

AGENDA

AUDIT AND RISK MANAGEMENT COMMITTEE

MONDAY, 4 JULY 2022

4.00 PM

**COUNCIL CHAMBER, FENLAND HALL,
COUNTY ROAD, MARCH**

Committee Officer: Jo Goodrum
Tel: 01354 622285
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Whilst this meeting will be held in public, we encourage members of the public to view the meeting via our YouTube channel:

- 1 Appointment of Chairman for the Municipal Year
- 2 To receive apologies for absence.
- 3 Appointment of Vice Chairman for the Municipal Year
- 4 Previous Minutes. (Pages 3 - 8)

To confirm and sign the minutes of 14 March 2022.
- 5 To report additional items for consideration which the Chairman deems urgent by virtue of special circumstances to be now specified.
- 6 Members to declare any interests under the Local Code of Conduct in respect of any item to be discussed at the meeting.
- 7 Treasury Management Annual Review 2021-2022 (Pages 9 - 18)

To consider the overall financial and operational performance of the Council's treasury management activity for 2021/22.

8 Internal Audit Outturn and Quality Assurance Review 2021-22 (Pages 19 - 34)

To provide the Audit and Risk Management Committee with an overview of the work undertaken by Internal Audit during 2021/22;

To provide the Audit Managers annual opinion on the system of internal control;

To consider the effectiveness of Internal Audit.

9 Audit and Risk Management Committee Annual Report 2021-2022 (Pages 35 - 48)

To report to Full Council the commitment and effectiveness of the Audit and Risk Management Committee's work from April 2021 to March 2022.

10 Independent Member appointment to Audit Committee (Pages 49 - 54)

The purpose of this report is to seek Members views on the appointment of an Independent Member to the Audit and Risk Management Committee

11 Audit and Risk Management Committee work programme (Pages 55 - 60)

For information.

12 Items of Topical Interest.

13 Items which the Chairman has under item 5 deemed urgent.

Friday, 24 June 2022

Members: Councillor K French (Chairman), Councillor Mrs M Davis (Vice-Chairman), Councillor I Benney, Councillor G Booth, Councillor Mrs J French, Councillor N Meekins, Councillor J Mockett, Councillor M Purser, Councillor R Skoulding, Councillor S Tierney, Councillor R Wicks and Councillor F Yeulett

AUDIT AND RISK MANAGEMENT COMMITTEE

MONDAY, 14 MARCH 2022 - 4.00 PM



PRESENT: Councillor K French (Chairman), Councillor Mrs M Davis (Vice-Chairman), Councillor I Benney, Councillor G Booth, Councillor Mrs J French, Councillor J Mockett, Councillor R Wicks and Councillor F Yeulett

APOLOGIES: Councillor N Meekins, Councillor M Purser and Councillor S Tierney

Officers in attendance: Peter Catchpole (Corporate Director and Chief Finance Officer), Kathy Woodward (Internal Audit Manager) and Stephen Beacher (Head of ICT Digital & Resilience)

ARMC47/21 PREVIOUS MINUTES.

The minutes of the meeting of 14 February 2022 were confirmed and signed subject to the following comments:

- Councillor Booth queried that there had been no fraudulent cases and suggested that it would be more accurate to say that no cases of fraud had been identified. He explained that he was surprised that there were no cases of fraud found due to the scale found nationally but recognised that the pre-checks had been undertaken and asked how many cases had been rejected as the result of this. Kathy Woodward stated that she would provide the information to the Committee either after the meeting via email or at the next meeting.
- Councillor French noted that she had attended an Anglian Revenues Partnership meeting the previous week and that there were still no cases of fraud at that time.

ARMC48/21 RISK BASED INTERNAL AUDIT PLAN 2022/23

Members considered the Risk Based Internal Audit Plan 2022/23 presented by Kathy Woodward.

Members made comments, asked questions, and received responses as follows:

- Councillor Mrs J French asked how much revenue the external work that the audit function were completing would bring into the Council. Kathy Woodward informed the Committee that they would be completing seven days work bringing in just under £3,000.
- Councillor Wicks asked for clarification on the timelines between audits noting that there had been a 7-year gap since the last development delivery processes audit. He also asked what the highways audit encompassed. Kathy Woodward explained that the contract monitoring highways audit was based around the engineering team and the work they were undertaking with County along with some street lighting work. She agreed that the last development audit in 2015-16 was too long ago and explained that it was meant to be audited in 2020-21 but was delayed due to the pandemic. She stated that the audit team attempt to look at everything within a 5-year period and that they were trying to get this back on track now that the pandemic period had abated.
- Councillor Mrs J French noted that with the Highways audit most of the streetlights were County owned. She asked whether they were undertaking the audit on Fenland owned streetlights or both. Kathy Woodward explained that the audit would be on the contractual arrangement and delivery on the lights. She stated that it was hard to give a direct answer as they had not defined the whole scope yet. She informed the Committee that they could incorporate other areas into the audit if there were any concerns.

- Councillor Yeulett asked for clarification over what substantial, adequate, and limited meant. Kathy Woodward informed him that they have 5 levels of audit results and assurance levels. She explained that the first level was full assurance which was reserved for areas where there was no room for improvement. The second level was substantial which was allocated to areas with no major weaknesses and only a few minor weaknesses based on best practices. The third was adequate assurance which is where there are some weaknesses but none that put major system objectives at risk. The fourth was limited assurance which was reserved for areas where there were major weaknesses identified that could put system objectives at risk and the fifth was no assurance which denoted that there was catastrophic failure of service delivery.
- Councillor Yeulett thanked Kathy for the explanation and asked where Councillors could see the corrective actions from the audits. Kathy Woodward explained that whenever an audit was completed they are issued with an assurance rating and a number of recommendations. These are then used to draw up a management action plan and the recommendations are given a time frame for completion. She noted that progress reports are brought before the Committee quarterly which contain the audits completed, recommendations and any outstanding actions.
- Councillor Booth highlighted that it would be useful to get more information on what the reports deliver and suggested the possibility of receiving executive summaries to help understand the full picture. Kathy Woodward explained that she had expanded some of the work in the appendix to provide more detail since the previous meeting. She stated that they could consider the possibility of providing executive summaries to provide more detail to the Committee. Councillor Booth replied that this would be useful as the executive reports would help draw out the main findings and conclusions and assist the Committee in their role of providing constructive criticism.
- Councillor Mockett asked whether it was possible to see what they planned to audit and how. Kathy Woodward said that she had been thinking about potentially delivering a training session on how they deliver an audit. She explained that they liaise with service managers, have system control evaluations, and come up with objectives and measures of what they expect to find. She informed the Committee that they use an internal fraud risk register and always look at areas such as materiality and turnover to determine how high profile the audit is. She stated that they also network with other audit organisations to determine the audit plan. Regarding grounds maintenance, she told the Committee that compliance with the contract was an issue with some weaknesses having been identified in the past and explained that the starting point was always the previous audit to ensure that they had addressed the previously identified weaknesses. She offered Councillor Mockett to continue the discussion outside of the meeting to go through more of the specifics.
- Councillor Booth suggested that a good way to provide what they were planning to audit and how would be to circulate the terms of reference as these would highlight the areas they planned to look at and how long they would spend doing it. Kathy Woodward stated that she would consider these suggestions and said that if Councillors had any concerns they could contact her about them. Peter Catchpole supported Kathy Woodward's suggestion to discuss how best to provide more information to the Committee outside of the meeting without providing too much operational information. He stated that it may be worth providing some examples as well.
- Councillor Benney asked Kathy Woodward how much information the Committee needed to know in her opinion. He stated that it was the findings of the report that mattered most and asked what use the Committee would have for the information so that she was not undertaking work for the sake of it. He also expressed worries about the size of reports and the impact extra information would have on the Councillors ability to read and digest the information before the Committee session. He supported the idea of a training session on how audits were undertaken. Kathy Woodward thanked Councillor Benney for his comments and reiterated that they would take the discussion further outside of the meeting. She agreed that the training session would be useful. She stated that there were more days in the audit plan than usual but that it would be unproductive to utilise all that time writing

reports. She summarised that it was about finding the right balance of information provided and time taken and explained that it would be a work in progress for the coming months until they got the balance right.

- Councillor Booth noted that his suggestion was to use existing data such as terms of reference and executive summaries which were already produced and should not be time consuming in providing to the Committee. Peter Catchpole clarified that the main point was around disseminating enough information to allow the Committee to perform their role without creating a bigger workload. He supported Kathy Woodward's comment regarding the process being a work in progress and supported the idea of bringing more information to the Committee until they struck the right balance.
- Councillor Wicks explained that there were key areas in contract management including value for money, whether it was fulfilling the requirement it was initially set up for and whether there were regular meetings between the manager of the contract and contractor to enhance the process so that failures are picked up quickly and rectified and good service is recognised. Kathy Woodward stated that contract monitoring was an area that was different to other operational audits. She explained that they look at the governance arrangements in place around the contract, the performance of the contract, the monitoring of the contract, and whether the contract is achieving its objectives and is good value for money.
- Councillor Booth asked whether they could look at the Service Level Agreements when auditing areas to ensure that they were fit for purpose and whether they need amending to improve the service. He expressed his concern that there were only 6 days allocated for the 3C's audit and asked whether they would be doing any case sampling to make sure the process had been followed and the complaint dealt with. Kathy Woodward informed the Committee that they would be undertaking sampling. She explained that the audit plan was flexible and there were some contingency days in there which could be used if they finished the 6 days without drawing satisfactory conclusions. She stated that the audit plan was a guideline on what they planned to do and that it was based on the days taken in previous years but that it was flexible and could be adapted if necessary as seen with the changes made during the pandemic.
- Councillor Booth questioned the allocation of 10 days to the Local Authority Trading Company arguing that this felt too short due to the risk of the new venture. He noted that audit staff would need extra training for this area but took the previous point around flexibility on board. Kathy Woodward pointed out that this audit would be allocated 10 days every year rather than every 3 to 5 years like other audits in order to provide some consistency and support. She informed him that she was currently undertaking an audit around the governance and set up for the Local Authority Trading Company which would be reported in the year end report. Regarding the qualifications and training, she noted that she had significant experience from previous work in her Shared Internal Audit Manager role with Kings Lynn and as such had developed a fairly in-depth knowledge of the areas that need to be focused on from an audit review. Councillor Booth replied that his concern with the first year was that it was the first full year where the Council would be investing significant amounts of money and therefore, he felt it may require extra days.
- Councillor Benney argued that 10 days was more than adequate for the Local Authority Trading Company audit. He explained that they do not meet on a regular basis and although Officers were preparing things there was not a magnitude of work to be investigated. Peter Catchpole agreed with Councillor Benney's point noting that they have reports going to Cabinet on the Investment Boards activity and an annual report going to Overview and Scrutiny. He reiterated that the plan was flexible. Kathy Woodward clarified that the audit work on the Local Authority Trading Company was from a Fenland District Council perspective and explained that they were not directly auditing the company itself as this would be completed by the external auditors.
- Councillor Booth expressed his concern that Councillor Benney had a conflict of interests as he was on the Investment Board and asked whether this needed to be declared. He stated that the Committee acts as an Independent Assurance Board and should be careful when commenting on areas where there may be a conflict of interest. Peter Catchpole clarified

that Councillor Benney was a member of the Investment Board and not a director on the board of the Local Authority Trading Company. Councillor Yeulett asked whether he was in a position to take decisions. Peter Catchpole clarified that he was in a position to sign off the business plan but operationally he cannot take decisions on the Local Authority Trading Company which is run by the board of directors.

- There was a further discussion around the possibility of Councillor Benney having a conflict of interests in this area and it was resolved that they would seek legal guidance for the next meeting.

Members ACKNOWLEDGED the Internal Audit resources and NOTED the attached Internal Audit Plan for 2022/23.

ARMC49/21 ANNUAL GOVERNANCE STATEMENT UPDATE

Members considered the Annual Governance Statement update presented by Kathy Woodward.

Members made comments, asked questions, and received responses as follows:

- Councillor Yeulett recognised the situation in Ukraine and the impact this would have on the UK regarding the number of refugees seeking shelter. He asked whether this was an area that needed to be flagged or whether this would be tackled later. Kathy Woodward explained that the issues raised would be picked up as part of the risk register and informed the Committee that the Cambridgeshire and Peterborough Local Resilience Forum were also discussing the matter. She explained that they were keeping a watching brief as it was unclear as to the effect it would have on the Council. Regarding the Annual Governance Statement, she informed him that they would include a watching brief on the area in this.
- Councillor Booth identified the shortfall predictions and variances and raised that there was a wide variance in the figures of around £600,000. He explained that this was not good practice and asked whether they could do anything to avoid this in future. Peter Catchpole explained that there were many unknowns in the budget and changes they could never have envisaged. He reasoned that they had performed very well in the situation and hoped that they would continue to outperform the budget going forward. He stated that the only certainty in the budget was Council Tax and that everything else had a level of uncertainty around it noting that the budget was compiled relatively early and lots changed between November and when it was published. He stated that he was happy to see the drop of £600,000 and hoped that it would drop by more.
- Councillor Booth recognised that it was not the best year for predictions due to the situation and stated his hope that it would be more stable going forward. He reiterated that having such wide variances in the budget should be avoided wherever possible and asked how the Council could manage finances responsibly when they are half a million out. Peter Catchpole informed him that he had analysed the neighbouring Council's budgets and found that no one came as close to Fenland's predictions and outcomes. He recognised that putting an accurate budget forward did have key decision making implications on areas such as Council tax rates and stated they try to be as accurate as possible but reiterated that there were many variables that change from one year to the next including government funding and grants which made the task difficult.
- Councillor Benney recognised that they were looking at one of the worst years possible due to Covid-19 and identified that they did not have to pull heavily from the reserves despite this. He stated that Councillor Boden had set up the Equalisation Fund which had wiped out nearly £243,000 of the deficit. He expressed that he felt the Council had done very well considering the impact of the crisis and that this had shown good management by the Council, Peter Catchpole and the portfolio holder for finance, Councillor Boden.

Members AGREED to note the progress made against the actions identified in the Annual Governance Statement for 2020/21.

ARMC50/21 RISK MANAGEMENT STRATEGY AND CORPORATE RISK REGISTER

Members considered the Risk Based Internal Audit Plan 2022/23 presented by Stephen Beacher.

Members made comments, asked questions, and received responses as follows:

- Councillor Booth asked whether it was necessary to bring the policy back every year or whether it could be looked at on a tri-annual basis. He expressed that it was important to look at the risk register quarterly but the policy was unlikely to change dramatically. He stated that it would be useful to use track changes in future. Councillor Booth identified section 9.3 which stated that there were three options for managing risk. He challenged this stating that there were five with risk acceptance and risk sharing being missed off. He argued that risk sharing was an important area as the Council conducts this in several ways through their relationship with areas such as ARP and the Shared Planning Service. He also asked who set the risk appetite and risk strategy as the document stated that it was senior management when it should be the Councillors. Stephen Beacher explained that they did have the tracked changed document if Councillor's wished to see it and stated that they would take the other comments on board.
- Councillor Wicks stated that the risk register should identify emerging risks with the mitigations for them along with an ultimate fallback position if the mitigations fail. Stephen Beacher explained that they do review risks and identify any emerging ones on a quarterly basis with the Corporate Risk Management Group who then pass it through Corporate Management Team before it is brought before the Committee. Peter Catchpole clarified that the risk register was presented quarterly which contained all the information Councillor Wicks had outlined. Councillor Booth noted that this was set out in the policy document.

Members APPROVED the latest Risk Management Policy and Strategy as attached at Appendix A.

ARMC51/21 AUDIT AND RISK MANAGEMENT COMMITTEE WORK PROGRAMME

Councillor K French presented the Audit and Risk Management Committee Work Programme 2021/22 for information.

- Councillor K French informed the Committee that there were no definitive dates yet and that these would be circulated in due course.

Members made comments, asked questions, and received responses as follows:

- Councillor Booth recognised that Committee training still had an amber status despite the Committee now receiving regular training and asked whether this should now be green. Kathy Woodward agreed to amend this and stated that if Councillors had any suggestions for further training she would be happy to consider these and provide training at appropriate times.
- Councillor Booth identified the Independent Member Appointment due in July and asked whether any steps were being taken to deliver on that. Peter Catchpole confirmed they were taking steps and informed him that there would be a paper coming before the Committee in July which would outline the process and be driven by the Committee. Councillor Booth asked if they needed to amend the due date as they would not be in place by July. Peter Catchpole clarified that the due date was for the paper to be brought before the Committee and explained that there would be a process after that.


The Audit and Risk Management Committee Work Programme was noted for information.

ARMC52/21 ITEMS OF TOPICAL INTEREST.

Peter Catchpole informed the Committee that he had accepted the offer from the PSAA to opt in allowing them to handle the appointment of external auditors.

5.00 pm

Chairman

Agenda Item No:	7	
Committee:	Audit and Risk Management Committee	
Date:	4 July 2022	
Report Title:	Treasury Management Annual Review 2021/22	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2021/22.

2 Key issues

- Outstanding loans and finance lease liabilities of £7,905,799 and temporary investments of £31,850,000 as of 31 March 2022.
- The Council invested £4M, split equally, into the Federated Hermes and Patrizia Hanover, Property Unit Trusts, in late March 2022. No distributions were paid in 2021/22 due to the timing of the investments
- No new borrowing was undertaken and the authorised limit was not breached during 2021/22.
- The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- Amount received from external investments totalled £52,375 (compared with an estimate of £40,000).
- Overall interest rate achieved from investments 0.1349% (7 day backward looking SONIA un compounded rate for 2021/22 0.1355%).

3 Recommendations

- It is recommended that members note the report.
- It is recommended that Cabinet receive the Treasury Management Annual Report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader & Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Peter Catchpole, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Treasury Management and Annual Investment Strategy 2021/22

Report:

1 Introduction

- 1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2021/22 the minimum reporting requirements were that Council should receive the following reports:
- an annual Treasury Strategy in advance of the year (Council 23/02/2021);
 - a mid-year treasury update report (Council 08/12/2021);
 - an Annual Review following the end of the year, describing the activity compared to the strategy (this report).
- 1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.4 The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Risk Management Committee before they were reported to Council.

2 The Council's Capital Expenditure and Financing

- 2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2020/21 Actual £000	2021/22 Revised Estimate £000	2021/22 Actual £000
Capital expenditure	6,678	12,816	11,583
Financed In Year	2,775	10,804	9,936
Unfinanced capital expenditure	3,903	2,012	1,647

3 The Council's Overall Borrowing Need

- 3.1 The Council's underlying need to borrow to finance capital expenditure is termed the capital financing requirement (CFR).
- 3.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years.
- 3.3 In February 2020 Council allocated £25m in the capital programme to enable the Council to take forward projects linked to its Commercial and Investment Strategy (CIS). At the 31.3.2022 £4.024m has been spent on two acquisitions approved by the Investment Board in accordance with the CIS. This impacts on the Capital Financing Requirement as explained in the table below. Currently both acquisitions have been funded from internal borrowing, i.e. no specific external borrowing to fund the investments has been undertaken, but the Council retains the flexibility to externalise the associated borrowing if it is deemed appropriate to do so.
- 3.4 The table below highlights the Council's gross borrowing position against the CFR (See Appendix A).

	31 March 2021 Actual £000	31 March 2022 Revised Estimate £000	31 March 2022 Actual £000
CFR opening balance	2,274	6,177	6,177
Capital expenditure – Capital Programme	553	1,682	1,322
Capital expenditure – Commercial and Investment Strategy	3,699	330	325
Less Minimum Revenue Provision	(349)	(368)	(366)
CFR Closing balance	6,177	7,821	7,458
of which: Capital Programme	2,478	3,802	3,444
Commercial and Investment Strategy	3,699	4,019	4,014
Gross Debt (see table at 4.1 below)	8,043	8,236	7,906

- 3.5 The CFR includes finance leases. A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle) for the lease duration (typically 7 years). The annual lease payment is made up of a capital and interest repayment.
- 3.6 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.
- 3.7 The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

- 3.8 The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.
- 3.9 Neither the authorised limit nor operational boundary were breached during 2021/22.

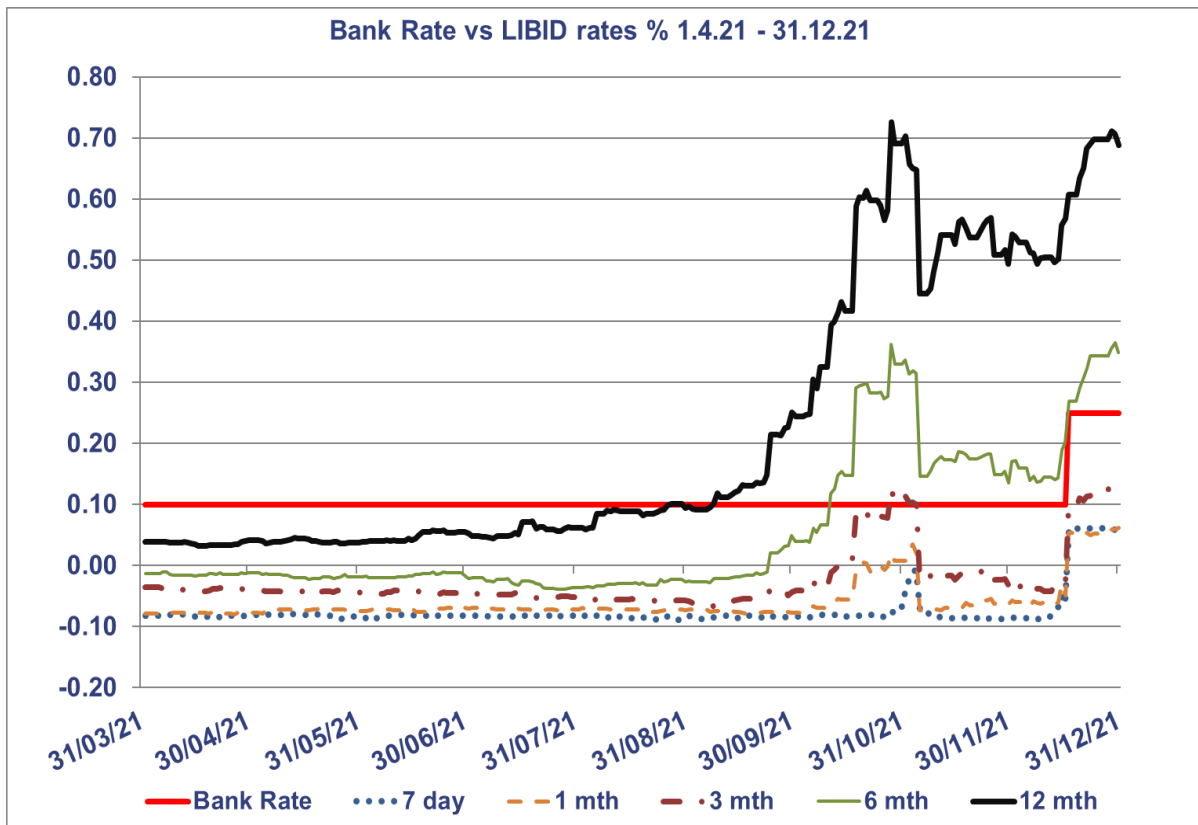
4 Overall Treasury Position as at 31 March 2022

- 4.1 At the beginning and end of 2021/22, the Council's treasury position was as follows.

	31 March 2022 Principal £000	Rate / Return	Average Life years	31 March 2021 Principal £000	Rate / Return	Average Life years
Fixed rate funding						
• PWLB	4,500	7.29%	8.40 yrs	4,500	7.29%	9.40 yrs
• Market	3,300	4.70%	31.96 yrs	3,300	4.70%	32.96 yrs
• Finance Leases	106	3.59%	1.14 yrs	243	3.71%	1.56 yrs
Total debt	7,906			8,043		
Investments						
• Banks/Building Societies	(31,850)	0.13%		(24,000)	0.25%	
• Property Funds	(4,066)	N/A		0		
Total Investments	(35,916)			(24,000)		
Net debt /(Investments)	(28,010)			(15,957)		

- 4.2 In line with the Treasury Management Strategy and Annual Investment Strategy approved by Council on 23 February 2021, the Council invested £4M, split equally, into the Federated Hermes and Patrizia Hanover, Property Unit Trusts, in late March 2022. No distributions were paid in 2021/22 due to the timing of the investments.
- 4.3 All other investments held at 31 March 2022 are fixed term or callable deposits due for repayment within the next twelve months.

5 The Strategy for 2021/22



Investment Strategy

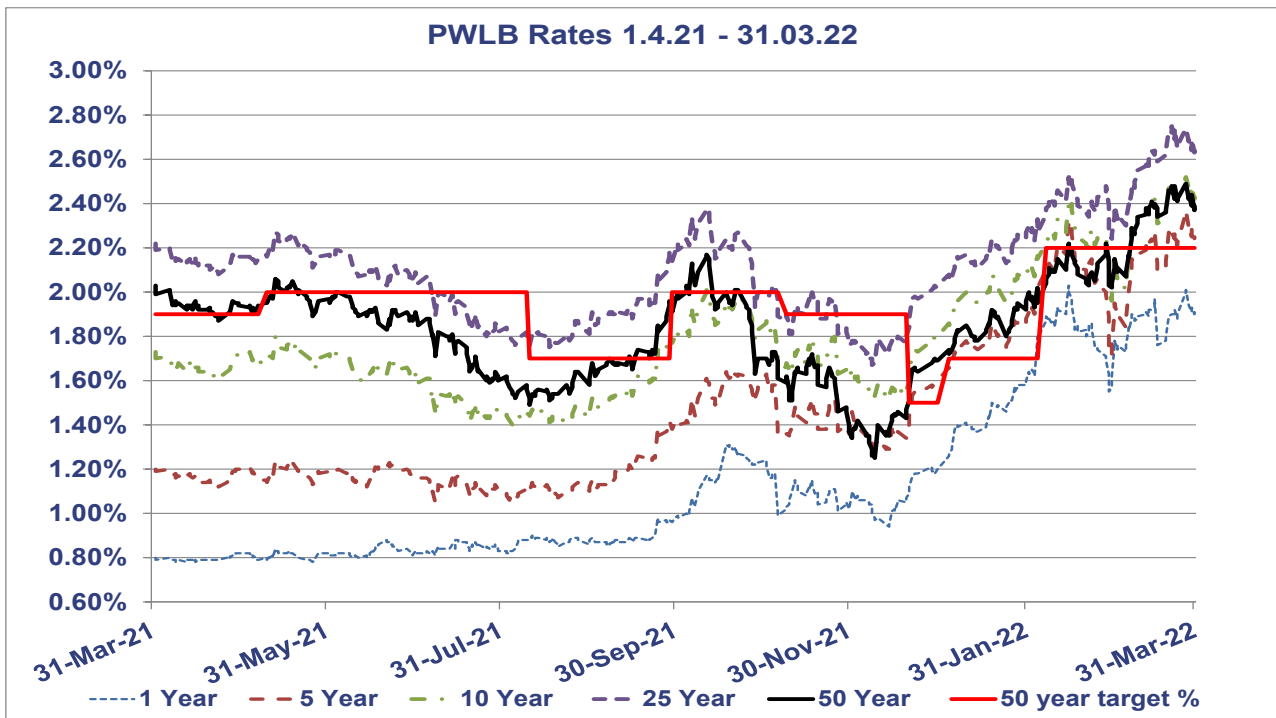
- 5.1 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.
- 5.2 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 9% in April).
- 5.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 5.4 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of

reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing Strategy

- 5.5 The Council was ‘over borrowed’ during 2021/22 the Council’s gross debt exceeded its CFR, as has been the case since 2007 when the Council decided not to repay £7.8m of PWLB debt, following the Council’s stock transfer.
- 5.6 Therefore, as opposed to taking on additional loan debt to fund capital expenditure in 2021/22, the Council followed a strategy of using cash, supporting the Council’s reserves, balances and cash flow as an interim measure. The strategy was prudent as investment returns were low and to reduce counterparty risk on placing investments.
- 5.7 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 5.8 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based on managing interest rate risk, if it had been felt that there was a significant risk of a much sharper rise in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.
- 5.9 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22. Financial estimates were based on the interest rate forecasts in the table below.

Link Group Interest Rate View	20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30



- 5.10 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields
- 5.11 Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.
- 5.12 At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.
- 5.13 There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to continue to increase throughout 2022. Medium to long dated yields are driven primarily by inflation concerns and the Bank of England has said it wouldn't decide to sell down its gilt holdings, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years, until after its August MPC meeting. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

6 Borrowing Outturn

- 6.1 No long term or temporary borrowing was taken during 2021/22. The approach during the year was to use cash balances to finance new capital expenditure, so as to run down cash balances that were earning low investment returns and to minimise counterparty risk incurred on investments. Additionally, it is important to note that Council had abnormally high cash balances due to the receipt of significant funds from government in respect of both schemes to support businesses to recover from the economic impact of the pandemic and funding received in advance to enable the Council to deliver grant-funded schemes included in its capital programme.
- 6.2 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

- 6.3 No rescheduling was completed during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates and the penalty position which can arise from early repayment of debt, made rescheduling unviable.

7 Investment Outturn

- 7.1 The Council's investment policy is governed by the Department for Levelling Up, Housing and Communities investment guidance, which has been implemented in the annual investment strategy approved by Council on 23 February 2021. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps and bank share prices etc).
- 7.2 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- 7.3 The Council maintained an average balance of £32.183m of internally managed funds. The internally managed funds earned an average rate of return of 0.1349% (£52,375). The comparable performance indicator is the average 7-day backward looking SONIA rate, which was 0.1355%.
- 7.4 In line with the Treasury Management Strategy and Annual Investment Strategy approved by Council on 23 February 2021. Officers, in conjunction with Link Group, its external treasury advisors, carried out a detailed, financial and qualitative review into a number of property funds, before selecting the Federated Hermes and Patrizia Hanover, Property Unit Trusts, in late March 2022. £4m was invested, split equally, between these two funds. No distributions were paid in 2021/22 due to the timing of the investments.
- 7.5 Updates on the performance of these funds will be provided to the Audit and Risk Management Committee as part of future reporting. It is important to note investment in property funds is a long-term investment so the value of the Council's underlying investment may increase and decrease over the period the Council maintains its investment. The benefit to the Council of investing in property funds is that it will receive a quarterly cash distribution reflecting rental income collected by the fund manager from tenants and the potential for capital growth should the value of the Council's holding exceed the amount the Council originally invested.


8 Prudential and Treasury Indicators

During 2021/22 the Council complied with its legislative and regulatory requirements.

Appendix A - Prudential Indicators

Prudential Indicators	2020/21	2021/22	2021/22
	Actual £000	Revised Estimate £000	Actual £000
1 Capital Expenditure (including Commercial and Investment Strategy)	6,678	12,816	11,583
2 Ratio of Financing Costs to Net Revenue Stream (borrowing costs – investment income)	7.03%	8.27%	8.13%
3 Gross Borrowing and the Capital Financing Requirement			
Gross Debt	8,043	8,236	7,906
CFR	6,177	7,821	7,458
<hr/>			
Treasury Management Indicators	2020/21	2021/22	2021/22
	Actual £000	Revised Estimate £000	Actual £000
4 Authorised Limit for External Debt			
Borrowing	17,000	17,000	17,000
Other Long-Term Liabilities	1,000	1,000	1,000
Commercial Activities	25,000	21,302	21,302
Total	43,000	39,302	39,302
5 Operational Boundary for External debt			
Borrowing	12,000	12,000	12,000
Other Long-Term Liabilities	1,000	1,000	1,000
Commercial Activities	25,000	21,302	21,302
Total	38,000	34,302	34,302
6 Actual External debt (as at 31 March)			
Borrowing	7,800	8,130	7,800
Other Long-Term Liabilities	243	106	106
Total	8,043	8,236	7,906

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Agenda Item No:	8	
Committee:	AUDIT AND RISK MANAGEMENT	
Date:	4th July 2022	
Report Title:	INTERNAL AUDIT OUTTURN AND QUALITY ASSURANCE REVIEW	

1 Purpose / Summary

To provide the Audit and Risk Management Committee with an overview of the work undertaken by Internal Audit during 2021/22;

To provide the Audit Managers annual opinion on the system of internal control;

To consider the effectiveness of Internal Audit.

2 Key issues

- Public Sector Internal Audit Standards (PSIAS) have been issued to set the standard of internal auditing in the public sector. These standards are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015. CIPFA has provided an additional Application Note for Local Government (LGAN). Both documents constitute 'proper practices' in internal control as per the Accounts & Audit Regulations 2015.
- Under the Accounts and Audit Regulations 2015, the Council
 - *'must conduct a review of the effectiveness of the system of internal control'.*
- The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.
- The PSIAS state that the Audit Manager
 - *'must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.'*
- This report fulfils that requirement
- The LGAN states that the Internal Audit Annual Report should include both the annual audit opinion, and the results of the continuous quality assurance and improvement program (QAIP).
- Regulation 5 (1) of the Accounts and Audit Regulations 2015 requires that relevant authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. A continuous quality assurance and improvement programme is undertaken so that the Council continues to provide an effective Internal Audit service.

3 Recommendations

- To note the outturn for Internal Audit for 2021/22, which highlights the Audits that were completed as per the agreed Internal Audit Plan, and their associated

assurance ratings and also the additional assurances gained from other sources of work completed in house and externally to support the Annual Audit Opinion.

- To note the Internal Audit Manager’s opinion on the “adequacy” of Internal Control, Risk Management and Governance processes.
- To note the positive outcome of the independent quality assurance review.

Wards Affected	All
Forward Plan Reference	Not applicable
Portfolio Holder(s)	Not applicable
Report Originator(s)	Peter Catchpole- Corporate Director & Chief Finance Officer Kathy Woodward - Internal Audit Manager
Contact Officer(s)	Peter Catchpole - Corporate Director & Chief Finance Officer Kathy Woodward- Internal Audit Manager
Background Paper(s)	Internal Audit Plan 2021/22 Internal Audit Progress Report Q3 Public Sector Internal Audit Standards CIPFA PSIAS Local Government Application Note 2019 Accounts and Audit Regulations 2015 CIPFA Statement on the role of the Head of Internal Audit CIPFA Guidance – Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope

4 Background / introduction

- 4.1 This report includes details, for the year 2021/22, of: -
- the coverage provided by Internal Audit; and
 - the Internal Audit Manager's opinion on levels of internal control across the Council.
 - the independent review of the effectiveness of the Internal Audit team.
- 4.2 The Internal Audit Manager has a professional reporting line to the Corporate Director & Chief Finance Officer, the responsible officer for duties under Section 151 of the Local Government Act 1972. The Internal Audit service provides assurance to Senior Management regarding levels of control for systems for which they are responsible.
- 4.3 Full details of the Internal Audit objectives are contained within the Internal Audit Charter approved by the Audit and Risk Management Committee (minute ARMC14/21).

5 Internal Audit Outturn

- 5.1 The annual internal audit plan is formulated in advance, following an assessment of risks inherent to services and systems of the Council based on internal audit and management knowledge at that time. During the period that follows, changes in the control environment may occur, for example: -
- introduction of new legislation/regulations,
 - changes of staff,
 - changes in software,
 - changes in procedures and processes,
 - changes in service demand,
- 5.2 Audit and Risk Management Committee approved the Internal Audit Plan 2021-22 on 21 June 2021 (ARMC13/21).
- 5.3 The team has remained within budget, and has achieved a satisfactory level of planned and proactive unplanned work. The impact that resource changes and demand have upon achievement of the annual audit plan varies each year and this year significant challenges were faced by the team as a result of the Coronavirus pandemic, particularly in relation to providing support for the Council's allocation of Coronavirus Business Grants. This is the fourth year of the shared auditing arrangements for Anglia Revenues Partnership (ARP) functions.
- 5.4 The team has successfully completed 90% of the planned audits for 2021/22 and covered a broad spectrum of audits over the Council's corporate objectives, enabling an appropriate assessment for the Annual Audit Opinion.
- 5.5 A restructure proposal of the Internal Audit team was approved by Staff Committee in September 2020 to address the resource issues of the team. The proposals were:
- Reinstatement of the Internal Audit Manager to a full-time post.
 - Appointment of a full-time apprentice internal auditor.
 - Retention of the existing part time internal auditor.

- 5.6 The recruitment of the apprentice internal auditor was successful, and the appointment commenced in February 2021. The S113 and Memorandum of Understanding between Fenland District Council and King's Lynn and West Norfolk borough Council has been terminated and the Internal Audit Manager reverted to full time from 31 May 2021.
- 5.7 In addition to the planned audit work further assurances have been obtained by the team as follows:
- Care and Repair Disabled Facilities Grants declaration
 - National Fraud Initiative work – National Exercise, Council Tax and Elections Exercise and Covid-19 Business Grants Exercise
 - Grant Funded Projects Group
 - Risk Management Group
 - My Fenland project group overview
 - Business Grants – Post Payment Assurance planning and fraud risk assessments
 - Follow up reviews on outstanding audit recommendations
- 5.8 Further assurances have been obtained from external organisations to support the Internal Audit Opinion, by providing assurance of the following areas:
- Local Government and Social Care Ombudsman Annual Review 2021 - **0 complaints were upheld and no recommendations for compliance**
 - Independent Designated Person Port Marine Safety Code audit – **95.63%** conformity with achievable measures.
 - ICT – Public Service Network (PSN) compliance certificate – **fully compliant.**
 - WRAP Waste and Recycling Services Support Options appraisal review – **Review of current and future options.**
 - Business Grants – Post Payment Assurance reporting – **No issues identified in sample testing conducted by BEIS**
 - Housing Benefit Subsidy Assurance Process 2020/21 – specific testing as required by the DWP reporting framework have been undertaken by Ernst and Young. This testing only identified 7 cases of exceptions/error. The value of these exceptions was not material. **Ernst and Young have re-performed a sample of the authority's testing and confirm that the tests carried out concur with the Authority's results.**
- 5.9 Appendix A lists the systems audited in the financial year and the number of recommendations made for each audit. Appendix B highlights the status of recommendations agreed from previous years audits.
- 5.10 Audit work includes testing of system controls, and this has not highlighted any significant fraud. Any errors or irregularities that have been identified have been resolved during the course of the audit and/or management action plans have been agreed with the system owners including timescales for improvement appropriate to the level of risk. These action plans will be followed up by Internal Audit with management.
- 5.11 A key performance objective of the team was to complete 'fundamental' audits, which are considered key financial systems. Historically these systems had continued to operate to a satisfactory standard, and were evaluated as having substantial assurance. 4 'fundamental' audits required review in the 2021/22 plan, one has been postponed until 22/23 due to the pressures facing the finance team as a result of the pandemic, with the remainder being reviewed over a three-year cycle.

6 Annual Internal Audit opinion on the internal control environment

- 6.1 The Council is required to report in its annual statutory financial statements an assessment as to the adequacy of the internal control environment, risk management, and governance arrangements. This is referred to as the Annual Governance Statement.
- 6.2 Information for this purpose is drawn from many sources one of which is the work of Internal Audit in that financial year, and up to the date of the approval of the annual accounts. All audits have been carried out in conformance with the Public Sector Internal Audit Standards.
- 6.3 As part of the Annual Governance Statement evaluation, an assurance mapping exercise takes place which documents and establishes additional sources of assurance.
- 6.4 The annual audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- 6.5 Based on the work that Internal Audit has performed the Internal Audit Manager's opinion for 2021/22 is that, **there is "adequate" assurance as to the adequacy and effectiveness of internal controls, the risk management and governance arrangements.** Management has adopted plans for improvement in control, and within appropriate timescales that will be followed-up to ensure further improvement is delivered. Potential risks and opportunities for further improvement have been incorporated into Management action plans.
- 6.6 This has been further supported by the external auditor (Ernst & Young) "Annual Audit Report", as reported to Audit and Risk Management Committee at minute ARMC41/21, which states an unqualified opinion that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 6.7 On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However the Audit Manager's opinion can only provide a reasonable, not absolute, level of assurance as to the adequacy and effectiveness of these systems.

7 Review of the effectiveness of Internal Audit

- 7.1 Regulation 5 (1) of the Accounts and Audit Regulations 2015 requires that relevant authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 7.2 DCLG guidance on the Accounts and Audit Regulations cites proper practice in relation to internal audit in local authorities:
- All Public Sector Internal Audit Teams are required to comply with the Public Sector Internal Audit Standards (PSIAS) issued by the Institute of Internal Auditors (IIA). CIPFA issued a mandatory 'Local Government Application Note' (LGAN) intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
 - CIPFA has also issued guidance on the 'role of the Head of Internal Audit in Local Government' which supplemented the Code.
- 7.3 The Internal Audit Charter, Risk Based Internal Audit Plan and delivery, is based on these professional standards. Performance monitoring is also supplemented through frequent interaction between the Internal Audit Manager and the Corporate Director & Chief Finance Officer. Audit and Risk Management Committee have also increased their

oversight of the delivery of the Audit Plan through quarterly monitoring of performance including number of audits completed and number of and rating of recommendations.

- 7.4 An independent review of effectiveness has been completed by an external assessment process completed in November 2017 by a CIPFA assessor. This is based on the latest guidance and professional standards and took the form of a self – assessment checklist covering all areas of the Public Sector Internal Audit Standards, Local Government Application Note and CIPFA’s Role on the Head of Internal Audit. Corporate Governance Committee considered this report on 4th December 2017.
- 7.5 The external assessment concluded that ‘the self-assessment is a good reflection of the Internal Audit Service’s practices and its contribution to the organisation. It is also our opinion that the service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and to the Local Government Application Note.’ This is the highest accolade that can be given from the assessor.
- 7.6 The next external assessment will take place in 2023 and in the intervening years the Corporate Director will continue to complete an independent review of effectiveness on an annual basis. The results for 2021/22 can be seen at Appendix C.

8 Effect on Corporate Objectives

- 8.1 The delivery of an effective Internal Audit Service is a key factor in maintaining an adequate level of internal control in the Council, and contributes to a Quality Organisation.

9 Conclusions

- 9.1 The Council has maintained an effective Internal Audit team which demonstrates a commitment to comply with the Public Sector Internal Audit Standards, and the CIPFA Local Government Application Note, as standards of good quality.
- 9.2 The Internal Audit team has provided audit and assurance work throughout the year to form an opinion on the effectiveness of internal control. There are no serious concerns highlighted and this assurance will form evidence for the production of the Annual Governance Statement, which accompanies the Statement of Accounts.

Appendix A: Audits completed

Audit	Overall opinion	High	Medium	Low	Recommendation Theme
Anglia Revenues Partnership – Enforcement (20/21)	Substantial	-	-	-	There were no procedural or control issues identified during the course of the audit
* Business Rates (20/21)	Adequate	3	5	10	The high-risk recommendations relate to reliefs, exemptions and discounts that have been brought into focus as a result of the Coronavirus business grants. A new process for the award of Small Business Rate Relief has been brought into effect from May 2021 and a data cleansing exercise and review of existing ratepayers is underway.
* Council Tax Billing and Benefits (20/21)	Adequate	-	8	7	The medium-risk recommendations relate to Council Tax refund process, Self Employed claimants, and system access controls. Low-risk recommendation are noted for areas of best practice and will not be reported upon.
* Council tax Recovery and Housing Benefit Overpayments (20/21)	Adequate	-	5	2	The medium risk recommendations relate to the recovery of Council Tax and Housing Benefit Overpayments. System access and Housing Benefit Overpayment credit balances
Safeguarding To gain assurance that that the Council has robust controls in place that comply with Section 11 of the Children Act 2004. The Care Act 2014 sets out a clear legal framework for how local authorities should protect children and adults at risk of abuse or neglect.	Adequate	1	7	7	The High-risk recommendation relates to ensuring the public have access to the information to enable them to report safeguarding concerns for vulnerable adults. The main focus of the other medium recommendations relates to ensuring the

					policies are up to date and reference current legislation and monitoring our progress with other agencies is completed, accurate and up to date.
<p>Land Charges</p> <p>To gain assurance that there are adequate internal controls and procedures in place for the processing and monitoring of land charge searches and that they are charged for appropriately</p>	Substantial	-	-	2	<ul style="list-style-type: none"> Land Charge procedural manual needs to be reviewed and updated as appropriate to reflect current working practices, ensuring business continuity and consistency. The transfer to the digitalised Local Land Charge Register is monitored and progressed to agreed timescales.
<p>Taxi Licensing</p> <p>To gain assurance that that the Council has robust procedures and guidance in place demonstrating appropriate issuance of Licences for Hackney Carriages, Private Hire, and Operators within the Council.</p>	Adequate	-	2	3	<p>The recommendations include ensuring that the procedure for checking licences is followed consistently.</p> <ul style="list-style-type: none"> Security of unissued plates and badges should be reviewed. The website link needs to be updated to the correct fees and a review of the cost recovery analysis should be planned to capture the implementation of Digital Journey.
<p>VAT</p> <p>To gain assurance that that the Council has robust procedures and guidance in place demonstrating appropriate treatment of VAT within the Council.</p>	Substantial	-	-	-	There were no procedural or control issues identified during the course of the audit.
<p>Port Assets and Maintenance</p> <p>To gain assurance that that the Council has robust procedures and guidance in place demonstrating appropriate policies with regards to the procurement</p>	Substantial	-	-	5	The low-risk recommendations relate to ensuring value for money is obtained for all contracts. A review of the maintenance work schedule is required and ensuring that all

and disposal of port assets and maintenance.					documentation is retained for disposals of assets.
<p>Housing Standards</p> <p>To gain assurance that that the Council has robust procedures and policies in place for all aspects of Private Sector Housing standards, Houses of Multiple Occupation, and caravan site licensing.</p>	Adequate	-	2	1	The recommendations relate to ensuring procedures are up to date and followed and effective monitoring and reporting arrangements are updated and followed.
<p>Housing Strategy</p> <p>To gain assurance that the Council has robust procedures in place, demonstrating appropriate treatment of applicants when applying for housing within the District. Included a review of the Choice Based Letting scheme and Housing Needs assessment.</p>	Substantial	-	-	-	There were no procedural or control issues identified during the course of the audit.
<p>Stores -Works</p> <p>To gain assurance that the operation of the stores at the Base is adequate and to ensure that effective procedures are in place for the monitoring and recording of stock levels and security is adequate.</p>	Adequate		1		The recommendation relates to the issuing and monitoring of stock levels.
<p>Cemeteries</p> <p>To gain assurance that that the Council has robust procedures in place demonstrating compliance with its</p>	Adequate		2	8	<p>The key recommendations are:</p> <ul style="list-style-type: none"> • The services need to discuss a plan regarding the completion of the burial registers – to include the public’s right to access the information.

<p>duties under the Local Authorities Cemeteries Order 1977.</p> <p>In addition to the duty in article 4, to 'keep the cemetery in good order and repair', burial authorities are required to maintain a record of burials, a place showing the number and location of each grave, store all records securely to preserve them from loss or damage.</p>					<ul style="list-style-type: none"> • A process needs to be agreed with the Contracts Manager and Contractor, regarding inspection and repair of high risk memorials, and agree a process using the Memorial Safety Inspection Policy what deems a high-risk or potential risk memorial.
<p>Housing Grants – PSR / DFG</p> <p>To gain assurance that that the Council has robust procedures and policies in place to demonstrate the application, processing and approval of Housing Grants.</p>	Substantial			3	<p>3 low risk recommendations relate to best practice improvements as follows:</p> <ul style="list-style-type: none"> • Develop detailed procedure notes for business continuity. • Consider what system is best 'fit for purpose' for recording and monitoring of Disabled Facility Grants. • Ensure information captured is complete and accurate and reflects actual timescale/key dates.
<p>Garden Waste</p> <p>To gain assurance that that the Council has robust procedures and guidance in place to ensure garden waste subscriptions are authorised and promptly applied to customer accounts. That the terms and conditions are clear to customers and that it is operated as a cost recovery function within the Authority.</p>	Substantial			2	<p>2 low risk recommendations relate to best practice improvements as follows:</p> <ul style="list-style-type: none"> • Reference should be made to the Fenland Bins App to existing subscribers of the service as well as marketed to potential subscribers • It should be noted on the website that the Terms and Conditions are available in alternative formats including large print, braille, and different languages
<p>Business Unit Lettings</p> <p>To gain assurance that there appropriate levels of internal controls for Business Unit letting and adequate monitoring and recording of income and arrears is</p>	Limited	3	6	1	<p>The main area of focus from the recommendations made are:</p> <ul style="list-style-type: none"> • Review the Business Unit Lettings Policy and Procedure to ensure it reflects current best practice and legislation

<p>performed.</p> <p>The Estates Team appears to have had some resource issues for some time which has resulted in records becoming out of date and not updated in a timely manner. It has not been possible to obtain any key statistical or financial information from the Estates Team due to the information retained being so far out of date.</p>					<ul style="list-style-type: none"> • Ensure that rental records and monitoring information are brought up to date • Undertake a review to establish whether spreadsheets are the best methods to capture the information, and explore opportunity to use and report from IDOX • Ensure signed lease agreements are in place in a timely manner • Liaise directly with PCC Legal Services to ensure key information is promptly communicated and completion memos are distributed accordingly
<p>Corporate Finance – Management Accounting System</p> <p>To gain assurance that the Council manages and maintains a robust management accounting system for all income, expenditure and commitments.</p>	Substantial		1	1	<p>The recommendations relate to ensuring appropriate business continuity of system administration and to undertake a review of users and access levels.</p>
<p>Procurement</p> <p>To gain assurance that there are sufficient policies and procedures in place for the Council to comply with the Corporate Code of Procurement and other relevant legislation.</p>	Adequate		7	1	<p>The key recommendations are:</p> <ul style="list-style-type: none"> • The Code of Procurement needs to be reviewed and updated to reflect current requirements and relevant legislation. • Procurement Strategy needs to be reviewed, updated and re-published • Keep up to date with e-procurement expansion and implement changes to process and system expansion as appropriate to ensure compliance and efficiency • Explore system capability and expansion for e-procurement

Payroll To gain assurance that there are appropriate levels of internal controls for Payroll with adequate authorisation and separation of duties.	Substantial		1	1	The key recommendations are: <ul style="list-style-type: none"> • Ensure that users are monitored and kept up to date to reflect current working arrangements. • Ensure key supporting documentation is retained on shared drive for ease of reference and complete audit trail.
Trading Operations – Port, Commercial and Marine (Draft)					<i>Report expected to be issued imminently – likely result ADEQUATE</i>
Construction Industry Scheme (Draft)					<i>Report expected to be issued imminently – likely result ADEQUATE</i>
Licensing – Alcohol (Draft)					<i>Report expected to be issued imminently – likely result SUBSTANTIAL</i>
S106 (Draft)					<i>Report expected to be issued imminently – likely result ADEQUATE</i>
Anglia Revenues Partnership – Enforcement (21/22)	Substantial			2	The key recommendations relate to best practice for improvement and no control weaknesses around the themes of communication and system access review.
* Business Rates (21/22)	Adequate		8	6	The key recommendations relate to: <ul style="list-style-type: none"> • Payment collections • Control account reconciliations • Refunds, Bacs and Credit Balances • Write offs • System Access

* Council Tax Billing and Benefits (21/22)	Adequate		14	5	<p>The key recommendations relate to:</p> <ul style="list-style-type: none"> • Council Tax Credit balances and refunds • Housing Benefit Uprating input • Council Tax valuation Office amendments • High Value Payments / Creditor changes • New HB and CTRS Application assessment • Rental Values for HB claimants • Self-employed claimants • Overpayment Identification and recovery • System Access
* Council tax Recovery and Housing Benefit Overpayments (21/22)	Adequate		6	2	<p>The key recommendations relate to:</p> <ul style="list-style-type: none"> • Recovery of CT and HBOP • HBOP credit balances and refunds • Write-offs
Covid 19 Business Grants – Post Payment Assurance					<p>Post Payment Assurance work has been submitted to the Department for Business, Energy and Industrial Strategy for all schemes up to January 2022, with satisfactory conclusion on the sampling and pre and post payment checks undertaken by the authority in relation to grants paid out under those schemes.</p>

Audits *marked with an ** have been undertaken by other Councils and reviewed by Fenland District Council Audit Manager as part of the Quality Assurance process. The recommendations relate to the partnership as a whole and will not be reported upon in quarterly progress reports.

An assurance rating is applied, when a system or process is reviewed, which reflects the effectiveness of the control environment.

The text below is an indication of the different assurance ratings used:

Assurance	Description
Full	There is a sound system of control designed to proactively manage risks to objectives.
Substantial	There is a sound system of control, with further opportunity to improve controls which mitigate minor risks.
Adequate	There is a sound system of control, with further opportunity to improve controls which mitigate moderate risks.
Limited	There are risks without effective controls, which put the objectives at risk.
None	There are significant risks without effective controls, which put the objectives at risk. Fraud and/or error are likely to exist.

Appendix B – Recommendation progress 2020/21 and 2021/22

Total Recommendations 2020/21				
	High	Medium	Low	Total
Total Recommendations	3	21	23	47
Total Complete	3	19	21	43
Total Not Due	0	1	2	3
Overdue	0	1	0	1

- This data includes recommendations made from our ARP Audit Partners who conducted audits for the partnership. These have all been completed or superseded by the audits of 2021/22.
- **The overdue recommendation relates to CCTV and has been chased with the relevant Head of Service. This has been raised with Management Team and is due to be completed in the summer of 2022.**

Total Recommendations 2021/22				
	High	Medium	Low	Total
Total Recommendations	4	29	37	70
Total Complete	2	6	16	24
Total Not Due	1	22	20	43
Overdue	1	1	1	3

- This table does not include the recommendations made in relation to the ARP audits, conducted by partner authorities as they are reported to their respective authorities at this stage.
- **The overdue high-risk actions relate to the Business Unit Lettings Audit and progress has been made in drafting a new Letting Policy – this will be published very soon.**
- **The overdue medium and low risk actions, relate to the Safeguarding Audit. This has been chased with the relevant Head of Service and raised at Management Team.**

Appendix C: Summary of Internal Audit Effectiveness

					Compliance		
		Cat	Category of checklist	Comments	C	P	N
	Mission of Internal Audit	1	To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.	Audit Charter	C		
	Definition of Internal Auditing	2	Definition of Internal Auditing	Audit Charter	C		
Core Principals	The Core Principals are based on conformance with the Code of Ethics (Integrity, Seven Principles of Public Life)	3.1	Demonstrates integrity	Declaration of Interests	C		
		3.2	Demonstrates Competence and due professional care	Qualification	C		
		3.3	Is objective and free from undue influence	Reporting Lines	C		
		3.4	Aligns with the strategies, objectives, and risks of the organisation	Audit Plan	C		
		3.5	Is appropriately positioned and adequately resourced	Audit Plan	C		
		3.6	Demonstrates quality and continuous improvement	Progress Reports	C		
		3.7	Communicates effectively	Progress Reports	C		
		3.8	Provides risk-based assurance	Audit Plan	C		
		3.9	Is insightful, proactive, and future-focused	Audit Plan	C		
		3.10	Promotes organisational improvement	Audit Plan	C		
Code of Ethics		4.1	Integrity	QA review	C		
		4.2	Objectivity	QA Review	C		
		4.3	Confidentiality	QA Review	C		
		4.4	Competency	QA Review	C		
		4.5	Seven Principles of Public Life	QA Review	C		
Attribute	These address the characteristics of organisations and parties performing internal audit activities	5.1	1000 Purpose, Authority and Responsibility	External validation	C		
		5.2	1100 Independence and Objectivity	External validation	C		
		5.3	1200 Proficiency and Due Professional Care	External validation	C		
		5.4	1300 Quality Assurance and Improvement Programme	External validation	C		
Performance	These describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.	6.1	2000 Managing the Internal Audit Activity	Audit Manual	C		
		6.2	2100 Nature of Work	Audit Manual	C		
		6.3	2200 Engagement Planning	Audit Manual	C		
		6.4	2300 Performing the Engagement	Audit Manual	C		
		6.5	2400 Communicating Results	Audit Manual	C		
		6.6	2500 Monitoring Progress	Audit Manual	C		
		6.7	2600 Communicating the Acceptance of Risks	Audit Manual	C		
					28		

C = Conforms: P = Partial: N = Not conforming

Agenda Item No:	9	
Committee:	AUDIT AND RISK MANAGEMENT	
Date:	4 JULY 2022	
Report Title:	AUDIT AND RISK MANAGEMENT COMMITTEE ANNUAL REPORT	

1 Purpose / Summary

To report to Full Council the commitment and effectiveness of the Audit and Risk Management Committee's work from April 2021 to March 2022.

2 Key issues

- 2.1 The Corporate Governance Committee was decommissioned during the year 2020/21 and a new Audit and Risk Management Committee was formed in December 2020.
- 2.2 The new committee also has a Sub-Committee – the Audit and Risk Management Determination Sub-Committee, which has decision-making powers in relation to specific delegated functions that were previously undertaken by the Staff Committee.
- 2.3 This annual report does not provide a review of the effectiveness of the Sub-Committee's work as this falls outside of the remit of the self-assessment review.
- 2.4 A good Corporate Governance framework helps the Council to deliver its Corporate Priorities.

The role of the Audit and Risk Management Committee includes:

- providing independent assurance of the adequacy of the risk management framework and the control environment, plus
 - independently scrutinising the Authority's financial and non-financial performance, and overseeing the financial reporting process.
- 2.5 The Committee has taken action to ensure that its members are adequately informed on key themes of the Governance Framework via regular reports including:
 - Governance;
 - Internal control;
 - Risk management;
 - Anti-fraud & corruption;
 - Accounts and policies;
 - Treasury management;
 - 2.6 Reports from the External Auditors affirmed continued maintenance of high financial management and control standards. The Annual Audit letter explained that in all significant respects the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and an unqualified

value for money conclusion was given. The Committee supported a press release to reflect this achievement.

- 2.7 The Committee has been fundamental in the review and maintenance of the Council's Governance Framework.
- 2.8 In addition to the report attached the Internal Audit Manager has completed a review of the committee's effectiveness using a checklist compiled by CIPFA. This was a recommendation made by the external quality assessment and endorsed by Corporate Governance Committee in February 2018. The completed checklist is attached as Appendix A

3 Recommendations

It is recommended that Committee agree the Audit and Risk Management Committee Annual Report for 2021/22 to be forwarded to Full Council.

Wards Affected	All
Forward Plan Ref	Not applicable
Portfolio Holder(s)	
Report Originator(s)	Peter Catchpole – Corporate Director & Chief Finance Officer Kathy Woodward – Internal Audit Manager
Contact Officer(s)	Peter Catchpole – Corporate Director & Chief Finance Officer Kathy Woodward– Internal Audit Manager Mark Saunders - Chief Accountant
Background Paper(s)	Audit and Risk Management Committee minutes CIPFA Position Statement on Audit Committees 2022 Audit Committees – Practical Guidance for Local Authorities and Police (CIPFA 2018)

Appendix: Annual report

Report of the Audit and Risk Management Committee

April 2021 - March 2022



1 What is corporate governance?

- 1.1 Corporate Governance in Fenland District Council is an essential part of the Council's standards for transparent and informed management and decision-making. It provides assurance of the adequacy of the risk management framework and the control environment, independent scrutiny of the Authority's financial and non-financial performance and to oversee the financial reporting process.

2 Responsibilities of the Committee

- 2.1 Following the creation of the Audit and Risk Management Committee a review of the committee's rules, as listed in Part 2 (rule 10) of the constitution were updated in line with best practice guidance. The new terms of reference encompass all previous aspects of the role of the Corporate Governance Committee, whilst incorporating a new format and layout consistent with best practice guidance and also includes a statement of purpose.
- 2.2 The Committee's purpose identified in the terms of reference states:
The purpose of our Audit and Risk Management Committee is to provide independent assurance to the members and other parties of the adequacy of the risk management framework and the internal control environment. It provides independent review of Fenland District Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place. It also ensures the Council is managing the risk of ensuring services have the resources to deliver on the Council's statutory responsibilities and corporate priorities whilst recognising the Council's financial position.

3 Members commitment to corporate governance in 2021/22

- 3.1 As a result of the Coronavirus pandemic a number of meetings of the committee were held virtually in line with national guidance.
- 3.2 The committee is committed to delivering governance oversight for the Council and meetings included development briefings, and items of topical interest, to maintain knowledge and awareness of the Council's Governance Framework. Examples were:
- the role of Corporate Governance, Officers and the annual work plan;
 - interpretation of Annual Financial Statements;
 - the role of internal audit in Local Government. Update report on audits completed is provided which includes the number of and theme of recommendations;
 - risk management;
 - reports on the Regulation of Investigatory Powers Act; and
 - reports from external audit;
- 3.3 During the course of the year Audit and Risk Management Committee members received continuous training to develop and enhance their understanding of specific themes relating to their role. The themes of these training session were:
- Introduction to the Audit and Risk Management Committee

- Statement of Accounts
- Risk management Training
- External Auditor Appointment Process

3.4 Training for Members of the Audit and Risk Management Committee is discussed at every meeting when reviewing the committee's Work Plan for the year. All members are invited to submit their ideas and suggestions for relevant topics for training or briefing sessions, that will continue to develop their skills or support identified gaps in knowledge.

4 Work programme and outcomes

4.1 The Committee considered the matters in the table below as part of its work programme for 2021/22

Programme	Outcome
Annual Governance Statement 2020/21	<p>The Authority has a statutory duty to publish a statement as to the level of effectiveness its governance and internal control framework.</p> <p>The Audit and Risk Management Committee was able to consider the sources of assurance and approve the content of the Statement prior to its publication with the Financial Accounts.</p> <p>The statement included an action plan which was reviewed during the year to ensure that governance and control framework weaknesses were addressed.</p> <p>This has helped the Council to proactively identify and manage governance and control risks that could affect Corporate Priorities. Examples include changes in legislation, finance and Government policy.</p>
Accounting Policies	<p>The Committee considered the accounting policies for use in producing the 2020/21 accounts. This helped ensure that the Council demonstrated compliance with the International Financial Reporting Standards (IFRS).</p> <p>The Committee endorsed the approach proposed to meet the revised Accounts and Audit regulations 2015. This included managing a revised timetable for preparation, approval and publication of financial performance information in response to the external auditors requirements.</p>
Statement of Accounts	<p>The Committee were able to approve the Council's Statement of Accounts for 2020/21, assisting the Council in achieving its publication deadline.</p>

Programme	Outcome
Internal Audit work programme	<p>The Audit and Risk Management Committee received reports, from the Internal Audit Manager, for review of the:</p> <ul style="list-style-type: none"> • Risk based annual plan and strategy, • Performance Outturn 2020/21, • Internal Audit Manager’s opinion on the overall adequacy and effectiveness of the Council’s control environment, and • Progress updates on delivery of the annual plan • The impact of Covid-19 on delivery of the Internal Audit Plan and Annual Audit Opinion <p>These reports demonstrate that the Council has arrangements in place to comply with the Accounts and Audit Regulations, to maintain an adequate and effective internal audit and system of Internal Control.</p>
Review of effectiveness of Internal Audit	<p>The Committee received assurances from the Corporate Director & Chief Finance Officer, following a review of Internal Audit effectiveness for 2020/21</p> <p>.</p> <p>This confirmed that the Internal Audit Team is effective and follows professional quality standards such as the CIPFA “Local Government Application Note” for "Public Sector Internal Audit Standards" and the CIPFA “Statement on the role of the Head of Internal Audit”.</p>
Risk Management Framework	<p>The Committee received regular updates on the Corporate Risk Register, discussed emerging risks, and completed an annual review of the Risk Management Strategy.</p> <p>This provided assurance that significant risks are identified and managed for the Council.</p> <p>In addition, Members requested additional items to be considered which led to some changes to the risk register which have been implemented.</p>
Treasury Management	<p>The Committee received reports throughout the year on the Treasury Management Strategy, Capital Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy and financial performance.</p> <p>This provided assurance that the Council's assets are managed in accordance with the CIPFA Code of Practice on Treasury Management.</p>

Programme	Outcome
<p>External Audit Assurance</p>	<p>The Committee received reports from the Audit Commission's appointed auditor, Ernst and Young. These included:</p> <ul style="list-style-type: none"> • Annual work plan; • Annual report to those charged with governance (ISA 260) summarising the work of the external audits completed; • Annual Audit and Inspection letter <p>The reports affirmed continued maintenance of high financial management and control standards.</p> <p>The Annual Audit letter explained that in all significant respects the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and an unqualified value for money conclusion was given.</p> <p>The Committee also received updates on the future arrangements for appointing the Council's External Auditors</p>

APPENDIX 1

For the year 2021-22

Fenland District Council
Audit and Risk Management Committee Self-Assessment Exercise

No	Issue	Y	P	N	Evidence/ Comment	Action Required
AUDIT COMMITTEE PURPOSE AND GOVERNANCE						
1	Does the authority have a dedicated audit committee?	Y			Referred to as the Audit and Risk Management Committee	
2	Does the audit committee report directly to full council? (applicable to local government only)	Y				
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Y			The Audit and Risk Management Committee was newly formed in December 2020 and has a Terms of reference that follow CIPFA's guidance on Audit Committees	A review will be undertaken in 2022 following the update of CIPFA's Position Statement in June 2022
4	Is the role and purpose of the audit committee understood and accepted across the authority?	Y			The committee's Terms of Reference are documented on the council's website where officers and members can access relevant documentation. The revised Terms of Reference were agreed at Full Council.	
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Y			The committee supports the authority by following the Nolan Principles adopted by the authority and ensuring to the best of their ability that the corporate plan and strategic goals of the authority are adhered to.	
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Y			The Audit and Risk Management Committee report to Council and provide an annual report to Council. Throughout the year other members of the Council may request to attend meetings.	
FUNCTIONS OF THE COMMITTEE						
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?	Y			The Committee's Terms of Reference were updated in 2019/20 and now cover all areas identified in CIPFA's Position Statement	
	good governance	Y				

	assurance framework, including partnerships and collaboration arrangements	Y				
	internal audit	Y				
	external audit	Y				
	financial reporting	Y				
	risk management	Y				
	value for money or best value	Y				
	counter fraud and corruption	Y				
	supporting the ethical framework	Y				
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Y			The Audit and Risk Management Committee completes an annual report, which encompasses this review. The committee also considers as part of its annual work the Annual Governance Statement and Risk Register. The committee regularly receives reports from Internal Audit, External Audit and reviews the financial statements.	
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	Y			The committee reviews treasury management reports and has oversight of the annual report.	
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	Y			A review of the Terms of Reference has been completed.	
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?		P		The Audit and Risk Management Committee has a sub-committee with delegated decision-making powers for staffing arrangements and policies. There are measure in place for membership of the sub-committee to avoid where possible a conflict of interest.	

MEMBERSHIP AND SUPPORT

12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) 	Y			<p>The current committee is separate from the executive, the current membership has an appropriate mix of knowledge and skills, and the size is not unwieldy. The mix of members from each political party is in line with current policies.</p> <p>The Committee gave due consideration to appointing and independent member and requested that the item be included on the Committee's action plan to review the need and requirement on an annual basis.</p>	<p>Consider whether an independent member should be included on the committee. A report will be presented to ARMC in July 2022.</p>
13	<p>Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?</p>				<p>Not applicable</p>	<p>See 12 above</p>
14	<p>Does the chair of the committee have appropriate knowledge and skills?</p>	Y			<p>The current chair of the committee has the appropriate subject knowledge for the position. Members of the committee are given opportunity to freely discuss matters with fellow members of the committee. Officers attending the meetings are always available for advice to the chair if required.</p> <p>Training is given to all members of the Audit and Risk Management Committee to ensure appropriate skills are up to date and relevant.</p>	
15	<p>Are arrangements in place to support the committee with briefings and training?</p>	Y			<p>Training for members of the committee is given to members on specific subjects (mainly technical areas – AGS, Statement of Accounts etc) prior to the official meetings taking place when requested.</p>	
16	<p>Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?</p>	Y			<p>The committee membership is formed from members with financial backgrounds, historical knowledge of the authority, knowledge from other authorities resulting in a varied mix of experience and knowledge.</p> <p>A formal assessment has not taken place, but could be considered.</p>	<p>An assessment of current members against the core knowledge and skills framework is underway</p>


17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	Y			All meetings are attended by a mixture of officers, including the Corporate Director / S151 officer, external audit, Chief Accountant, Head of Governance and Internal Audit Manager	
18	Is adequate secretariat and administrative support to the committee provided?	Y			Relevant officers attend meeting to facilitate secretarial and administrative support to the committee.	

EFFECTIVENESS OF THE COMMITTEE

19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Y			The Chairman of the Audit Committee presents an annual report to the Council and receives feedback from the executive.	
20	Are meetings effective with a good level of discussion and engagement from all the members?	Y			All members are encouraged to be involved fully at all meetings. Relevant officers are invited to attend meetings to provide greater detail to help discussions and engagement.	
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	Y			The committee engages with the relevant responsible officers when discussing risks and action plans. Examples of this are the AGS, Corporate Risk Register, Treasury Reports and RIPA policies.	
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	Y			All reports presented to the committee for approval are discussed and actions minuted on suggested improvements. These actions are reviewed by the officers to ensure they are followed up on and discussed at the following meeting.	
23	Has the committee evaluated whether and how it is adding value to the organisation?		P		No formal evaluation has taken place, but the annual audit committee effectiveness report considers this to some degree.	Consider whether the committee is adding value using the information provided in CIPFA 2018 guidance.
24	Does the committee have an action plan to improve any areas of weakness?	Y			An action plan for the Committee was introduced this year to monitor actions and is included as part of the workplan	Continue to monitor the action plan and how it adds value to the organisation.

25	Does the committee publish an annual report to account for its performance and explain its work?	Y			Audit and Risk Management Committee Annual Report.	
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Agenda Item No:	10	
Committee:	Audit and Risk Management	
Date:	04/07/22	
Report Title:	Independent Member appointment to Audit Committees	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to seek Members views on the appointment of an Independent Member to the Audit and Risk Management Committee

2 Key issues

- At the meeting of the Audit and Risk Management Committee in July 2021 (ARMC Annual Report), consideration was given to the self-assessment exercise which highlighted an area of partial compliance against the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance for Audit Committees in Local Government, regarding the appointment of Independent Members to the Committee.
- An action was included on the Audit and Risk Management Committees action plan to review the committee’s position on the appointment of independent members in July 2022.
- Further national developments and updated guidance have been released by various government bodies supporting the role of independent members within Local Authority Audit Committees, that needs to be considered.

3 Recommendations

- Members are requested to note the additional information provided on the appointment of Independent Members to Audit Committees
- Members are requested to consider the options for appointing an independent Member to the Audit and Risk Management Committee and, depending on the outcome, refer any observations to Full Council as per section 3.9 of the report.

Wards Affected	All
Forward Plan Reference	Not Applicable
Portfolio Holder(s)	Not Applicable
Report Originator(s)	Peter Catchpole – Corporate Director and Chief Finance Officer Kathy Woodward – Internal Audit Manager

Contact Officer(s)	Peter Catchpole – Corporate Director and Chief Finance Officer Kathy Woodward – Internal Audit Manager
Background Paper(s)	Corporate Governance / Audit and Risk Management Committee Annual Report 2020/21 CIPFA Position Statement on Audit Committees in Local Government 2018 CIPFA Position Statement on Audit Committees in Local Government 2022 Department for Levelling Up, Housing and Communities – Measures to improve local audit delays – Dec 2021 Council Constitution Part 4 (Rule 10) Audit and Risk Management Committee Procedure Rules (December 2020)

Report:

1 Background / introduction

- 1.1 Members will recall at the meeting of July 2021 that a self-assessment exercise highlighted a variance in practice against the Chartered Institute for Public Finance and Accountancy (CIPFA) guidance for Audit Committees in Local Government, specifically the appointment of Independent Members to the Committee.
- 1.2 This item was discussed at the meeting and an action to review the committee's position in 12 months' time was included on the action plan.
- 1.3 The CIPFA guidance for Audit Committees in Local Government states:
- “Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:*
- „ act as the principal non-executive, advisory function supporting those charged with governance*
 - „ in local authorities, be independent of both the executive and the scrutiny functions **and include an independent member where not already required to do so by legislation***
 - „ have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups”*
- 1.4 The current CIPFA self-assessment checklist states:
- “consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)”*

2 National Context

- 2.1 There have been recent governance failures identified in statutory and non-statutory reviews and public interest reports across local government. The common theme running through each failure is a *“significant weakness in governance”*.
- 2.2 In September 2020, Sir Tony Redmond, completed an Independent review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, in which 23 recommendations were made. Recommendation 4 states:
- “The governance arrangements within local authorities be reviewed by local councils with the purpose of:*
- an annual report being submitted to Full Council by the external auditor;*
 - **consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and***
 - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually”.*
- 2.3 In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC), issued their formal response to the Redmond Review and issued a series of measures to be implemented:
- Measure 1 – relating to audit firms and timely completion of audit
- Measure 2 – relating to local bodies and quality of accounts preparation
- Measure 3 – relating to accounting and audit requirements

Measure 4 – relating to longer term measures to help stabilise the market and address long-term supply issues

2.4 Within Measure 2 – relating to local bodies and quality of accounting preparation, DLUHC made the following commitments:

- DLUHC to provide funding of £45 million over the course of the next Spending Review period to support local bodies with the cost of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendation and increased auditing requirements.
- CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory.
- DLUHC to provide Local Government Association sector grant for a number of targeted training events for audit committee chairs.

2.5 As a result of the measures introduced by DLUHC above CIPFA released and updated version of CIPFA Position Statement on Audit Committees in Local Government in June 2022. The new Position Statement states:

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

2.6 More recent developments have been published as part of the Governments response to local audit reforms stating:

“In September 2020, Tony Redmond’s review into local government audit found that only 40% of audit committees interviewed had independent committee members, hindering transparent reporting.

Responding to a consultation on Redmond review proposals, the government said the lack of independent members on council audit committees made them “anomalies” in the public sector.

Fundamentally, it is important that councils, as with other public bodies, have appropriate measures in place: the government considers it proportionate to establish a simple principle that local authorities should have an audit committee, with at least one independent member.

Mandating for audit committees would ensure widespread take-up, along with improved public accountability

*Consequently, based on the consultation feedback, **we will be making audit committees, with at least one independent member, a mandatory requirement, once parliamentary time allows”***

3 Considerations

- 3.1 Fenland District Council's current position on appointing co-optees to the Audit and Risk Management Committee (as per Part 4, Rule 10) state:
- The Committee shall be entitled to appoint up to 3 people at any one time as non-voting co-optees. The Committee shall determine whether the co-options shall be effective for a specified period, for specific meetings or for specific items.
- 3.2 CIPFA do acknowledge these limitations recommending that Local Authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights on non-elected committee members
- 3.3 However, where an Audit Committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members (including any co-opted members) should be able to vote on those recommendations (excluding the Audit and Risk Management Sub determination committee).
- 3.4 At present there is no statutory requirement that determine that local authorities must appoint Independent co-opted members – such appointments are a requirement for Police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executive to be committee members in health and central government audit committees
- 3.5 The injection of an external view can often bring a new approach to committee discussion, Authorities that have chosen to recruit independent members have done so for a number of reasons:
- To bring additional knowledge and expertise to the committee;
 - To reinforce the political neutrality and independence of the committee;
 - To maintain continuity of the committee membership where membership is affected by the electoral cycle.
- 3.6 The potential pitfalls in the use of independent members should also be considered:
- Over-reliance on the independent member by other committee members can lead to a lack of engagement across the full committee;
 - Lack of organisational knowledge or 'context' among independent members when considering risk registers or audit reports;
 - Effort is required from both independent members and officers/staff to establish and effective working relationship and establish appropriate protocols for briefings and access to information.
- 3.7 A review of our nearest neighbours indicates that none of them currently appoint an independent member to the audit committee, except for the combined authority.
- 3.8 A suitable skills analysis of current committee members would need be undertaken to establish any 'gaps' in current knowledge of the committee, to determine a suitable job description
- 3.9 Should Members of the Audit and Risk Management Committee be supportive of seeking an Independent Member for the Committee, it is proposed that this be progressed as follows:

- An amendment be recommended for approval by full Council to Part 4 rule 10 to provide for a non-voting Independent Member to be appointed on a term not exceeding 4 years;
- That the Independent Remuneration Panel be invited to advise the Authority of an appropriate rate of remuneration for the role;
- That a Member panel be established with cross party membership drawn from the Audit and Risk Management Committee to undertake the search and selection process advised by the Monitoring Officer and the Chief Financial Officer (or their nominees)

4 Effect on corporate objectives

- 4.1 Local Authorities are accountable to their communities for the money they spend. They are required under law to ensure they provide value for money and to achieve this they require a governance framework that supports a culture of transparent decision making and accountability.
- 4.2 The appointment of an independent members would enhance and support the independent and transparent assurances provided by the Audit and Risk Management Committee.

5 Conclusions

- 5.1 At present there is no statutory requirement to determine that local authorities must appoint Independent co-opted members.
- 5.2 There are both positive and cautionary reasons for such an appointment and decisions of this nature need to take account of each local authority's own circumstances.
- 5.3 The National landscape and direction of the government, would indicate that greater accountability for public audit to support of audit committees, through co-opting independent members, will become a mandatory requirement.

AUDIT AND RISK MANAGEMENT COMMITTEE WORK PROGRAMME 2022-23

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
4 th July 2022	Treasury Management Annual Review 2021-22	Annual	Mark Saunders	To consider the overall financial and operational performance of the Council's treasury management activity. This report will be considered by Cabinet and Council.
	Internal Audit Outturn and Quality Assurance Review 2021-22	Annual	Kathy Woodward	To note the work undertaken by Internal Audit during the year, not the Annual Audit Opinion and consider the effectiveness of Internal Audit
	Audit and Risk Management Committee Annual Report 2021-22	Annual	Kathy Woodward	To approve the report to Full Council the commitment and effectiveness of the Corporate Governance Committee's work.
	Independent Members review		Kathy Woodward	To consider the information regarding appointment of independent members to the Audit and Risk Management Committee.
19 th September 2022	Draft Statement of Accounts 2021-22	Annual	Mark Saunders	To review and note the draft Statement of Accounts
	Annual Governance Statement 2021-22	Annual	Kathy Woodward	To approve the content of the Annual Governance Statement for inclusion in the published Statement of Accounts 21-22.
	RIPA Annual Update	Annual	Amy Brown	To review and note the use of RIPA in the previous year.
	External Audit Plan 2021/22	Annual	External Auditor	To note the external audit plan for the new financial year.
	Risk Register – Quarterly Update	Progress Report	Stephen Beacher	To review and approve the quarterly risk register.
	Internal Audit Plan 2022/23 – Quarterly Update	Progress Report	Kathy Woodward	To consider and note the activity and performance of the Internal Audit function.
19 th December 2022	Audit Results Report (ISA 260)	Annual	External Audit	Consider and note the Audit results report
	Statement of Accounts 2020-21	Annual	Mark Saunders	Review and approve the Statement of Accounts 2020-21

AUDIT AND RISK MANAGEMENT COMMITTEE WORK PROGRAMME 2022-23

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
	Letter of Representation	Annual	Mark Saunders	Agree format and content of the Letter of Representation provided to the External Auditors at the conclusion of the 20-21 Statement of Accounts audit. To be signed by Chairman of CGC and S151 officer
	Treasury Management Strategy Statement and Annual Investment Strategy Mid-year review	Progress report	Mark Saunders	To review the activity for first 6months of the year and to provide members a update on matters pertinent to the Councils TM Strategy
	Internal Audit Plan 2022/23 – Quarterly Update	Progress report	Kathy Woodward	To consider and note the activity and performance of the Internal Audit function.
	Risk Register - Quarterly update	Progress Report	Stephen Beacher	To review and approve the quarterly risk register.
6 th February 2022	Auditor Annual Report 2021-22	Annual	External Audit	To note the independent external auditors, Ernst &Young (EY), Annual Audit Letter
	External Quality Assessment (Internal Audit)	5 Year	Kathy Woodward	To provide members with the results of the 5 yearly External Quality Assessment of Internal Audit
	Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2022/23	Annual Cabinet / Council	Mark Saunders	To Endorse the strategy to be included in the final budget report.
	Internal Audit Plan 2022/23 – Quarterly Update	Progress report	Kathy Woodward	To consider and note the activity and performance of the Internal Audit function.
	Risk Register – Quarterly update	Progress report	Stephen Beacher	To review and approve the quarterly risk register.
20 th March 2022	External Audit Plan 2022/23	Annual	External Auditor	To note the external audit plan for the new financial year.
	Risk Based Internal Audit Plan and Internal Audit Strategy 2022/23	Annual	Kathy Woodward	To approve the internal audit plan and resources for the forthcoming year

AUDIT AND RISK MANAGEMENT COMMITTEE WORK PROGRAMME 2022-23

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
	Annual Governance Statement update 2021/22	Progress report	Kathy Woodward	To review progress on the AGS action plan from 2021/22
	Risk Management Policy and Strategy Review	Annual	Stephen Beacher	To consider and note the annual review of risk management Policy and Strategy.

Future items *(when to be brought to the committee in 2022/23 to be determined)*

- Anti-Fraud and Corruption Policy and Strategy (4 Years)
- Anti-Money Laundering Policy (4 Years)
- Corporate Debt Policy (4 Years)

Cyclical Items not due this year *(unless policy or legislation changes require amendments prior to review date)*

- Internal Audit Charter June 2024
- Whistleblowing Policy June 2024
- ARMC Terms of Reference December 2024
- External Auditor Appointment Process Dec – Feb 2027

Audit and Risk Management Committee Training sessions 2022/23

- Statement of Accounts September 2022
- Internal Audit Process December 2022
- GDPR / RIPA Training? February 2023
- Introduction to ARMC (For new members if required) June 2023

AUDIT AND RISK MANAGEMENT COMMITTEE WORK PROGRAMME 2022-23

Audit and Risk Management Committee Action Plan

Title	Comments	Due by	RAG
Independent Member appointment	The Committee decided in August 2020 to review the need for an independent member as part of the committee.	July 2022	
Committee Training	Committee Members to discuss training requirements and provide officers with suggested training topics for future meetings.	21 June 2021	Ongoing

AUDIT AND RISK MANAGEMENT COMMITTEE WORK PROGRAMME 2022-23

Abbreviations Used in Audit & Risk Management Committee

AGS	Annual Governance Statement
ARG	Additional Restrictions Grant
ARP	Anglia Revenue Partnerships
BCP	Business Continuity Planning
BEIS	The Department for Business, Energy and Industrial Strategy
CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance and Accountancy
CIS	Commercial Investment Strategy
CMT	Corporate Management Team
CNC	CNC Building Control
CPCA	Cambridgeshire & Peterborough Combined Authority
CPE	Civil Parking Enforcement/
CPLRF	Cambridgeshire & Peterborough Local Resilience Forum
CTS	Council Tax Support
DFG	Disabled Facilities Grants
DPA	Data Protection Act
CSR	Comprehensive Spending Review
FFL	Fenland Future Ltd
GDPR	General Data Protection Regulations
IAS	International Accounting Standards
IFRS	International Financial Reporting Standard
LGA	Local Government Association
LGSS	Local Government Shared Services
LRSG	Local Restrictions Support Grants
MHCLG	Ministry of Housing Communities and Local Government
MoU	Memorandum of Understanding
MRP	Minimum Revenue Provision
MTFP	Medium Term Financial Plan
MTSP	Management, Trade Union & Staff Partnership
NFI	National Fraud Initiative
NNDR	National Non-Domestic Rates
OIB	Operational Improvement Board (ARP)
OLTL	Other Long-Term Liabilities
PPA	Post Payment Assurance
PSAA	Public Sector Auditor Appointments
PSIAS	Public Sector Internal Audit Standards
PWLB	Public Works Loan Board
RIPA	Regulation of Investigative Powers

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