure that total capital investment remains within sustainable limits and in particular, that the impact upon its future council tax levels is 'acceptable'. It is important to understand, however, that the Indicators themselves, which are set out in paragraph 3, do not have an inherently right or wrong answer. They are not intended as comparator information between different authorities but are designed to support and record local decision making.

3. USE OF TREASURY CONSULTANTS

3.1 The authority has, like most other authorities, employed treasury advisers for specialist advice and assistance for many years. In the case of this authority, this role has long been fulfilled by Capita Asset Services Treasury Services.

3.2 Capita Asset Services provide specialist advice on both borrowing and investment matters. They also supply other relevant information and hold regular client seminars which help provide up to date training in what is an important and continually changing field. That said, it is important to recognise that responsibility

for all treasury matters lies solely with the City Council and this responsibility is not delegated to Capita Asset Services or any other third party. The Council has regard to the advice and information supplied by Capita Asset Services along with advice and information from a variety of other sources. Such advice is valued and the authority is in frequent contact with Capita Asset Services but this does not lessen the ultimate responsibility of the City Council in dealing with treasury matters and taking relevant decisions.

4. **CURRENT PORTFOLIO POSITION**

The Council's treasury portfolio position at 30 November 2013 comprised:

Table 1		Principal £m	£m	Ave Rate %
Fixed Rate Funding	PWLB	0	15.0	8.76
	Market	15.0		
Variable Rate Funding	PWLB	0	0	0.00
	Market	0		
Other Long Term Liabilities			0	0.00
Gross Debt			15.0	8.76
Total Investments			21.3	0.85

5. **PRUDENTIAL AND TREASURY INDICATORS 2014/15 - 2016/17**

- 5.1 The Prudential and Treasury Indicators have been based on current projections for capital spending and resources in 2014/15 to 2016/17. The Council has ensured that future years' capital programmes have been set in accordance with the principles contained within the City Council's Capital Strategy and Asset Management Plan.

PRUDENTIAL INDICATOR AFFORDABILITY INDICATORS	2012/13 actual	2013/14 revised estimate	2014/15 estimate	2015/16 estimate	2016/17 estimate
	£000	£000	£000	£000	£000
Capital Expenditure	4,798	7,404	7,128	8,007	2,589
Ratio of financing costs to net revenue stream	9.08%	7.88%	11.94%	14.03%	15.28%
Net borrowing requirement in year	0	0	0	5,000	0
Capital Financing Requirement as at 31 March	6,017	10,701	12,776	18,944	22,435
Annual change in Cap. Financing Requirement	N/A	4,684	2,075	6,168	3,491
Incremental impact of capital investment decisions					
Increase in council tax (band D) per annum (£)	N/A	0.63	14.27	16.81	24.22

5.2 The estimates of financing costs include both current capital commitments and the draft capital programme as presented elsewhere on the agenda. The level of financing costs assumes a total of borrowing no greater than the amount forecast to be supported by revenue support grant. In the case of this authority, it is assumed that any support from central government towards the costs of capital expenditure programmes in the next three years will be by means of a capital grant.

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2012/13 actual	2013/14 revised estimate	2014/15 estimate	2015/16 estimate	2016/17 estimate
	£000	£000	£000	£000	£000
Authorised Limit for External Debt:					
- Borrowing*	37,500	37,500	37,500	37,500	37,500
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	37,600	37,600	37,600	37,600	37,600
Operational Boundary for external debt:					
- Borrowing*	32,500	32,500	32,500	32,500	32,500
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	32,600	32,600	32,600	32,600	32,600
Upper Limit for fixed interest rate exposure:					
- Net principal re. Fixed rate borrowing/investments	100%	100%	100%	100%	100%
Upper Limit for variable rate exposure					
- Net principal re. Variable rate borrowing/investments	100%	100%	100%	100%	100%
Upper Limit for total principal sums invested for over 1 year	50%	50%	50%	50%	50%

* To be reviewed prior to final Treasury Management Strategy Statement being approved by Council in February 2014

Maturity structure of any fixed rate borrowing during 2013/14	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

5.3 In respect of its external debt, it is recommended that the Council approves the above authorised limit for its total external debt, gross of investments, for the next three financial years. The limit separately identifies borrowing from other long term liabilities such as finance leases. The Council will be asked to approve these limits and to delegate authority to the Director of Resources, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities in accordance with option appraisal and best value for money. Any such change would be reported to the next available Council meeting.

- 5.4 The authorised limit is consistent with the authority’s current commitments, plans and proposals for capital expenditure and it’s financing. **However the overall authorised limit is not to be exceeded without prior Council approval.**
- 5.5 The operational boundary is based upon the same estimates as the authorised limit but without the headroom included within the authorised limit to allow for unusual cash movements. As with the authorised limit, the Council is asked to delegate authority to the Director of Resources to effect movement between the separately agreed limits for borrowing and other long-term liabilities. The operational boundary can be exceeded in exceptional circumstances without prior Council approval providing that it remains within the authorised limit.
- 5.6 The City Council’s current limits for maximum levels of fixed and variable rate funding are both 100% and this is as recommended by the treasury advisers.
- 5.7 Prudence and Sustainability
The City Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services and adopted the 2011 version of the Code in February 2012.
- The current minimum level of specified investments is set at 50%. It is recommended that this level be continued into 2014/15.
- 5.8 Monitoring of the Prudential Indicators will be incorporated into the quarterly Treasury Transaction reports presented to the Executive.

6. PROSPECTS FOR INTEREST RATES

- 6.1 The Council has appointed Capita Asset Services Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita Asset Services view although it should be noted that there are some very differing views among the various economic forecasters regarding the future pattern of these rates:

Year	%
2013/14	0.50%
2014/15	0.50%
2015/16	0.50%
2016/17	1.25%

- 6.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 and 2 of 2013 to surpass all expectations. Growth prospects remain strong looking forward, not only in the UK economy as a whole, but in all three main Capita Asset Servicess, services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below CPI inflation so disposbale income and living standards are under pressure, although income tax cuts have ameliorated this to some extent.
- 6.3 A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.
- 6.4 The current economic outlook and structure of market interest rates and government debt yields have several key treasury mangement implications:
- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt, in some countries, continue to rise to levels that compound already existing concerns. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
 - Investment returns are likely to remain relatively low during 2014/15 and beyond;
 - Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
 - There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.
- 6.5 This challenging and uncertain economic outlook has several key treasury mangement implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

7. **BORROWING STRATEGY**

7.1 The Capita Asset Services forecast for the PWLB new borrowing rate is as follows:

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Mar-16
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	3.20%
25yr PWLB Rate	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	5.00%
50yr PWLB Rate	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	5.10%

7.2 The Council is, as stated above, not currently expecting to have any recourse to borrowing in 2014.15. It is anticipated that a combination of capital grants and internal resources will be used to meet most, if not all, capital commitments in the new financial year. Nevertheless, the use of external borrowing is planned for future years. This is particularly the case in respect of any future major capital projects which are planned to require an element of external borrowing as a part of the total funding package. The Director of Resources will therefore continue to monitor the interest rate market as regards borrowing opportunities as well as in respect of investment policy.

7.3 Policy on borrowing in advance of need

7.3.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

7.4 External v. Internal Borrowing

7.4.1 This Council currently has a difference between gross debt and net debt (after deducting cash balances).

7.4.1 The general aim of this treasury management strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments. However, measures taken in the last year have already reduced substantially the level of credit risk (see paragraph 9) so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

7.4.2 The next financial year will continue to be one of historically abnormally low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

7.4.3 Over the next three years, investment rates are therefore expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

7.4.4 However, short term savings by avoiding new long term external borrowing in 2014/15 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

7.3.6 Against this background caution will be adopted with the 2014/15 treasury operations. The Director of Resources will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

8. DEBT RESCHEDULING

8.1 There is unlikely to be much scope for debt rescheduling in either the current financial year or in 2014/15. Only one substantial sum of long term debt remains on the authority's books. This is the £15m stock issue which dates from 1995 and is not due to mature until 2020. The current view is that a premature repayment is not

recommended because of the size of the premium payment that would be incurred. The position remains under review, however, if circumstances should change.

9. INVESTMENT STRATEGY

9.1 Principles

9.1.1 The City Council will have regard to CLG's Guidance on Local Government Investments and the 2011 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

9.1.2 The Council's investment priorities are:

- The security of capital
- The liquidity of its investments

9.1.3 The Council will also endeavour to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. Security of principal will always be the primary consideration. The risk appetite of this Council is low in order to give priority to security of its investments.

9.1.4 The borrowing of monies purely to invest or to on lend and make a return is unlawful and the Council will not engage in any such activity. Any borrowing in advance of need will only be undertaken after a full financial assessment of the costs and benefits of drawing down any such funding.

9.1.5 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non Specified' Investment categories. Individual counterparty limits will be set through the Council's Treasury Management Practices – Schedules which will be authorised by the Director of Resources.

9.1.6 Total investments with any one counterparty or group currently will not exceed £4m to ensure a reasonable spread of investments in terms of counterparties. Investments with HSBC shall not exceed £6m. However, Lloyds group and RBS Group will not exceed £8m as these establishments are currently funded by a majority shareholding by the UK Government.

9.1.7 This Annual Investment Strategy states which instruments the Council may use for the prudent management of its treasury balances during the financial year under the headings of **Specified Investments** and **Non Specified Investments**. These are listed in **Appendix B**. Essentially, specified investments are those with a maturity of

up to one year which have a suitable credit rating or are otherwise guaranteed e.g. by HM Government. All other investments are non specified.

9.1.8 Credit ratings will be used as one means of assessing the credit quality of rated counterparties although it is recognised that reliance should not be placed on credit rating alone. The minimum short term rating for a bank will be either F1 (Fitch) or P1 (Moody's). For a rated UK building society, a similar rating would be anticipated although the proposed criteria do give authority to the Director of Resources to approve, if considered appropriate, the addition of other building societies with both a F2 (Fitch) and a P2 rating (Moody's). This is still a high quality credit rating but recognises the very strong record of the UK building society movement over many years in protecting the capital of all depositors. The Strategy already allows discretion to the Director to include as counterparties non credit rated building societies whose assets total at least £1bn. There are some six societies in this category. Any such investment would be subject to an assessment of such a society as a suitable counterparty. There are, for example, good reasons why many building societies do not have a credit rating but there are other means of making an appropriate financial judgment.

9.1.9 Any investments with institutions that do not have a credit rating e.g. many smaller building societies or investments for periods over one year would be classed as non specified investments. **However it is important to stress that both the specified and non specified investments in Appendix B are perfectly legal instruments in which the City Council may invest.** This includes for example many building societies as only the larger societies have an individual credit rating although there are other criteria by which a judgement can be made as to their credit quality.

9.1.10 The minimum percentage of its overall investments that the Council will hold in specified investments is 50%.

9.2 Investment Strategy

9.2.1 With bank base rate at 0.5% and not generally expected to increase from this level until at least the end of 2016, investment conditions will continue to be difficult. The view of Capita Asset Services is that bank rate will be at the following levels at each year end:

Year	%
2013/14	0.50%
2014/15	0.50%
2015/16	0.50%
2016/17	1.25%

9.2.2 Clearly, these projections can only be best estimates at this stage and the risk is to the downside i.e. if the economic recovery is slower than expected, then interest rates are like to rise more slowly. At this stage, the budget has assumed an average yield of 1.0% on its investments in the next financial year. This allows for the fact that there are some higher value, longer term investments placed. This forecast will, however, be reviewed further during the budget cycle. Every 0.1% fall in average yield will cost the Council approximately £35,000.

9.2.3 In this situation, the authority will continue to try and seek value in its investments by placing them out for longer periods where possible e.g. six months to one year, to meet future cash flow needs, subject to retaining some sums for shorter periods to meet liquidity requirements and also to take advantage of any particular investment opportunities. Much of the basic framework of the authority's cash flows is already known for the next financial year and use will be made of this information in determining investment periods. The money market is monitored daily and use will be made of a plurality of sources of financial information in determining investment opportunities. All investments will be placed only with institutions that conform to the criteria set out in the Investment Strategy.

9.2.4 The investment income budget will, as ever, be carefully monitored in the coming financial year and reported to members via the regular Treasury Transactions reports.

9.3 End of Year Investment Report

In line with current practice, the Council will receive a report on its investment activity as part of the Annual Treasury Report at the end of the financial year. It should also be noted that best practice now requires a mid year report on the treasury function. This has long been the practice within the City Council where quarterly reports are presented to the Executive. In addition, the Audit Committee has taken on the role of the 'specialist committee' that oversees treasury matters.

10. THE MINIMUM REVENUE PROVISION STRATEGY

- 10.1 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess their MRP for 2014/15 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
- 10.2 No requirement is currently anticipated to undertake any long term borrowing in either 2013/14 or 2014/15 although the authority will need at this stage to keep its options open. This is particularly so if any major capital project requires an element of long term borrowing as part of the overall funding package.
- 10.3 Notwithstanding this possibility, the City Council is still obliged to make proper provision for the repayment of its outstanding debt. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. land, buildings, vehicles etc. It would usually be impractical to charge the entirety of such expenditure, which is often funded by borrowing, to the revenue account in the year it was incurred. Instead, this is spread over a longer period to try and match the years over which these assets will benefit the community. The manner of spreading these costs is through the Minimum Revenue Provision (MRP). Until recently, the MRP was calculated according to detailed and complex regulations. It is now determined under Guidance.
- 10.4 The only statutory duty that a local authority has under the new MRP regime is *'to determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'*. The Guidance, which authorities must 'have regard to' provides four options for calculating the MRP as set out below. It is important to realise, however, that there is no obligation to follow any of these options and that it is up to each authority to decide upon the most appropriate method of making a prudent provision, having had regard to the Guidance.
- 10.4.1 Regulatory Method (Option 1)
This method is based upon the Regulations that were first promulgated in 2003 for the calculation of the MRP. It is based upon 4% of the authority's capital financing requirement (CFR). The CFR is a measure of the authority's level of outstanding debt. From this sum, the authority may subtract (if it is a negative figure) a technical adjustment known as 'Adjustment A'
- 10.4.2 Capital Financing Requirement Method (Option 2)
This is very similar to the regulatory method but it does not take account of Adjustment A.

Option 2 is the method currently approved by the City Council for use in 2013/14. The City Council's Adjustment A was a positive figure and it is allowed in such circumstances to disregard Adjustment A. To use Option 1 would have incurred an increased MRP liability for the City Council.

Options 1 and 2 can be used for borrowing incurred before 1 April 2008, whether supported or unsupported, and for supported borrowing after that date. Supported borrowing is borrowing that is notionally funded within the revenue support grant allocation. The Council may therefore use either option 1 or option 2 but because of the 'Adjustment A' factor, option 2 has previously been recommended.

10.4.3 Asset Life Method (Option 3) and Depreciation Method (Option 4)

One of these methods may be used for new schemes that require the Council to undertake any unsupported borrowing after 1 April 2008. They are fairly similar except that option 3 is based upon the estimated life of an asset whilst option 4 assumes that an asset will still be worth something after its useful life has expired. They can, however, also be used for supported borrowing incurred either before or after that date. To date, this authority has not undertaken any unsupported borrowing.

10.5 The authority has no firm plans at present to undertake any borrowing which is either supported or unsupported. Options 3 and 4, moreover, are particularly appropriate where assets can be identified that match past borrowing decisions. This situation does not apply to the City Council.

10.6 The City Council implemented the new MRP guidance in 2008/09. In that year its MRP charge was Nil because its opening CFR was also Nil. In 2013/14, the opening CFR was £6.0m which will result in an MRP of £240,000 (4% of the CFR) in this financial year. In future years, the CFR will increase to the extent that capital expenditure is not met by capital grant or revenue contributions. This expenditure will, however, be met under current plans by the set aside capital receipts as the Council still possesses the cash represented by these receipts. It is less likely to be funded from borrowing.

APPROVED INVESTMENT INSTRUMENTS

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. **A maximum of £4m of the investment portfolio** will be placed with any one counterparty or banking group, or a maximum of **£8m of the investment portfolio for Lloyds Group banks and RBS Group Banks and £6m with HSBC Bank (with £2m being limited to investments less than 1 month in duration)** whether by way of specified or non-specified investments except for building societies without a credit rating where **the limit will be £2m.**

Fixed Term Deposits with fixed rates and maturities:-	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – local authorities	--High level of security	In-house
Term deposits – U K banks**	Short-term F1 (Fitch) or P1(Moodys)	In-house
Term Deposits – UK building societies**	Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Director of Resources	In-house
Fixed term deposits with variable rate and variable maturities: -	Minimum 'High' Credit Criteria	Use
Callable deposits	Short-term F1 (Fitch) or P1 (Moodys)	In-house
Certificates of deposits issued by UK banks and building societies	Short-term F1 (Fitch) or P1 (Moodys)	In-house buy and hold
UK Government Gilts	Government backed	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):	Minimum 'High' Credit Criteria	Use
-		
1. Money Market Funds	Short-term AAA	In-house
2. Enhanced Cash Funds	Short-term AAA	In-house
3. Government Liquidity Funds	Short-term AAA	In-house

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

Non-Specified Investments:

A maximum of 50% will be held in aggregate in non-specified investments

1. Maturities of ANY period.

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits with non credit rated UK Building Societies	As approved by the Director of Resources. Minimum asset base of £1bn	In-house	50	364 days

2. Maturities in excess of 1 year

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	Any authority	In-house	50	3 Years
Term deposits – UK banks and building societies	Long-term A (Fitch) or A2 (Moody's)	In-house	50	3 Years
Fixed term deposits with variable rate and variable maturities	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Certificates of deposits issued by UK banks and building societies	Long-term A (Fitch) or A2 (Moody's)	In house on a 'buy and hold basis'	50	3 Years
UK Government Gilts	Government backed	In house on a 'buy and hold basis'	50	3 Years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
1. Bond Funds	Long-term AAA	In-house	50	3 Years
2. Gilt Funds	Long-term AAA	In-house	50	3 Years

The Council uses Fitch (primarily) or Moody's ratings to derive its counterparty criteria. All credit ratings will be monitored monthly. The Council is alerted to changes in credit ratings through its use of the Capita Asset Services creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from major City banks and academic institutions. The forecast within this strategy statement has been drawn from these diverse sources and officers' own views. Revised forecasts will be provided when they become available.

1. INDIVIDUAL FORECASTS

Capita Asset Services Interest Rate Forecast 14 November 2013

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Mar-16
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	3.20%
25yr PWLB Rate	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	5.00%
50yr PWLB Rate	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	5.10%

Capital Economics interest rate forecast – 14 November 2013

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%
25yr PWLB Rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
50yr PWLB Rate	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%

UBS interest rate forecast (for quarter ends) – 14 November 2013

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB Rate	2.38%	-	-	-	-
25yr PWLB Rate	4.25%	4.25%	4.25%	4.25%	4.25%
50yr PWLB Rate	4.40%	4.40%	4.40%	4.40%	4.40%

TREASURY MANAGEMENT POLICY STATEMENT

Carlisle City Council defines treasury management as:

“The management of the organisation’s 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.”

Carlisle City Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the authority.

Carlisle City Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Report to Audit Committee

Agenda
Item:

A.9

Meeting Date: 24 January 2014
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: TREASURY MANAGEMENT: JULY - SEPTEMBER 2013 AND FORECASTS FOR 2014/15 TO 2018/19
Report of: DIRECTOR OF RESOURCES
Report Number: RD55/13

Purpose / Summary:

This report was presented to the Executive on 18 November 2013 and provides the regular quarterly report on Treasury Transactions together with an interim report on Treasury Management as required under the Financial Procedure Rules.

The report also discusses the City Council's Treasury Management estimates for 2014/15 with projections to 2018/19. Also included is information regarding the requirements of the Prudential Code on local authority capital finance.

Recommendations:

That the report be noted

Tracking

Executive:	18 November 2013
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Report to Executive

Agenda
Item:

Meeting Date: 18 November 2013
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref:KD30/13
 Within Policy and Budget Framework YES
 Public / Private Public

Title: TREASURY MANAGEMENT JULY - SEPTEMBER 2013 AND FORECASTS FOR 2014/15 TO 2018/19
 Report of: DIRECTOR OF RESOURCES
 Report Number: RD55/13

Purpose / Summary:

This report provides the regular quarterly report on Treasury Transactions together with an interim report on Treasury Management as required under the Financial Procedure Rules.

The report also discusses the City Council's Treasury Management estimates for 2014/15 with projections to 2018/19. Also included is information regarding the requirements of the Prudential Code on local authority capital finance.

Recommendations:

That this report be received and that the projections for 2014/15 to 2018/19 be incorporated into the budget reports elsewhere on the agenda.

Tracking

Executive:	18 November 2013
Overview and Scrutiny:	28 November 2013
Audit Committee:	24 January 2014
Council:	n/a

1. INTRODUCTION

1.1 The purpose of this report is to inform Members on various Treasury Management issues. The report is set out as follows:

- (i) **Appendix A** sets out the schedule of Treasury Transactions for the period 1 April 2013 – 27 September 2013
 - **Appendix A1** – Treasury Transactions April to September 2013
 - **Appendix A2** – Investment Transactions April to September 2013
 - **Appendix A3** – Outstanding Investments at 27 September 2013 and

- (ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2013/14:
 - **Appendix B1** – Prudential Code background
 - **Appendix B2** – Prudential Indicators

- (iii) **Appendix C** sets out the base Treasury Management estimates for 2014/15 with projections to 2018/19 which are included as budget pressures elsewhere on the agenda. Treasury Management projections are reviewed annually to ensure that current interest rate forecasts are updated and that current and future spending implications are built into the cash flow forecasts model. As interest rates are not forecast to rise in the medium term, revisions have been made to the interest achievable and average cash balances have been amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves. Consideration has also been given to the profiling of new capital receipts expected and the impact this will have on cash balances and the capital programme. The overall impact of this is shown as the shortfall in the projections within the appendix.

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.
The Resources Overview and Scrutiny Panel and the Audit Committee will consider this report as part of the budget process.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report be received and that the projections for 2014/15 to 2018/19 be incorporated into the budget reports elsewhere on the agenda.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

4.1 To ensure that the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact Officer: Steven Tickner **Ext:** 7280
Appendices attached to report: Appendix A1 – Treasury Transactions April to September 2013
Appendix A2 – Investment Transactions April to September 2013
Appendix A3 – Outstanding Investments at 27 September 2013
Appendix B1 – Prudential Code background
Appendix B2 – Prudential Indicators
Appendix C – Treasury Projections 2014/15 – 2018/19

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Community Engagement – not applicable

Economic Development – not applicable

Governance – The Council has a fiduciary duty to manage its finances properly and the proper reporting of budget monitoring is part of this process.

Local Environment – not applicable

Resources – Contained within the report

TREASURY TRANSACTIONS
1 APRIL 2013 to 27 SEPTEMBER 2013

1. LOANS (DEBT)1.1 Transactions 1 July to 27 September 2013

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0.00
Overnight Borrowing	0		0	0.00
	0		0	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. New procedures have been put in place to map the cash flow more accurately to enable better forecasting and to limit the amount of short term/overnight borrowing which may be required.

1.2 Loans (Debt) Outstanding at 27 September 2013

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	13,300
	15,013,300

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 27 September 2013 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	13,300
			13,300

1.5 Interest Rates

Sector is not forecasting an interest rate rise until Quarter 4 of 2015.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	38,877,000	0.36 - 1.01	38,602,000	0.36 - 2.85
	38,877,000		38,602,000	

A full schedule of investment transactions is set out in Appendix A2. Appendix A3 shows outstanding investments at 27 September 2013.

3 REVENUES COLLECTED

To: 30 September 2013		Collected £	% of Amount Collectable %
2013/14	Council Tax	27,983,861	51.17
	NNDR	26,068,556	62.02
Total		54,052,417	31.21
2012/13	Council Tax	27,409,813	57.42
	NNDR	24,438,969	60.08
Total		51,848,782	58.64
2011/12	Council Tax	27,331,978	57.60
	NNDR	23,320,145	60.62
Total		50,652,123	58.97

Collection levels have been fairly stable in each of the past three years.

4 BANK BALANCE

At 27 September 2013 £80,918 in hand.

This records the Council's bank balance at the end of the last day covered by the report.

5 PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS
TO 27 SEPTEMBER 2013
 July – 27 September 2013

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(237)	(129)	108
Interest Payable	190	190	0
Less Rechargeable	(7)	(7)	0
	183	183	0
Principal Repaid	0	0	0
Debt Management	14	12	(2)
NET BALANCE	(40)	66	106

The estimate column is the profiled budget to 27 September 2013.

Interest receivable is falling behind budgeted projections due to average investment returns being lower than those anticipated when the budget was set. Although bank base rates have remained at 0.50%, investment rates have fallen significantly over the first 6 months of 2013 due to banks being able to access capital from the Bank of England that has meant they do not need to offer higher rates to attract investment from the financial markets. This has meant, for example, that a twelve month investment made now will only attract a yield of 1.01%, whereas at this point twelve months ago, the same investment could have achieved a return of 3%.

APPENDIX A2

INVESTMENT TRANSACTIONS 1 JULY TO 27 SEPTEMBER 2013

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
Ignis, Money Market	1,475,000.00	Ignis, Money Market	200,000.00
HSBC Call	3,835,000.00	Royal Bank of Scotland	2,000,000.00
Ignis, Money Market	620,000.00	Prime Rate, Money Market	1,125,000.00
Ignis, Money Market	635,000.00	Prime Rate, Money Market	555,000.00
Royal Bank of Scotland	2,000,000.00	Ignis, Money Market	3,025,000.00
Ignis, Money Market	495,000.00	HSBC Call	120,000.00
Prime Rate, Money Market	1,680,000.00	HSBC Call	1,387,000.00
HSBC Call	2,000,000.00	HSBC Call	3,600,000.00
HSBC Call	400,000.00	HSBC Call	215,000.00
HSBC Call	4,000,000.00	Ignis, Money Market	200,000.00
HSBC Call	922,000.00	Bank of Scotland	1,000,000.00
Ignis, Money Market	1,100,000.00	Royal Bank of Scotland	1,000,000.00
Bank of Scotland	1,000,000.00	Royal Bank of Scotland	2,000,000.00
Royal Bank of Scotland	1,000,000.00	Ignis, Money Market	2,800,000.00
Ignis, Money Market	1,900,000.00	HSBC Call	170,000.00
Royal Bank of Scotland	2,000,000.00	HSBC Call	380,000.00
Barclays	1,000,000.00	Barclays FIBCA	1,000,000.00
HSBC Call	1,100,000.00	HSBC Call	85,000.00
HSBC Call	525,000.00	Barclays FIBCA	2,000,000.00
HSBC Call	2,630,000.00	HSBC Call	3,480,000.00
Ignis, Money Market	2,400,000.00	HSBC Call	140,000.00
Royal Bank of Scotland	1,000,000.00	Barclays FIBCA	1,000,000.00
Barclays	1,000,000.00	Royal Bank of Scotland	1,000,000.00
Prime Rate, Money Market	3,160,000.00	Ignis, Money Market	140,000.00
Royal Bank of Scotland	1,000,000.00	Ignis, Money Market	335,000.00
		Prime Rate, Money Market	3,160,000.00
		Ignis, Money Market	1,925,000.00
		HSBC Call	220,000.00
		Royal Bank of Scotland	1,000,000.00
		HSBC Call	200,000.00
		HSBC Call	80,000.00
		HSBC Call	3,060,000.00
TOTAL	38,877,000		38,602,000
		Bfwd	23,165,000
		Paid	38,877,000
		Repaid	38,602,000
		Total	23,440,000

Outstanding Investments as at 27 September 2013

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC	2,440,000	0.50%		Call			0
B	Royal Bank of Scotland	1,000,000	1.75%	05/10/2012	04/10/2013		90	4,315
G	Nationwide Building Society	1,000,000	0.61%	04/04/2013	19/12/2013	172	259	4,328
B	Royal Bank of Scotland	1,000,000	0.85%		Call90	90	90	
B	Royal Bank of Scotland	2,000,000	0.85%		Call90	90	90	
B	Royal Bank of Scotland	1,000,000	0.85%		Call90	90	90	
B	Royal Bank of Scotland	2,000,000	0.85%		Call90	95	90	
B	Royal Bank of Scotland	1,000,000	0.85%		Call90	95	90	
G	Nationwide Building Society	2,000,000	0.63%	02/04/2013	02/01/2014	186	275	9,493
B	Bank of Scotland	1,000,000	1.10%	04/01/2013	03/01/2014	187	364	10,970
B	Bank of Scotland	1,000,000	1.10%	13/02/2013	14/02/2014	229	366	11,030
G	Barclays Bank	1,000,000	0.52%	09/09/2013	06/03/2014	249	178	2,536
B	Bank of Scotland	1,000,000	1.10%	25/03/2013	28/03/2014	271	368	11,090
B	Bank of Scotland	1,000,000	1.10%	27/03/2013	28/03/2014	271	366	11,030
B	Bank of Scotland	1,000,000	1.10%	28/03/2013	28/03/2014	90	90	2,712
B	Bank of Scotland	1,000,000	1.10%	11/04/2013	10/04/2014	95	95	2,863
B	Bank of Scotland	1,000,000	1.05%	30/05/2013	30/05/2014	334	365	10,500
G	Barclays Bank	1,000,000	0.69%	22/08/2013	30/05/2014	334	281	5,312
B	Bank of Scotland	1,000,000	1.01%	02/08/2013	01/08/2014	397	364	10,072
Total Investments		£23,440,000	0.88%			193	217	£96,253

N.B Interest is recognised in the appropriate financial year in which it is due.

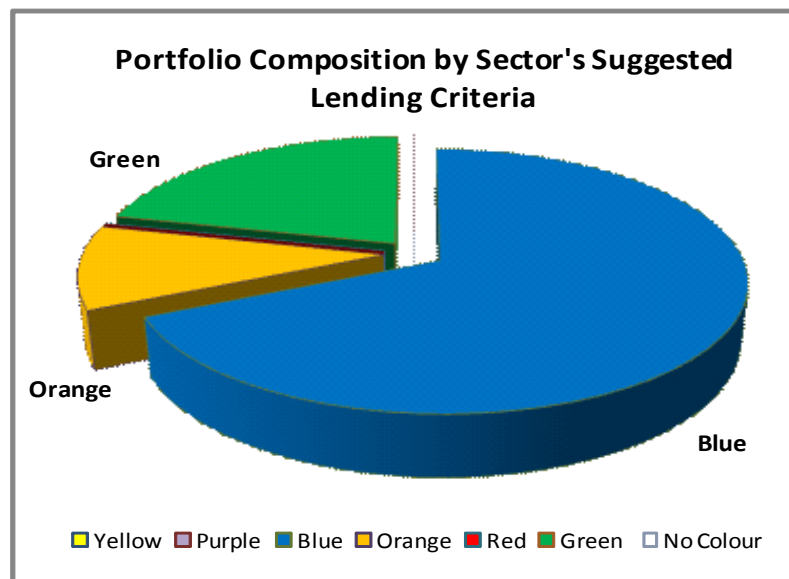
The category colour represents the duration of investment recommended by Sector, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investments Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Blue	68.26%	16,000,000	43.75%	7,000,000	29.86%	1.02%	134	245
Orange	10.41%	2,440,000	100.00%	2,440,000	10.41%	0.50%	0	0
Red	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Green	21.33%	5,000,000	0.00%	-	0.00%	0.62%	133	254
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	100.00%	23,440,000	40.27%	9,440,000	40.27%	0.88%	120	222

	Weighted			
Risk Score for Colour (1 = Low, 7 = High)	Sep 2013	Jun 2013	Mar 2013	Sep 2012
1	0	0.0	0.0	0.0
2	0	0.0	0.0	0.0
3	2.1	2.1	2.6	2.1
4	0.4	0.0	0.4	0.0
5	0	0.6	0.3	0.0
6	1.3	1.0	0.0	1.0
7	0	0.0	0.0	0.6
	3.7	3.7	3.2	3.8

	Sector's Suggested Criteria
Y	Up to 5 Years
P	Up to 2 Years
B	Up to 1 Year
O	Up to 1 Year
R	Up to 6 months
G	Up to 3 months
N/C	No Colour



Normal' Risk Score	3.5	3.5	3.5	3.5
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THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

1. Introduction

- 1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.
- 1.2 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.
- 1.3 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate, to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

2. Prudential Indicators

- 2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the council to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.
- 2.2 Appendix B2 sets out the latest performance indicators for the current year.

3. Supported and Unsupported (or Prudential) Borrowing

- 3.1 Local authorities have always funded a substantial element of their capital programme via borrowing. This continues to be the case but until the introduction of the Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Differing types of government control operated over the years but since 1990 these had been termed credit approvals. The level of an authority's previous years' credit approvals is also included in the revenue support grant (RSG) allocation so that ultimately any borrowing is 'supported' via RSG.

- 3.2 This element of supported borrowing is still part of the RSG system although the City Council has previously resolved that its capital borrowing would be limited to its level of supported borrowing. In 2013/14 this is estimated to be Nil.
- 3.3 However, there may be circumstances in which the City Council will wish to undertake some prudential borrowing and the issues surrounding unsupported and supported borrowing are discussed below.
- 3.4 Authorities are permitted to borrow in excess of their supported borrowing allocation. This is referred to as prudential or unsupported borrowing. This can be undertaken so long as the Council can demonstrate that the revenue consequences of such borrowing (i.e. the cost of the debt) are sustainable, affordable and prudent in the medium to long term.

PRUDENTIAL INDICATORS

Central to the operation of the Prudential code is the compilation and monitoring of prudential indicators covering affordability, prudence, capital expenditure, and treasury management. Set out below are the indicators for 2013/14 to date as detailed in the Treasury Management Strategy Statement for 2013/14.

(a) Affordability

	2013/14 Original £	2013/14 Revised £
(i) Capital Expenditure	7,780,000	7,403,900
(ii) Financing Costs Total Financing Costs	845,959	845,959
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	13,454,000	13,454,000
(iv) Ratio of Financing Costs to Net Revenue Stream The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.	6.29%	6.29%
(v) Incremental Impact on Council Tax This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.	0.56	0.56
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.	37,600,000 15,013,300	37,600,000

	2013/14 Original £	2013/14 Revised £
<p>(vii) Operational Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.</p>	32,600,000 15,013,300	32,600,000
<p>(viii) Capital Financing Requirement (CFR) As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.</p>	(5,293,000)	n/a

(b) Prudence and Sustainability

	2013/14 Revised £
<p>(i) New Borrowing to Date No Long Term Borrowing has been taken in 2013/14 to date</p>	0
<p>(ii) Percentage of Fixed Rate Long Term Borrowing at 27 September 2013</p>	100%
<p>(iii) Percentage of Variable Rate Long Term Borrowing at 27 September 2013 Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.</p>	0%
<p>(iv) Minimum Level of Investments Classified as Specified Level of Specified Investments as at 27 September 2013</p> <p>As part of the Investment Strategy for 2013/14 the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.</p>	50.00% 100.00%

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

APPENDIX C

Set out below are the base treasury management estimates for 2013/14 and 2014/15 with projections to 2018/19

	2013/14 Original Estimate	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Treasury Management Budget	£	£	£	£	£	£	£
Interest Payable	1,319,050	1,319,050	1,319,625	1,474,756	1,470,988	1,466,578	1,461,945
Core MRP	0	0	423,074	515,543	759,057	898,640	963,762
Principal Repayments	0	0	0	131,997	136,339	140,825	145,458
Debt Management							
Sector	14,689	14,689	15,100	15,523	15,958	16,405	16,864
Publications	500	500	500	500	500	500	500
Recharge - Transferred Debt/bequests etc	(23,000)	(23,000)	(21,000)	(21,000)	(21,000)	(21,000)	(21,000)
Total Expenditure	1,311,239	1,311,239	1,737,299	2,117,319	2,361,843	2,501,947	2,567,528
Interest Receivable	(473,100)	(258,557)	(226,092)	(237,633)	(304,218)	(362,044)	(432,970)
Other Interest Recharged	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total Income	(288,778)	(255,557)	(223,092)	(234,633)	(301,218)	(359,044)	(429,970)
Treasury Management Net Expenditure	1,022,461	1,055,682	1,514,207	1,882,686	2,060,625	2,142,903	2,137,558
MTFP 13/14	1,022,461	841,100	494,200	518,900	840,700	706,100	545,400
Difference to Council Resolution Position	0	214,582	1,020,007	1,363,786	1,219,925	1,436,803	1,592,158
Assumed Average Investment Return	1.73%	1.00%	1.00%	1.00%	1.38%	1.88%	2.50%

<h1>Audit Committee</h1>	Agenda Item: A.10
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Meeting Date: 24th January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework: Yes
 Public

Title: Internal Audit Effectiveness Review
 Report of: Director of Resources
 Report Number: RD81/13

Purpose / Summary:

Cumbria County Council commissioned an external review of the Internal Audit Shared Service in spring 2013.

This review was conducted in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal audit services from 1st April 2013.

Recommendations:

Members are requested to note the report findings and resulting action plan attached at Appendix A.

Audit Committee	24 th January 2014
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1 BACKGROUND

- 1.1. Cumbria County Council commissioned a review of the Internal Audit Shared Service in spring 2013. This was to assist the incoming Group Audit Manager in developing the audit service in line with the Public Sector Internal Audit Standards (PSIAS). These standards became mandatory for all UK public sector internal audit services from 1st April 2013.
- 1.2. Grant Thornton undertook the review as a piece of consultancy work separate from the external audit team who carry out the final accounts work at the County and District councils. This approach was designed to provide an independent assessment of the Internal Audit Service and invite recommendations for further developments to ensure conformance with the PSIAS.
- 1.3. The attached report at **Appendix A** summarises the approach taken and the findings arising from the review, along with an agreed action plan for implementation.
- 1.4. The review has highlighted a number of strengths and good practice arrangements in place by the Internal Audit Shared Service along with 17 recommendations which are geared to aid further service improvements. Audit management welcome the findings of the review and has already established a series of internal working groups which will support the effective implementation of the agreed recommendations. Progress made by these working groups will be reported to the Shared Service Operational Board.

2 CONSULTATION

Not applicable

3 CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 3.1. Internal Audit is in place to support the Council's arrangements for governance, risk management and internal control. The Internal Audit Service reports to the Audit Committee and senior management team, who are key elements of the Council's corporate governance structure. As such, it is applicable for members of the Audit Committee to receive this external review on the effectiveness of Internal Audit and note the resulting action plan which details the improvements to ensure the service conforms to the PSIAS.

4 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 4.1. To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

Contact Officer: **Niki Riley** **Tel: 01228 226261**
Group Audit Manager
(Cumbria Shared Internal Audit Service)

Appendices **A – Internal Audit Effectiveness Review - Executive**
attached to report: **Summary and Agreed Action Plan.**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Community Engagement – not applicable

Economic Development – not applicable

Governance – Audit Committee's Terms of Reference include responsibility for consideration of reports dealing with the management and performance of the providers of internal audit services

Local Environment – not applicable

Resources – not applicable

Cumbria County Council

Internal Audit Effectiveness Review

11 November 2013



Grant Thornton

An instinct for growth™

Contents

Introduction:	2
Executive summary:	4
Action Plan	7

This report is confidential and is intended for use by the management and Members of Cumbria County Council only. It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

Introduction

Grant Thornton were commissioned to carry out an effectiveness review of the Shared Internal Audit Service ("the Shared Service") for Cumbria County Council ("the Council") in relation to its planning, performance, people, profile and products. This report sets out our findings and recommendations from the review in line with the below scope and approach.

Background

The Council hosts the Shared Service which commenced with Carlisle City Council in December 2010, followed by Copeland Borough Council in March 2011 and the Cumbria Police Authority in August 2012. Anticipated benefits focused on financial savings and a more robust internal audit function as per the Business Case. The Council provided the service to the Cumbria Police Authority (now the Office of the Police and Crime Commissioner and Cumbria Constabulary) and the Lake District National Park Authority, which has continued. In total, there were 3,700 planned days for the provision of internal audit services in 2012/13 and a total of 19.6 full-time equivalent staff members.

The Service is headed by the Group Audit Manager who joined in May 2013. There are four Audit Manager posts within the structure with responsibility for specific clients and / or County Council Directorates. Each Audit Manager leads a team of audit staff working to deliver their respective audit plan. The Business Case envisaged that the auditors would form a pool from which staff could be drawn by the Audit Managers depending on the skills and experience required to deliver the specific audits.

The Shared Service now provides internal audit services to Eden District Council and South Lakeland District Council as a 'customer' rather than as part of the Shared Service. We were informed that this has increased confidence amongst management and Members that the Shared Service was the right approach.

Prior to the Shared Service, traditional financial systems audits were dominant in the respective internal audit plans. The Shared Service has since expanded its range of services to include "hot assurance", counter fraud work, input to Corporate Governance, value for money and ICT audits.

New Public Sector Internal Audit Standards ("PSIAS") came into effect in April 2013 and it is against these standards that this review seeks to assist internal audit to continue to develop its service.

Scope

Following discussions with the Assistant Director (Finance) of the Council in April 2013, we prepared an engagement letter setting out the scope of our work in relation to the review of the effectiveness of the Shared Service.

It was agreed that we would assess the Shared Service with regard to PSIAS as well as good practice seen elsewhere in the public sector and beyond.

The aim of the review was to provide you with an high level 'as is' assessment of the current operations against these criteria and also to generate improvement advice for your consideration.

Further discussions with the Assistant Director (Finance) and the new Group Audit Manager on 13 June 2013 further defined the review scope to focus on:

- Planning of the work of the Shared Service;
- Performance of the shared service;
- People within the Shared Service;
- The profile of the Shared Service;
- Products of the Shared Service.

Introduction

Approach

We recognised that this remains a particularly challenging time for local government generally given the comprehensive spending reviews and subsequent cuts to public sector spending and that Cumbria County Council was not immune from the impact.

We also recognised that there had been a recent change in the leadership of the Service and that one of the Audit Managers has recently left. This review was also seen by the Council as an opportunity to help internal audit to further develop into a modern service, focussing on what really matters, providing robust assurance and adding real value.

Our approach to the review included:

- Interviews with key stakeholders using the Service, for example s151 officers and Chairs of Audit Committees;
- Interviews with Shared Internal Audit Service staff including the use of a confidential questionnaire;
- Reviewing key internal audit documents such as audit plans, reports, files and benchmarking information;
- Assessing the Service against the PSIAS; and
- Highlighting relevant good practice we have seen elsewhere in the public / private sectors.

Executive summary

We set out below our overall conclusions from our review of the effectiveness of the Shared Internal Audit Service along with the key improvement advice.

Conclusions

The Shared Service ("Service") is designed to be an independent, objective assurance and consulting provider which adds value and improves its clients' operations.

We identified opportunities to fine tune the approach to internal audit planning in order that it demonstrates clearer business understanding, links to the clients' strategic objectives and corporate priorities, provides an improved balance between past and future assurance (adequacy of design of proposed systems / arrangements) and is presented for approval in a timely manner.

There is a need to improve the performance and effectiveness of the Shared Service and that of management in the response to internal audit reports. In addition, there is a need to improve client engagement when scoping audit assignments to set higher expectations for the Service.

Internal Audit Service staff have relevant qualifications, experience and show evidence of professional development. There are opportunities to use staff more effectively across Shared Service Clients to share best practice, benchmark systems, provide new challenges and a fresh perspective. Stakeholders held the Service in high regard with direct reporting lines to senior management and the Chairs of Audit Committees. Further work needs to be done to demonstrate the benefits from creating the Shared Service and the value that internal audit brings to the organisations.

Internal Audit reports vary in style, receive a mixed response and take far too long to finalise. They need to be standardised, more succinct, insightful and impactful. Further work needs to be done with key stakeholders in relation to the grading of audit recommendations.

In terms of the Public Sector Internal Audit Standards, the Shared Service demonstrates compliance with the Code of Ethics around integrity, objectivity and confidentiality. However, there are areas for further improvement. The Group Audit Manager and Assistant Director (Finance) who commissioned this review, already recognise many of the strengths and areas for development in relation to the Service. The findings and recommendations from this review will provide additional information which will also aid compliance with the new Public Sector Internal Audit Standards and help enhance the Service.

Key Improvement Advice

Our review identified the following areas of focus:

- Approval of the Audit Charter and development of the Quality Assurance and Improvement Programme;
- Develop a uniform risk-based approach to internal audit planning in order that similar risks across clients are identified and responded to in a consistent and timely manner;
- Improve the balance between the time spent on traditional fundamental systems and strategic / corporate / operational risks in order to ensure that assurance is provided in the areas that really matter to key stakeholders;
- Develop the Internal Audit Manual to provide a reference source from which all staff can operate ensuring a clear and standardised approach to documenting, reviewing and reporting internal audit work;
- Increase client engagement, in particular at senior management level, in order that internal audit really understands the organisational risks and can focus their efforts in areas of significance to management, so that internal audit's work is welcomed and of more value;
- Develop key performance measures for the Service in order to aid the Group Audit Manager, Section 151 officers, management and stakeholders to identify and monitor performance as well as take any necessary corrective action; and
- Realise the benefits from creating the Shared Service, in particular, making better use of audit staff across the clients to share best practice, benchmark systems, provide staff with new challenges and clients a fresh perspective.

Executive summary - continued

We set out below further information in respect of areas of good practice / areas for further development.

Planning

Areas of good practice

- ✓ The internal audit plan is evolving with a move away from traditional audit areas towards more wider corporate and strategic topics.
- ✓ In general, Chairs of Audit Committees felt that the plans were focussing in the right areas and that internal audit were able to articulate reasons for items in the plan.
- ✓ The development of the plan is led by the Audit Manager responsible for the Shared Service client and includes input from staff who work on that client ensuring knowledge is shared.
- ✓ The plans give sufficient flexibility to enable internal audit to respond to ad hoc requests and emerging issues.

Areas for further development

- There is no standardised approach to planning across all Shared Service clients which would assist in challenging the basis for inclusion.
- Although not required by the PSIAS, there is no medium term (3 year) strategic plan to identify when audits might be conducted which could assist both management and the Audit Committees when challenging the timings of future reviews.
- There still remains a higher proportion of the plan being spent on traditional financial systems and schools than other Councils in the peer group.
- The internal audit plan does not appear to have any regard to other assurance providers and therefore there might be gaps or duplication in assurance which are not identified.

Performance

Areas of good practice

- ✓ An assignment scoping document is produced to guide the work of internal auditors.
- ✓ All files are required to contain certain control documentation.
- ✓ All files are reviewed by the Audit Managers with some low risk areas being delegated to the Principal Auditors.
- ✓ A self-assessment against the CIPFA Code of Practice for Internal Audit has been produced annually and presented to Cumbria County Council's Audit Committee.

Areas for further development

- 60% of staff surveyed did not know what quality standards are being used to assess their work.
- Reports take too long to finalise. Our sample of 10 reports took an average of 109 days to finalise following the issue of a draft.
- There is no mandatory close out meeting prior to issuing a draft report.
- Performance is measured only in terms of days completed against planned days and the percentage of planned reviews delivered. Further measures would assist in monitoring performance and provide valuable information to management and the Audit Committees.
- Benchmarking information is not routinely produced and presented to management or the Audit Committees which again would help to put internal audit's performance into perspective.

Executive summary - continued

People

Areas of good practice

- ✓ The skills of the current internal audit staff are respected by the s151 officers and Chairs of Audit Committees in terms of covering their assurance needs and taking forward the service.
- ✓ All those stakeholders interviewed felt that there had been some improvement since Shared Internal Audit Service was introduced.
- ✓ Training needs are assessed on an annual basis via appraisals and following this an annual training and development plan is produced.
- ✓ The service has a similar percentage of qualified / part qualified staff when compared to the average.

Areas for further development

- Staff within the Service appear to be working on the client from which they transferred into the Service and not getting the opportunity to work across clients thus providing them with new challenges and the ability to benchmark services and share good practice.

Profile

Areas of good practice

- ✓ The Group Audit Manager reports to the Assistant Director (Finance).
- ✓ The Group Audit Manager and Audit Managers have direct access to the Chairs of the Audit Committees, Chief Executive and all members of the Corporate management Team.
- ✓ The positions of Group Audit Manager and Audit Managers are well regarded by the Chairs of Audit Committees and the profile is sufficient that the opinion of internal audit is held in high standing by the Chairs.

Areas for further development

- An Internal Audit Charter is not yet in place, but has been drafted and we understand will be presented to the Shared Services Operations Board. This could be used to help highlight the benefits of internal audit and the value it brings to the Councils.
- Client satisfaction questionnaires are issued after each audit, but these are rarely returned.
- There has been no report which sets out the success to date of the Shared Service which would assist in raising its profile amongst current and potential future users.
- 87% of staff felt that being part of a Shared Service has only partly or not changed IA delivery in a beneficial way.

Products

Areas of good practice

- ✓ Chairs of Audit Committees felt that internal audit reporting had improved in the last 12 months.
- ✓ Audit reports give an opinion on the overall system reviewed as well as prioritise recommendation in order to focus attention and direct effort.

Areas for further development

- A number of stakeholders commented that the internal audit reports were too long, difficult to digest and lack impact.
- Reporting style varies depending on the Audit Manager, but they do contain a scope, overall evaluation, detailed findings and an action plan.
- There are no documented criteria which sets out what rating to apply to recommendations which could lead to inconsistencies.
- Audit recommendations tracking and reporting appears to be a purely numerical exercise and not used proactively to identify emerging themes / issues to which management, the Audit Committees and internal audit could respond.
- The Annual Internal Audit Reports do not consistently make reference to the outcomes from follow-up work.
- The majority of internal audit staff believe that quality has remained the same in the last year.

Action Plan

No.	Recommendation	Management response
	<i>Planning</i>	
1	The Group Audit Manager should work with the Audit Managers to develop a uniform, risk-based approach to internal audit planning.	Agreed, a risk based approach to audit planning for 2014/15 has been agreed by the Shared Services Operations Board and the County Council's Audit and Assurance Committee. The approach will now be rolled out across the Shared Service.
2	The Group Audit Manager should present to Audit Committees on the coverage of key risks annually and over a longer term.	Audit plans will be prepared annually in line with the requirements of the PSIAS. Longer term plans will be prepared as appropriate for specific types of audit work (eg main financial systems which will be audited on a rolling programme).
3	Under the risk-based internal audit approach, the Service should consider the need to audit financial systems annually, potentially releasing days to focus on areas of greater risk.	Agreed, main financial system reviews will be undertaken according to a longer-term rolling programme, thus freeing up resources to focus on areas of governance and strategic and operational risk.
4	The Internal Audit Plan should clearly identify the key risks that each audit review is designed to address. In addition, the rationale for each audit should be clearly articulated including management and / or Audit Committee Members' concerns.	Agreed, audit plans will include a description of the key risks/reasons for inclusion on the plan.
5	The benchmarking information provided by CIPFA should be reviewed and used to direct internal audit resources more effectively.	Agreed, the outcomes from 2012/13 CIPFA benchmarking have already been presented to the County Council's Corporate Management Term and the Shared Services Operations Board, together with a plan of how resources will be used more effectively in preparing the 2014/15 audit plans and beyond.
6	Management should work with the Group Audit Manager to develop Integrated Assurance Framework for each client thus facilitating the identification of gaps or duplication in assurance provision.	Agreed, this work is beginning alongside the preparation of audit plans for 2014/15 and will be further developed in future years.

Action Plan

No.	Recommendation	Management response
	<i>Performance</i>	
7	<p>An Internal Audit Manual should be developed and introduced following the review of the internal audit approach, standardisation of working papers and reporting format. Training should then be provided to all staff to ensure that they fully understand the requirements within the manual. The Manual should be followed by all staff and used to provide feedback in terms of compliance with agreed standards and practices thus driving improvements in quality.</p>	<p>Agreed. Several services development projects are due to commence and the required outputs from the projects include documented procedures that will form the basis of the service's audit manual. Training on the risk based audit approach and the standards for documentation and recording of audit work will be provided to the team in advance of the new approach being rolled out. It is also intended that the Quality Assurance and Improvement Programme will include a mechanism for monitoring compliance with agreed processes and providing feedback to audit staff.</p>
8	<p>Shared Service Internal Audit performance measures should be developed, discussed and agreed with management and the Audit Committees, e.g.</p> <ul style="list-style-type: none"> • Issue of audit scoping within an agreed number of days prior to start on site; • 100% of scoping documents to be agreed; • Draft reports to be issued within an agreed number of days following debrief meeting; and • Draft reports to be finalised within an agreed number of days following issue to management. <p>Actual performance should be reported to management and the Audit Committees on a regular basis.</p>	<p>Agreed, a project is due to commence to establish an internal performance management framework for internal audit. A suite of performance measures will be developed in consultation with the Shared Services Operations Board, as well as colleagues across the North West Audit group to identify good practice. Measures recommended here will be incorporated as appropriate.</p> <p>Performance against these measures will be reported within the quarterly progress reports for each client and to the respective audit committees. For the County Council, this report goes to the Corporate Management Team and Audit and Assurance Committee.</p>

Action Plan

No.	Recommendation	Management response
	<i>People</i>	
9	More opportunity should be provided for staff, where appropriate, to work across the various clients used by the Shared Service in order to start to realise one of the main benefits perceived from the creation of the Service.	Agreed, recent Internal Audit management meetings have focused on allocation of work across all team members to ensure that all staff have equal opportunities to work across the Shared Service and that knowledge is shared across the team. This approach will be further developed when allocating work from the 14/15 audit plans.
10	The results of the staff survey should be reviewed by the team to collectively identify appropriate outcomes which address both personal development and improved service delivery opportunities.	Agreed, the staff survey undertaken as part of this review of internal audit will be used alongside internal staff consultation exercises to identify staff development and service delivery improvements.
	<i>Profile</i>	
11	The Group Audit Manager should agree a plan to raise the profile of the service, agreeing measures of success with key stakeholders.	Agreed, work is already underway to raise the profile of internal audit through attendance of corporate and directorate management team meetings. A formal plan will be prepared early in the next financial year to further raise the profile of the service across all clients.
	<i>Products</i>	
12	<p>A standard format for internal audit reports should be developed for the Shared Service. These should include an Executive Summary which clearly and succinctly articulates:</p> <ul style="list-style-type: none"> • The conclusion / assurance level; • Audit objective and scope; • Background to the review; • Areas of good practice, i.e. what is working well; • Areas for improvement, i.e. what is not working well; • Summary of recommendations; and • Conclusion from any follow-up work. 	Agreed, A project has commenced to review the internal audit formats in use and create a standard format that incorporates the requirements of the PSIAS as well as the recommendations included here.

Action Plan

No.	Recommendation	Management response
	<i>Products –continued</i>	
13	The Group Audit Manager should meet with s151 officers and the Audit Committees to discuss and agree a criteria for determining the ratings for audit recommendations.	This is to be considered as part of the review of the audit report format (see R 12). A proposal will be taken to the Shared Services Operations Board and the respective Audit Committee to gain agreement to a standardised approach to the grading of audit recommendations across the Shared Services.
14	<p>The Shared Service should use the audit recommendation tracking exercise to identify:</p> <ul style="list-style-type: none"> • Directorates where implementation is particularly slow or not in accordance with the agreed timescales; • Senior managers who do not implement recommendations and provide the Audit Committees with the opportunity to request their attendance before the Committee; and • Recommendations which are not implemented and therefore might identify themes which can be followed up by internal audit. 	Agreed, this information will be presented to County Council directorates on a quarterly basis and to the client key contact for the Shared Services clients. Results of follow-up audits are included within the progress report to Audit & Assurance Committee to allow them to follow up any issues with the implementation of agreed actions.
15	All audit scoping documents should be agreed with the relevant senior manager responsible for the audit area prior to the commencement of the fieldwork.	A review of the approach to scoping internal audit reviews is about to commence and this recommendation will be fed into the project scope. We agree that it is important that client management feed into the scope of audit reviews and that there is agreement to the scope, but the project may not necessarily conclude that approval by client management of the scoping document is a necessary step in the process.
16	The Shared Service should develop and agree objectives with the respective Service users in relation to their requirements from internal audit. This must have clear regard to the requirements of the PSIAS.	A set of objectives for internal audit will be developed in consultation with the Shared Services Operations Board.

Action Plan

No.	Recommendation	Management response
	<i>Products - continued</i>	
17	The Group Audit Manager should ideally attend the Audit Committees of all the Shared Service users at least once a year. As a minimum, we would recommend that attendance coincides with the presentation of the Head of Internal Audit's Annual Internal Audit Report which includes the opinion.	Agreed in principle. The Group Audit Manager is keen to engage effectively with all Audit Committees across the Shared Service and has already attended those at the Police, Copeland, the County Council and has met with the audit committee members at Carlisle City. However it is considered more relevant that the Group Audit Manager attends as she determines appropriate or to cover for any unavailability of the Audit Managers who have delegated 'Head of Audit' responsibility for the clients of the Shared Service.



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Meeting Date: 24th January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework: Yes
 Public

Title: Internal Audit Charter
 Report of: Director of Resources
 Report Number: RD80/13

Purpose / Summary:

The Cumbria Shared Internal Audit Service is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). These standards comprise a Definition of Internal Auditing, a Code of Ethics and the Standards by which internal audit work must be conducted.

An Audit Charter is one of the key requirements of the PSIAS and failure to approve an Audit Charter may be considered to be a significant deviation from the requirements of the Standards

Recommendation:

Members are asked to consider the draft Internal Audit Charter and note that this document will be updated annually and submitted for approval to Senior Management and the Audit Committee alongside the annual audit plan.

Tracking

Audit Committee	24 th January 2014
Overview and Scrutiny:	Not applicable
Council:	Not applicable

<h1>Audit Committee</h1>	Agenda Item: A.11
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1 BACKGROUND

- 1.1. Attached as **Appendix A** is a draft internal audit charter setting out the arrangements for the delivery of the Internal Audit service to Carlisle City Council (the Council). It is a requirement of the mandatory Public Sector Internal Audit Standards that the Council has an audit charter in place, which has been approved by senior management and the Audit Committee.
- 1.2. Key elements of the Charter are:
- Reference to the mandatory nature of the Public Sector Internal Audit Standards;
 - The functional reporting line of internal audit to the Audit Committee to maintain audit independence;
 - The requirement for internal audit to provide an annual opinion on the Council's arrangements for governance, risk management and internal control;
 - Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as required to undertake agreed internal audit assignments;
 - The responsibility of the Head of Internal audit (the Group Audit Manager) to prepare an annual risk based audit plan for approval by senior management and the Audit Committee; and
 - The responsibility of the Head of Internal Audit to bring to the attention of Audit Committee:
 - any resourcing issues that would impact on the provision of the annual opinion; and
 - any occasion where management have accepted a level of risk that may be unacceptable to the organisation.
 - The responsibilities of management to:
 - Maintain systems that are controlled against fraud or error and to undertake reviews of their systems to ensure they continue to operate effectively; and
 - Support the delivery of an effective internal audit function by contributing to audit scopes, providing information as required, responding to internal audit reports and implementing audit recommendations on a timely basis.
- 1.3. Internal Audit helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The diagram attached as **Appendix B** illustrates the three lines of defence in ensuring that organisations are adequately managing their risks. Internal audit forms the third line of defence alongside other independent external providers of assurance. Importantly, the role of Internal Audit is to provide the senior management and elected Members of the organisation that the arrangements within the first and second lines of defence are adequate and working effectively to manage risks.

2 CONSULTATION

- 2.1. The draft Internal Audit Charter will be considered by the senior management team at its meeting on 21st January 2014.

DRAFT INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 This Charter describes the purpose, authority, responsibilities and objectives of internal audit across the Cumbria Shared Internal Audit Service. It establishes Internal Audit's position within Carlisle City Council and the nature of the Audit Manager's functional reporting relationships with the Audit Committee.
- 1.2 The Charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements.
- 1.3 The Cumbria Shared Internal Audit Service is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). These standards comprise a Definition of Internal Auditing, a Code of Ethics and the Standards by which internal audit work must be conducted. Any instances of non-conformance with the PSIAS must be reported to the Audit Committee and significant deviations must be considered for inclusion within Annual Governance Statement and may impact on the external auditor's value for money conclusion.
- 1.4 An Audit Charter is one of the key requirements of the PSIAS. As such, failure to approve an Audit Charter may be considered to be a significant deviation from the requirements of the Standards.
- 1.5 The Charter must be presented to the Council's senior management and final approval of the Audit Charter rests with the Audit Committee. This will be done alongside the approval of the annual audit plan.
- 1.6 The Public Sector Internal Audit Standards use the terms 'board' and 'senior management' and require that the Audit Charter defines these terms for the purpose of the internal audit activity. For the Shared Service, senior management refers to the respective client lead officer and the 'board' is the Audit Committee which is charged with responsibility for governance.

2. The Role of Internal Audit

- 2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The diagram attached as Appendix B illustrates how internal Audit supports the governance framework and provides a line of defence in ensuring that organisations are adequately managing their risks.
- 2.2 Internal Audit operates as a Shared Audit Service between Cumbria County Council, Carlisle City Council, Copeland Borough Council, Cumbria Constabulary and the Police and Crime Commissioner. The host authority for the delivery of the Shared Audit Service is Cumbria County Council.

2.3 The services provided by Internal Audit are designed to assist each of the participating organisations to continually improve the effectiveness of their respective risk management, control and governance frameworks and processes and to allow an independent, annual opinion to be provided on the adequacy and effectiveness of these arrangements.

2.4 Internal Audit activities in support of this include:

- Planning and undertaking an annual programme of risk-based internal audit reviews focusing on risk management, internal control and governance;
- Review of arrangements for preventing, detecting and dealing with fraud and corruption;
- Review of overall arrangements for risk management and corporate governance;
- Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high;
- Provision of advice on risk and control related matters;
- Consultancy services which may include hot assurance on projects or service and system development;
- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation; and
- Advice on strengthening controls following such an incident.

3. Purpose, Authority, Responsibility and Objectives

Purpose

3.1 Internal audit is described by the Chartered Institute of Internal Auditors as a key component of corporate governance. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for Senior Management and the Audit Committee inside the Council, giving an unbiased and objective view on what's happening in the organisation.

3.2 Internal Audit's core purpose is to provide Senior Management and Elected Members with independent, objective assurance that their respective organisations have adequate and effective systems of risk management, internal control and governance.

3.3 By undertaking an annual risk assessment for each organisation within the shared service, and using this to prepare annual risk-based audit plans, Internal Audit is able to target resources at the areas identified as highest risk to each organisation. This then allows Internal Audit to give an annual overall opinion on the organisation's systems of risk management, internal control and governance.

3.4 The annual report and opinion is a mandatory requirement and is a key contributor to the Annual Governance Statement which accompanies the annual statement of accounts. The Governance Statement provides assurance to the Audit Committee that an effective internal control framework is in place.

3.5 Internal Audit supports the Section 151 Officer to discharge their responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2011 and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. This Statement places on the Chief Financial Officer, the responsibility for ensuring that

the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.

- 3.6 Internal Audit supports the Head of Paid Service (Chief Executive) in providing high level assurances relating to the Council's Governance arrangements.
- 3.7 Internal Audit also supports the Monitoring Officer (Director of Governance) in discharging his / her responsibilities for maintaining high standards of governance, conduct and ethical behaviour.

Authority

- 3.8 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary to undertake agreed internal audit assignments. In approving this charter, Senior Management and Members of the Audit Committee have approved this right of access and therefore the responsibility of all officers to comply with any reasonable request from members of the Cumbria Shared Internal Audit Service.
- 3.9 This charter delegates to the Head of Internal Audit, the responsibility to undertake an annual risk assessment for each organisation in consultation with the Council's management, and from this, prepare a risk-based plan of audit work for approval by the Audit Committee.
- 3.10 Internal audit shall have the authority to undertake audit work as necessary within agreed resources so as to achieve audit objectives. This will include determining the scope of individual assignments, selecting areas and transactions for testing and determining appropriate key contacts for interview during audit assignments.
- 3.11 The charter establishes that the Head of Internal Audit or nominated deputy has free and unfettered access to the Audit Committee and has the right to request a meeting in private with the Chair of the Audit Committee should it become necessary.

Responsibilities and Objectives

- 3.12 Internal audit's primary objective is to undertake an annual programme of internal audit work that allows an annual opinion to be provided on the overall systems of risk management, internal control and governance for each participating organisation.
- 3.13 The Group Audit Manager / Audit Managers and their staff have responsibility for the following areas:

Planning

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management;
- Submit the annual audit plan to senior management (SMT) and to Audit Committee for approval; and
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to Audit Committee.

Implementation

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and in summary to the Audit Committee. Where locally agreed, internal audit reports may also be reported in full to the Audit Committee;
- Assist, as required, in the investigation of significant suspected fraudulent activities within the Council and report the outcomes to senior management (S151 Officer, Monitoring Officer and other relevant directors); and
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the Audit Committee.

Reporting

- Any significant issues arising during audit fieldwork will be discussed with management as they are identified;
- Draft audit reports will be produced on a timely basis following all audit reviews and these will be discussed with management prior to finalising, to ensure the factual accuracy of the report and incorporate management responses;
- Quarterly progress reports will be prepared and discussed with management before being reported formally to the Audit Committee;
- Internal audit has a responsibility to report to the Audit Committee any areas where it is considered that management have accepted a level of risk that may be unacceptable to the organisation; and
- Internal audit has a duty to bring to the attention of the Audit Committee where the Head of Internal Audit, or his/her nominated deputy Audit Manager, believes that the level of agreed resources will impact adversely on the provision of the annual audit opinion.

Relationships with other Inspectorates

- Internal Audit will maintain effective relationships with other providers of assurance and external inspectorates in order to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers.

Non-Audit / management responsibilities

- 3.14 In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:
- Internal Audit does not have any operational responsibilities;
 - Internal Audit does not have any part in decision making within the organisation or for authorising transactions, and
 - Internal Audit is not responsible for implementing its recommendations or for ensuring that these are implemented.

- 3.15 The presence of internal audit does not in any way detract from management's responsibilities for maintaining effective systems of governance, risk management and internal control.
- 3.16 Internal audit does not have any responsibilities for preventing or detecting fraud or error, this is the responsibility of the management of the respective organisations. Internal audit's role is to provide senior management and the Audit Committee with assurance that the management of the organisation have themselves established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur.
- 3.17 It is the responsibility of the respective organisations' management to maintain adequate systems of internal control and to review their systems to ensure that controls continue to operate effectively.
- 3.18 The role of Internal Audit vs the Management of the organisation is summarised in the diagram at appendix B.

4. Scope of Internal Audit Work

- 4.1 The scope of Internal Audit work covers the entire systems of risk management, internal control and governance across each participating organisation. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:
- the organisation's risks are being appropriately identified, assessed and managed;
 - information is accurate, reliable and timely;
 - employees' actions are in compliance with expected codes of conduct, policies, laws and procedures;
 - resources are utilised efficiently and assets are secure;
 - the organisation's plans, priorities and objectives are being achieved, and
 - legal and regulatory requirements are being met.

5. Position and Reporting Lines for Internal Audit

- 5.1 Internal Audit reports operationally to the Section 151 Officer / Chief Financial Officer within each of the participating organisations. Functional reporting is to the Audit Committee.
- 5.2 On a day to day basis Internal Audit will report the outcomes of its work to the senior officer responsible for the area under review. Progress and performance of Internal Audit will be monitored by the Section 151 Officer who is charged with ensuring the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 5.3 Internal Audit reports the outcomes of its work to the Audit Committee on a quarterly basis. This includes as a minimum, a progress report summarising the outcomes of Internal Audit engagements as well as the performance of Internal Audit against the approved plan of work.
- 5.4 On an annual basis, Internal Audit will prepare and present to the Audit Committee, an annual report containing:
- the overall opinion of the Head of Internal Audit (or delegated Audit Manager);

- a summary of the work undertaken to support the opinion, and
- a statement of conformance with the Public Sector Internal Audit Standards.

5.5 Should significant matters arise in relation to the work of Internal Audit, these will be escalated through the management hierarchy and to the Chair of the Audit Committee as appropriate.

5.6 Where major changes are required to agreed audit plans or Internal Audit is required to divert resource to urgent non-planned work, this will be agreed with the Responsible Financial Officer and / or Chief Executive and reported to the Audit Committee. Where changes are less urgent, these will be discussed with senior management and the Chair of Audit Committee before being implemented. All changes to approved audit plans will be reported to the next meeting of the Audit Committee.

6. Ethics, Independence and Objectivity

Ethics

6.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.

6.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new Public Sector Internal Audit Standards. As such this Code has been adopted by the Shared Internal Audit Service and all staff will be requested to sign up to the Code on an annual basis. Auditors within the shared service are also required to comply with the codes of ethics of their professional bodies.

Governance and Independence of the Shared Internal Audit Service

6.3 The governance of the provision of the Shared Audit Service shall be carried out by the Shared Service Operations Board and Strategic Board whose role is to:

- Ensure that the shared Audit Service meets the requirement of the proper practices for Internal Audit
- Reach common agreement over issues such as standards, goals and objectives and reporting requirements
- Agree on the range of audit outputs
- Confirm the scope and remit of the audit function
- Agree reporting and performance arrangements for internal audit, including performance measures, delivery of plan, cost, and impact tracking.

Independence

6.4 Internal Audit is independent of all of the activities it is required to audit which ensures that Audit Committees can be assured that the annual opinion they are given is independent and objective. While the Head of Internal Audit (or delegated Audit Manager) reports operationally to the Section 151 Officer (Director of Resources) there is also a functional reporting line to the Audit Committee and the Head of Internal Audit (or delegated Audit Manager) has direct access to the Chair of Audit Committee.

- 6.5 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.
- 6.6 Internal Audit will report annually to the Audit Committee to confirm that the independence of Internal Audit is being maintained.

Resourcing, Proficiency and Due Professional Care

- 6.7 For internal audit to provide an opinion to each Authority within the Shared Internal Audit Service there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programmes of work.
- 6.8 It is the responsibility of the participating organisations to ensure that they approve a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.
- 6.9 In line with the requirements of the Standards, in the event that the Head of Internal Audit considers that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the Audit Committee.
- 6.10 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit 2010, the Group Audit Manager and Audit Manager who perform this function for clients of the Shared Service, are professionally qualified and appropriately experienced.

The Role of Internal Audit in Fraud-related work

- 6.11 The PSIAS require that the role of internal audit in any fraud-related work is defined within the audit charter.
- 6.12 Internal audit may also undertake planned reviews of areas considered to be at particular risk of fraud. Such reviews will be included within audit plans following discussion with management for approval by the Audit Committee. In addition, where relevant, the risk of fraud is considered when undertaking risk based audit reviews.
- 6.13 It is recommended that each participating authority reviews its counter-fraud and whistleblowing arrangements and key contact details in light of the Shared Internal Audit Service and ensures appropriate arrangements are in place for reporting and investigating suspected frauds or other irregularities, including the reporting of frauds to Internal Audit. The Council's Counter Fraud Policy states that senior management are responsible for following up any allegation of fraud or corruption that is received and are required to report all suspected irregularities to the Director of Resources. The Director of Resources will liaise with the Head of Internal Audit (or delegated Audit Manager) to determine the appropriate way to proceed, including ensuring that any investigation is undertaken by suitably qualified and experienced staff.

Advice / Consultancy work

- 6.14 Where Internal Audit is requested to provide advice, consultancy or investigatory work, the request will be assessed by the Head of Internal Audit. Such assignments will be accepted where it is considered the following criteria are met:

- The work request aligns with the available skills and resources within Internal Audit at the time
- The assignment will contribute to strengthening the control framework
- No conflict of interest could be perceived from Internal Audit's acceptance of the assignment; and
- The request relates to functions that are the responsibility of the organisation's management and are thereby not appropriate internal audit tasks.

6.15 In line with the PSIAS, approval will be sought from the Audit Committee for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

7. Management Responsibilities

7.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from management in the Council. In approving this Charter, the S151 Officer (Director of Resources) and the Audit Committee are mandating management to cooperate with Internal Audit in the delivery of the service by:

- Attending audit planning and scoping meetings and agreeing the terms of reference for individual audit assignments on a timely basis.
- Sponsoring each audit assignment at Service Manager level or above.
- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personal relevant to the audit assignment on a timely basis.
- Responding to internal audit reports and making themselves available for audit closeout meetings to agree draft audit reports.
- Implementing audit recommendations within agreed timescales.

7.2 Instances of non-cooperation with reasonable audit requests will be escalated through the S151 Officer and ultimately to the Audit Committee if necessary.

7.3 While Internal Audit is responsible for providing independent assurance to the Council and the Audit Committee, it is the responsibility of the organisations' management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurances to senior management and Elected Members that they are maintaining appropriately controlled systems.

8. Quality Assurance

8.1 Public Sector Internal Audit Standards require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Audit Committee through its regular and annual reports.

Internal assessments

- 8.2 All internal audit reviews are subject to management quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:
- Ensure the work complies with the PSIAS;
 - Work is planned and undertaken in accordance with the level of assessed risk; and
 - Appropriate testing is undertaken to support the conclusions drawn.

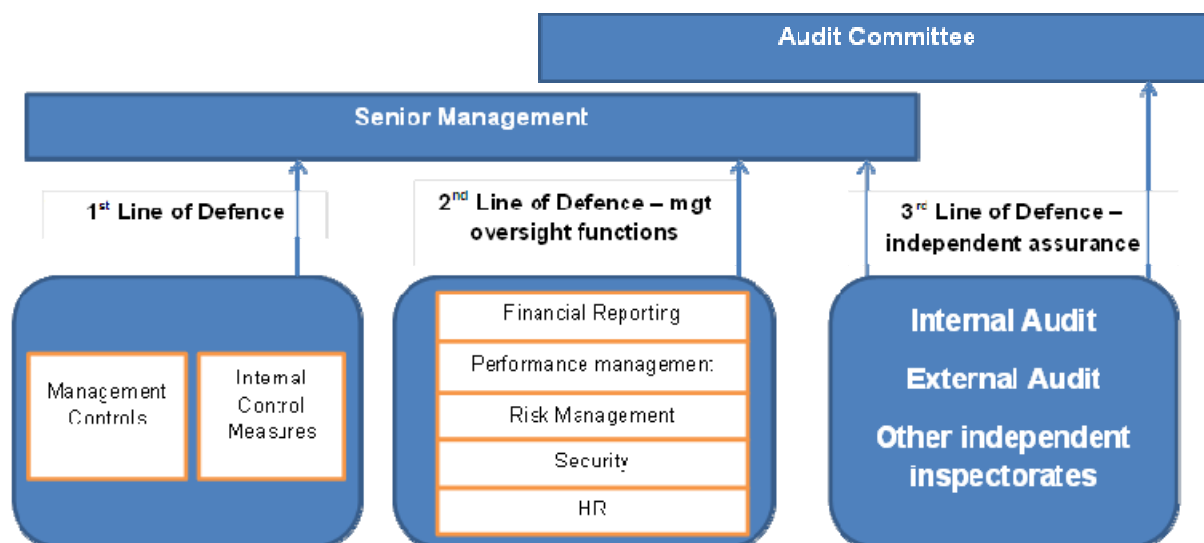
External assessments

- 8.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation. The Group Audit Manager will discuss options for the assessment with the Shared Services Strategic Board.

9. Review of the Audit Charter

- 9.1. This Charter will be reviewed annually and submitted to Senior Management and the respective Audit Committee, for approval alongside the annual audit plans.

Internal Audit - The Third Line of Defence



The above diagram demonstrates the three lines of defence in ensuring that organisations are adequately managing their risks.

The first line of defence comprises the arrangements that operational management have implemented to ensure risks are identified and managed. These include the controls that are in place within systems and processes together with the management and supervisory oversight designed to identify and correct any issues arising.

The second line of defence refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line of defence are operating effectively. For example the risk management policies and strategies that determine how risks within the organisation will be identified, assessed and managed and the reporting arrangements to confirm that these policies and strategies are being appropriately implemented and complied with.

Internal audit forms the third line of defence alongside other independent providers of assurance. The role of internal audit is to provide the senior management and Elected Members of the organisation that the arrangements within the first and second lines of defence are adequate and working effectively to manage the risks faced by the organisation.

