

TO:- Audit and Risk Committee

Councillor John Michell , Councillor Bob Spencer , Councillor Barry Bond M.B.E. , Councillor Brian Cox ,
Councillor Matt Ewart , Councillor Ve Jackson , Councillor Dave Lockley , Councillor Ian Sadler ,

Notice is hereby given that a meeting of the Audit and Risk Committee will be held as detailed below
for the purpose of transacting the business set out below.

Date: Thursday, 23 March 2023

Time: 16:00

Venue: Council Chamber, Codsall Community Hub, Wolverhampton Road, Codsall, South
Staffordshire, WV8 1PX



D. Heywood
Chief Executive

A G E N D A

Part I – Public Session

| | | |
|----------|---|----------------|
| 1 | Minutes | 3 - 4 |
| | To confirm the Minutes of the meeting of the Audit and Risk Committee held on 14 February 2023. | |
| 2 | Apologies | |
| | To receive any apologies for non-attendance. | |
| 3 | Declarations of Interest | |
| | To receive any declarations of interest. | |
| 4 | Treasury Management Strategy and Prudential Indicators 2023/24 - 2027/28 | 5 - 40 |
| | Report of the Corporate Director Finance and Resources | |
| 5 | Risk Management Report | 41 - 58 |
| | Report of the Corporate Director Finance and Resources | |

| | | |
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| 6 | Internal Audit - External Quality Assessment | 59 - 78 |
| | Report of the Chief Internal Auditor | |
| 7 | Review of Internal Audit Charter | 79 - 102 |
| | Report of the Chief Internal Auditor | |
| 8 | Exclusion of Press and Public | |
| | To resolve that the Press and Public be excluded from the meeting during consideration of the following items on the grounds that they are likely to involve the disclosure of exempt information as defined in paragraphs 3 and 7 of Part 1 of Schedule 12(A) to the Local Government Act 1972. | |

Part II – Private Session

| | |
|-----------|---|
| 9 | Review of the Internal Audit Report - Limited Assurance |
| | Report of the Chief Internal Auditor |
| 10 | Review of the Internal Audit Report - Investigation Report - Leisure Centre Cash Theft |
| | This item is exempt in accordance with Schedule 12A Local Government Act 1972 |
| | <ul style="list-style-type: none"> • Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of a crime. |

RECORDING

Please note that this meeting will be recorded.

PUBLIC ACCESS TO AGENDA AND REPORTS

Spare paper copies of committee agenda and reports are no longer available. Therefore should any member of the public wish to view the agenda or report(s) for this meeting, please go to www.sstaffs.gov.uk/council-democracy.

Minutes of the meeting of the **Audit and Risk Committee** South Staffordshire Council held in the Council Chamber Community Hub, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX on Tuesday, 14 February 2023 at 16:00

Present:-

Councillor Barry Bond, Councillor Brian Cox, Councillor Matt Ewart, Councillor Ve Jackson, Councillor Dave Lockley, Councillor John Michell, Councillor Spencer

27 **MINUTES**

RESOLVED: that the Minutes of the Audit and Risk Committee meeting held on 08 November 2022 be approved and signed by the Chairman.

28 **APOLOGIES**

Apologies for non-attendance was received from Councillor Ian Sadler.

29 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

30 **QUARTERLY TREASURY MANAGEMENT REPORT**

RESOLVED: that members noted the position as set out in the report.

31 **INTERNAL AUDIT PROGRESS REPORT**

RESOLVED: that members noted the Internal Audit activity to date as set out in the report.

The Meeting ended at: 16:26

CHAIRMAN

SOUTH STAFFORDSHIRE COUNCIL

AUDIT AND RISK COMMITTEE – 23 MARCH 2023

TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2023/24 – 2027/28

REPORT OF THE CORPORATE DIRECTOR FINANCE & RESOURCES

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

1.1 The Council is required to annually approve a Treasury Management Strategy that, in light of the Council's approved budget, establishes investment and borrowing policies for the Council for the current and future financial years. The Strategy also includes the Council's Prudential Indicators and sets out the expected treasury operations for the period 2023/24 – 2027/28. Prudential Indicators are designed to demonstrate that the Council has a prudent, affordable and sustainable approach to financing its capital spending plans. It fulfils four key legislative requirements:

- The reporting of the **prudential indicators** setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities - Appendix A);
- The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007 – Also Appendix A);
- The **Treasury Management Strategy** which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix A;
- The **Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the sector's Investment Guidance and also shown in Appendix A.

2. RECOMMENDATIONS

2.1 The Audit & Risk Committee is recommended to approve each of the five key elements of this report, and recommend to Council:

- 1) The Prudential Indicators and Limits for 2023/24 - 2027/28 contained within Appendix A of the report.
- 2) The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 2.3) which sets out the Council's policy on MRP.
- 3) The Treasury Management Strategy 2023/24 - 2027/28 contained within Appendix A.
- 4) The Authorised Limit Prudential Indicator contained within Appendix A (para 3.2).
- 5) The Investment Strategy 2023/24 contained in the Treasury Management Strategy (Appendix A), and the detailed criteria (included in Appendix B)

3. SUMMARY IMPACT ASSESSMENT

| | | |
|--------------------------------------|--|--|
| POLICY/COMMUNITY IMPACT | Do these proposals contribute to specific Council Plan objectives? | |
| | Yes | Maximising investment income whilst managing risks and minimising borrowing costs helps to support the council's overall financial position and therefore the delivery of all policy objectives. |
| | Has an Equality Impact Assessment (EqIA) been completed? | |
| | No | The setting of a Treasury Management Strategy does not impact on equalities. |
| SCRUTINY POWERS APPLICABLE | No (Council decision) | |
| KEY DECISION | No (Council decision) | |
| TARGET COMPLETION/ DELIVERY DATE | May 2023 | |
| FINANCIAL IMPACT | Yes | Where appropriate these are detailed in the body of the report. |
| LEGAL ISSUES | Yes | The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and Appendix A. The Corporate Director Finance & Resources (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Corporate Director Finance & Resources is meeting one of the key responsibilities of the post. |
| OTHER IMPACTS, RISKS & OPPORTUNITIES | Yes | The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year. |
| IMPACT ON SPECIFIC WARDS | No | |

PART B – ADDITIONAL INFORMATION

- 4.1 The Prudential Code operates by the provision of prudential indicators which highlight particular aspects of capital expenditure planning. Each indicator has been updated and provided for the next three years and included in Appendix A section 2. This is in accordance with the Prudential Code which requires that the Council approves as a minimum certain mandatory prudential indicators.
- 4.2 The purpose of the indicators is to provide a framework for capital expenditure decision-making. It is intended to highlight, through the prudential indicators, the level of capital expenditure, the impact on investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.

- 4.3 The Treasury Management Strategy outlined in detail in Appendix A sets the Council's **operational boundary limit** for external debt at £42 million and the **authorised limit** at £45 million. These limits are based on prior years spend on the capital programme as well as the planned capital programme of £20.556 million as approved by Council on 21 February 2023. Should these plans change, these limits will be revisited.
- 4.4 Within this overall capital expenditure framework there is a clear impact on the Council's treasury management activity through the application of investment balances. As a consequence, the Treasury Management Strategy for 2023/24 is also included at Appendix A (section 3) to the report to draw out the expected treasury activity. This report also includes the treasury prudential indicators. The production of the Treasury Management Strategy covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the sector's MRP and Investment Guidance.
- 4.5 The Treasury Management Strategy requires the formulation of an Annual Investment Strategy. In accordance with guidance, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The detailed criteria utilised are included in Appendix B.
- 4.6 Security, Liquidity and Yield has always been at the forefront of the councils thinking when making investment decisions, however we will now also consider non-financial factors when making investment decisions, these include any ethical considerations as well as any environmental, social and governance (ESG) factors, this is detailed further in Appendix A 4.1.
- 4.7 The above policies and parameters provide an approved framework within which officers undertake the day-to-day capital and treasury activities.
- 4.8 It should be noted that this strategy is closely aligned to the Councils Capital Strategy with the Capital Programme being the main determinant of the councils borrowing need.
- 4.9 It should also be noted that at the time of writing this report, there are various geo-political events taking place both nationally and internationally that are impacting financial markets. The impacts of these are continuously monitored and any political or economic shocks that require any adjustment to the Treasury Management Strategy will be reported back to the Audit and Risk Committee (and Council) at a later date.

5. **IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

- 5.1 None identified

6. **PREVIOUS MINUTES**

- 6.1 Not Applicable

7. **BACKGROUND PAPERS**

Appendix A - Treasury Management Strategy and Capital Prudential Indicators 23/24 – 27/28
Appendix B - Credit and Counterparty Risk Management
Appendix C - Approved Countries for Investment
Appendix D - Treasury Management Scheme of Delegation
Appendix E – Prospect for Interest Rates & Economic Background

Report by:

Pete Shakespear, Corporate Director Finance & Resources

John Mayhew, Finance Team Manager

Steven Johnson, Senior Accountant

Treasury Management Strategy and Capital Prudential Indicators 2023/24 to 2027/28

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. It is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Following reporting requirements introduced in 2019/20 (re the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code) this Strategy now links to the Council's Capital Strategy which provides a longer-term framework for our capital plans.

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA Prudential Code for Capital Finance in Local Authorities (the code) requires all local authorities to prepare a 'Capital Strategy'.

The Council's Capital Strategy (approved by Council in June 2022) builds upon the Council's Commercial Asset Strategy and Treasury Management Strategy in order to:

- Set the long term context in which capital expenditure and investment decisions are made in a sustainability way;
- Set the basis upon which risk and reward and priority outcomes are considered as an integral part of capital decisions;

- Set the context within which capital decision making is consistent with the concepts of value for money, public stewardship and prudence;
- Report explicitly on the deliverability, affordability and risk associated with Capital Strategy.

The Capital Strategy should be viewed as a working document for ongoing decisions including the prioritisation of capital expenditure decisions, the setting of capital budgets, spend and borrowing decisions and how risk is managed.

The term of this Capital Strategy is 2022/23 to 2026/27 although all the elements included should be seen as integral to an overarching twenty-five-year strategic Capital vision.

1.2.2 Treasury Management reporting

Members receive for approval, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

- 1. Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:
 - the capital plans (including prudential indicators);
 - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
 - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - an Investment Strategy (the parameters on how investments are to be managed).
- 2. A periodic treasury management report** – This will update members with the progress of the capital position, amending prudential indicators if necessary, and whether the treasury strategy and/or policies require revision.
- 3. An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit & Risk Committee.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny of the policy and operations. Training events are run for all members (including the Cabinet member for Corporate, who has responsibility for treasury management) by Link Group our treasury management advisors.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Group as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2027/28

The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist member's overview and confirm capital expenditure plans.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans. The capital expenditure forecasts to 2027/28 (which form part of the Capital Programme and was approved by Council on 21 February 2023) are as follows:

| Capital expenditure £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Corporate | 9,356 | 0 | 0 | 0 | 0 |
| Business Transformation | 360 | 45 | 335 | 55 | 45 |
| Welfare Services | 1,127 | 1,127 | 1,127 | 1,127 | 1,127 |
| Community Services | 891 | 3,836 | 0 | 0 | 0 |
| Planning & Business Enterprise | 0 | 0 | 0 | 0 | 0 |
| Total | 11,733 | 5,008 | 1,462 | 1,182 | 1,172 |

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need (to be met either through internal funds or external borrowing).

| Capital expenditure £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total | 11,733 | 5,008 | 1,462 | 1,182 | 1,172 |
| Financed by: | | | | | |
| Capital Receipts | 1,172 | 45 | 335 | 55 | 45 |
| Capital Grants & Other Contributions | 1,127 | 1,127 | 1,127 | 1,127 | 1,127 |
| Revenue | 3,100 | 0 | 0 | 0 | 0 |
| Revenue Grant | 0 | 0 | 0 | 0 | 0 |
| Total Internal Financing | 5,399 | 1,172 | 1,462 | 1,182 | 1,172 |
| Net External Financing Requirement | 6,335 | 3,836 | 0 | 0 | 0 |

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Audit & Risk Committee is asked to recommend to Full Council that the following CFR projections are approved:

| Capital Financing Requirement (CFR) £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Capital Financing Requirement (CFR) | 37,926 | 41,030 | 40,177 | 39,379 | 38,575 |
| Movement in CFR | 5,784 | 3,104 | -853 | -798 | -804 |
| Movement in CFR is represented by | | | | | |
| Net financing need for the year | 6,335 | 3,836 | 0 | 0 | 0 |
| Less MRP & other financing movements | -551 | -732 | -853 | -798 | -804 |
| Movement in CFR | 5,784 | 3,104 | -853 | -798 | -804 |

The above table shows that as a result of the Council's capital plans (as set out in 2.1) the CFR (which essentially is a measure of the Council's underlying borrowing need) will increase to £41.030m in 2024/25 before starting to reduce from 2025/26 as the planned capital spend slows down and MRP contributions are made.

2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

| Liability Benchmark £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| PWLB Loans | 15,000 | 17,500 | 20,000 | 20,000 | 20,000 |
| Existing Loan Debt Outstanding | 15,000 | 17,500 | 20,000 | 20,000 | 20,000 |
| Opening Loan Debt | 15,000 | | | | |
| Less: opening treasury investments | -18,150 | | | | |
| Plus: planned prudential borrowing | 2,500 | 2,500 | 0 | 0 | 0 |
| Less: MRP & Capital Receipts set aside | -551 | -732 | -853 | -798 | -804 |
| +/- other forecast cashflows | 3,944 | 2,365 | 3,334 | 4,176 | 4,722 |
| Net Loans Requirement (forecast net loan debt) | 2,743 | 6,876 | 9,357 | 12,735 | 16,653 |
| Opening Loans CFR | 15,000 | | | | |
| Plus: planned Prudential Borrowing | 2,500 | 2,500 | 0 | 0 | 0 |
| Less: MRP & Capital Receipts set aside | -551 | -732 | -853 | -798 | -804 |
| Loans CFR | 16,949 | 18,717 | 17,864 | 17,066 | 16,262 |
| Liquidity allowance above net debt (liquidity buffer) | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Liability Benchmark (Gross Loans Requirement) | 17,743 | 21,876 | 24,357 | 27,735 | 31,653 |
| Forecast Investments | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| (Over)/Under Liability Benchmark | 2,743 | 4,376 | 4,357 | 7,735 | 11,653 |

2.4 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure which in the future will be Supported Capital Expenditure, the MRP policy will be based on the CFR.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be based on the Asset life methodology:

- MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3).

This option provides for a reduction in the borrowing need over approximately the asset's life. Finance leases are applied to revenue as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. At the date of this report the council has not made, nor has any plans to make, any VRP overpayments.

2.5 Core Funds (available to invest or cover the borrowing position)

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are prudent estimates of the year end balances for each resource and anticipated day to day cash flow balances.

| Year End Resources £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund Balance | 6,589 | 5,269 | 3,297 | -824 | -5,501 |
| Capital Receipts Reserve | 1,226 | 1,181 | 846 | 791 | 746 |
| Earmarked Reserves | 5,503 | 4,503 | 3,476 | 3,476 | 3,476 |
| Total Core Funds | 13,318 | 10,953 | 7,619 | 3,443 | -1,279 |
| Working Capital* | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total Core Funds Available to Invest | 12,318 | 9,953 | 6,619 | 2,443 | -2,279 |

3 TREASURY MANAGEMENT

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The current treasury position as at 31.12.22 and the estimated portfolio as at 31.03.23 are shown below for both investments and borrowing

| Treasury Position £000s | Current 31.12.22 | Estimated 31.03.23 |
|------------------------------------|-----------------------------|-------------------------------|
| Investments | | |
| CCLA | 11,000 | 8,800 |
| Federated MMF | 7,700 | 5,350 |
| Internal Investments | 8,000 | 4,000 |
| Total Investments | 26,700 | 18,150 |
| External Borrowing | | |
| PWLB | 15,000 | 15,000 |
| Total External Borrowing | 15,000 | 15,000 |

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| External Debt £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Debt at 1 April | 15,000 | 17,500 | 20,000 | 20,000 | 20,000 |
| Expected change in Debt | 2,500 | 2,500 | 0 | 0 | 0 |
| Actual gross debt at 31 March | 17,500 | 20,000 | 20,000 | 20,000 | 20,000 |
| The Capital Financing Requirement | 37,926 | 41,030 | 40,177 | 39,379 | 38,575 |
| Under / (over) borrowing | 20,426 | 21,030 | 20,177 | 19,379 | 18,575 |

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Corporate Director Finance & Resource reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future – as set out in the above table. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: Limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and internally available funds.

| Operational boundary £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | 38,000 | 41,000 | 40,000 | 39,000 | 39,000 |
| Other long-term liabilities | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total | 39,000 | 42,000 | 41,000 | 40,000 | 40,000 |

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Audit and Risk Committee is asked to recommend to Full Council that the following authorised limit is approved:

| Authorised Limit £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | 41,000 | 44,000 | 43,000 | 39,000 | 39,000 |
| Other long-term liabilities | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total | 42,000 | 45,000 | 44,000 | 40,000 | 40,000 |

In order to ensure that the Council has the overall scope to borrow, the Authorised Limit has been adjusted upwards to reflect the approved Capital Programme. This provides the flexibility to borrow, but not the obligation.

The authorised limit has been set at a level higher than the (net) external borrowing need in 3.1. This provides some headroom for changes in available funds/working balances.

It should be noted that these limits have been set based on the current planned capital programme. Should proposals come forward for additional capital items these limits would be reviewed and risks and rewards reconsidered.

3.3 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used.

The table below summarises the council forecast under-borrowing position.

| Year End Resources £000s | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Under borrowing | 20,426 | 21,030 | 20,177 | 19,379 | 18,575 |

The Corporate Director Finance & Resource will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be delayed or taken short term.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration 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 will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the Audit and Risk Committee at the next available opportunity.

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Audit and Risk Committee is asked to recommend to Full Council that the following treasury indicators and limits are approved:

| Interest Rate Exposures £000s | 2023/24 Upper | 2024/25 Upper | 2025/26 Upper | 2026/27 Upper | 2027/28 Upper |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Limits on fixed interest rates | 41,000 | 44,000 | 43,000 | 39,000 | 39,000 |
| Limits on variable interest rates | 14,000 | 15,000 | 14,000 | 13,000 | 13,000 |

Maturity Structure of borrowing

These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

Audit and Risk Committee is asked to recommend to Full Council that the following treasury indicators and limits are approved:

| Maturity structure of variable interest rate borrowing 2022/23 | | |
|---|--------------|--------------|
| | Lower | Upper |
| Under 12 months | 0% | 50% |
| 12 months to 2 years | 0% | 50% |
| 2 years to 5 years | 0% | 50% |
| 5 years to 10 years | 0% | 50% |
| 10 years and above | 0% | 50% |

**Please note that this excludes other long term liabilities (leases)*

There are no limits to fixed rate borrowing which can be upto 100% of our debt portfolio.

3.4 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.5 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Audit & Risk Committee, at the earliest meeting following its action.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit & Risk Committee, at the earliest meeting following its action.

3.6 New financial institutions as a source of borrowing and / or types of borrowing

The Public Works Loans Board (PWLB) forms part of HM treasury, part of its function is to provide loans to local authorities in the UK, primarily to fund capital projects. The council has the ability to borrow from PWLB at the Certainty Rate, which is a rate set at 0.20% below its standard interest rate.

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.7 Approved sources of long- and short-term borrowing

| On Balance Sheet | Fixed | Variable |
|--|-------|----------|
| PWLB | ● | ● |
| Municipal bond agency | ● | ● |
| Local authorities | ● | ● |
| Banks | ● | ● |
| Pension funds | ● | ● |
| Insurance companies | ● | ● |
| UK Infrastructure Bank | ● | ● |
| Market (long-term) | ● | ● |
| Market (temporary) | ● | ● |
| Market (LOBOs) | ● | ● |
| Stock issues | ● | ● |
| Local temporary | ● | ● |
| Local Bonds | ● | |
| Local authority bills | ● | ● |
| Overdraft | | ● |
| Negotiable Bonds | ● | ● |
| Internal (capital receipts & revenue balances) | ● | ● |
| Commercial Paper | ● | |
| Medium Term Notes | ● | |
| Finance leases | ● | ● |

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – Management of risk

The DLUHC and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of assets regeneration, are covered in the Capital Strategy, (a separate report).

The Council’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Code Guidance Notes 2021

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix B under the categories of ‘specified’ and ‘non-specified’ investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio, (see Appendix B).

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in paragraph 4.2.
8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing, Communities and Local Government (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

It is also recognised that Security, Liquidity and Yield should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector in relation to the economic and political environments in which institutions operate. In addition, there are other risks of material importance to the treasury portfolio from an ethical, environmental, social and governance perspective. It is important, therefore, to assess these categories as well and to understand if these create potential longer-term financial and reputational risks for the Council, and if there are any commonalities with the Council's key objectives in this regard. To this end, the Council will use information sources and its advisors as appropriate to assist it in scrutinising and understanding if these might affect the suitability of potential counterparties.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.2 Creditworthiness policy

The Council has utilised and applied the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

| | | |
|---|------------|---|
| • | Yellow | 5 years* |
| • | Dark Pink | 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25 |
| • | Light pink | 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5 |
| • | Purple | 2 year |
| • | Blue | 1 year (only applies to nationalised or semi nationalised UK Banks) |
| • | Orange | 1 year |
| • | Red | 6 months |
| • | Green | 100 days |
| • | No colour | Not to be used |

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings are regularly monitored. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

| | | | | | | | | |
|------------|------------|------------|------------|-----------|-----------|-------------|---------------|-----------|
| Y | Pi1 | Pi2 | P | B | O | R | G | N/C |
| 1 | 1.25 | 1.5 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

| | Colour (and long-term rating where applicable) | Money and / or % Limit | Time Limit |
|---|--|------------------------|------------|
| Banks | Yellow | £4m / 25% | 5 years |
| Banks | Purple | £3m / 25% | 2 years |
| Banks | Orange | £3m / 25% | 1 year |
| Banks – part nationalised | Blue | £3m / 25% | 1 year |
| Banks | Red | £1m / 10% | 6 months |
| Banks | Green | £1m / 10% | 100 days |
| Banks | No colour | Not to be used | |
| Limit 3 category – Council's banker (not meeting Banks 1) | n/a | £10m | 14 days |
| Other institutions limit* | - | £100,000 | 3 years |
| DMADF | AAA | 100% | 6 months |
| Local authorities | n/a | £4m / 25% | 3 years |
| | Fund rating | Money and / or % Limit | Time Limit |
| Money market funds | AAA | £15m per MMF | liquid |
| Ultra-Short Dated Bond funds with a credit score of 1.25 | Dark pink / AAA | £4m / 25% | liquid |
| Ultra-Short Dated Bond funds with a credit score of 1.5 | Light pink / AAA | £3m / 25% | liquid |

*The Council, from time to time, may also issue small short term loans to local parishes, charities and similar organisations. These organisations do not have a credit rating and so fall outside of the normal credit rating assessments; however these are covered under other institutions within the criteria set above

4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-

specified treasury management investments as being 40% of the total treasury management investment portfolio.

- b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA1** from Fitch *or equivalent*. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix C. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) **Other limits.** In addition:
- no more than 50% will be placed with any non-UK country at any time;
 - limits in place above will apply to a group of companies;
 - sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

Interest rate forecast are included in Appendix E. Interest rates have continued to increase since the autumn of 2022 with current BoE base rate sitting at 4% at the time of writing this report, these increases are expected to continue to rise over the short term before reducing slightly over the medium term.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year.

| Average earnings in each year | |
|-------------------------------|-------|
| 2022/23 (remainder) | 4.00% |
| 2023/24 | 4.40% |
| 2024/25 | 3.30% |
| 2025/26 | 2.60% |
| 2026/27 | 2.50% |

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

| Maximum principal sums invested longer than 365 days | | | | | |
|--|---------|---------|---------|---------|---------|
| £m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| Principal sums invested longer than 365 days* | £4m | £4m | £4m | £4m | £4m |

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

*Please note that currently the council does not have any investments invested for more than 365 days.

4.5 Property Funds

The Council current uses CCLA as one of its main Money Market Funds, CCLA also offer investments in property funds. The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any additional funds it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The council does not currently have any investments in property funds.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 40% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

| | Minimum credit criteria / colour band | £ limit per institution / Max % of total investment | Max. maturity period |
|--|--|--|-----------------------------|
| Specified | | | |
| DMADF – UK Government | N/A | 100% | 6 months |
| UK Government gilts | UK sovereign rating | £4 million / 50% | 1 Year |
| UK Government Treasury bills | UK sovereign rating | £4 million / 50% | 1 Year |
| Bonds issued by multilateral development banks | AAA (or state your criteria if different) | | |
| Local authorities | N/A | £4m / 25% | 3 Years |
| Council’s banker (Barclays) | | £10 million | 14 days |
| Money Market Funds CNAV | AAA | £15 million Per fund | Liquid |
| Money Market Funds VNAV | AAA | £15 million per fund | Liquid |
| Money Market Funds LVNAV | AAA | £15 million per fund | Liquid |

| | | | |
|---|--------------------------------|------------------|--|
| Ultra-Short Dated Bond Funds with a credit score of 1.25 * | | £4 million / 25% | Liquid |
| Ultra-Short Dated Bond Funds with a credit score of 1.5* | | £3 million / 25% | Liquid |
| Term Deposits with part nationalised banks | Blue Orange Red Green | £3 million / 25% | 1 Year 1 Year 6 Months 100 days |
| Term deposits with banks and building societies | Blue Orange Red Green | £3million/ 25% | 1 Year 1 Year 6 Months 100 days |
| CDs or corporate bonds with banks and building societies | Blue Orange Red Green | £3million/ 25% | 1 Year 1 Year 6 Months 100 days |
| Non-Specified | | | |
| Term Deposits with part nationalised banks | Red Green | £1 million / 10% | 6 months 100 days |
| Term deposits with banks and building societies | Red Green | £1 million / 10% | 6 months 100 days |
| CDs or corporate bonds with banks and building societies | Red Green | £1 million / 10% | 6 months 100 days |
| Ultra-Short Dated Bond Funds with a credit score of 1.25* | | £4 million / 25% | Liquid |
| Ultra-Short Dated Bond Funds with a credit score of 1.5* | | £3 million / 25% | Liquid |
| Property funds - The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the CCLA Local Authorities Property Fund. This Authority will seek guidance on the status of any fund it may consider using. | AAA | £4 million / 25% | 10 years |

*Any investments in ultra-short dated bond funds will be considered on an individual basis due to the complex nature of this type of investment. These types of funds do not always have an official rating, in

the event that the Council wishes to invest in the type of fund the council will seek guidance from its treasury advisors and undertake additional due diligence prior to any decision.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating**AAA**

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- U.K.

THIS LIST IS CORRECT AS AT 25.01.23

Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit & Risk Committee (responsibility for scrutiny)

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations;

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19 December 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

| Link Group Interest Rate View | 19.12.22 | | | | | | | | | | | | |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
| BANK RATE | 3.50 | 4.25 | 4.50 | 4.50 | 4.50 | 4.00 | 3.75 | 3.50 | 3.25 | 3.00 | 2.75 | 2.50 | 2.50 |
| 3 month ave earnings | 3.60 | 4.30 | 4.50 | 4.50 | 4.50 | 4.00 | 3.80 | 3.30 | 3.00 | 3.00 | 2.80 | 2.50 | 2.50 |
| 6 month ave earnings | 4.20 | 4.50 | 4.60 | 4.50 | 4.20 | 4.10 | 3.90 | 3.40 | 3.10 | 3.00 | 2.90 | 2.60 | 2.60 |
| 12 month ave earnings | 4.70 | 4.70 | 4.70 | 4.50 | 4.30 | 4.20 | 4.00 | 3.50 | 3.20 | 3.10 | 3.00 | 2.70 | 2.70 |
| 5 yr PWLB | 4.20 | 4.20 | 4.20 | 4.10 | 4.00 | 3.90 | 3.80 | 3.60 | 3.50 | 3.40 | 3.30 | 3.20 | 3.10 |
| 10 yr PWLB | 4.30 | 4.40 | 4.40 | 4.30 | 4.10 | 4.00 | 3.90 | 3.80 | 3.60 | 3.50 | 3.40 | 3.30 | 3.30 |
| 25 yr PWLB | 4.60 | 4.60 | 4.60 | 4.50 | 4.40 | 4.20 | 4.10 | 4.00 | 3.90 | 3.70 | 3.60 | 3.50 | 3.50 |
| 50 yr PWLB | 4.30 | 4.30 | 4.30 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.50 | 3.30 | 3.20 | 3.20 |

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields consequently.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps as follows: -

| Average earnings in each year | |
|-------------------------------|-------|
| 2022/23 (remainder) | 4.00% |
| 2023/24 | 4.40% |
| 2024/25 | 3.30% |
| 2025/26 | 2.60% |
| 2026/27 | 2.50% |
| Years 6 to 10 | 2.80% |
| Years 10+ | 2.80% |

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Economic Update

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

| | UK | Eurozone | US |
|------------------|-----------------------|-----------------------|--------------------|
| Bank Rate | 3.5% | 2.0% | 4.25%-4.50% |
| GDP | -0.2%q/q Q3 (2.4%y/y) | +0.2%q/q Q3 (2.1%y/y) | 2.6% Q3 Annualised |
| Inflation | 10.7%y/y (Nov) | 10.1%y/y (Nov) | 7.1%y/y (Nov) |

| | | | |
|--------------------------|------------|------------|------------|
| Unemployment Rate | 3.7% (Oct) | 6.5% (Oct) | 3.7% (Nov) |
|--------------------------|------------|------------|------------|

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

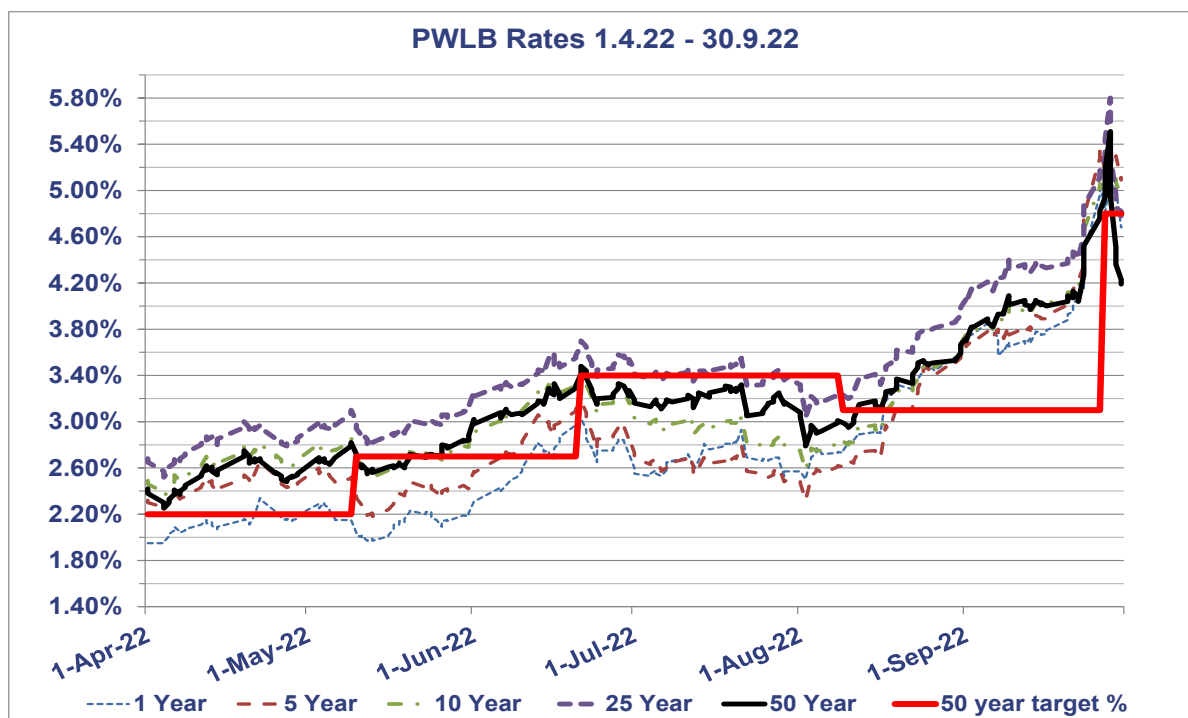
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|------------|------------|------------|------------|------------|
| Low | 1.95% | 2.18% | 2.36% | 2.52% | 2.25% |
| Date | 01/04/2022 | 13/05/2022 | 04/04/2022 | 04/04/2022 | 04/04/2022 |
| High | 5.11% | 5.44% | 5.35% | 5.80% | 5.51% |
| Date | 28/09/2022 | 28/09/2022 | 28/09/2022 | 28/09/2022 | 28/09/2022 |
| Average | 2.81% | 2.92% | 3.13% | 3.44% | 3.17% |
| Spread | 3.16% | 3.26% | 2.99% | 3.28% | 3.26% |

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

SOUTH STAFFORDSHIRE COUNCIL**AUDIT AND RISK COMMITTEE 23 MARCH 2023****RISK MANAGEMENT REPORT****REPORT OF THE CORPORATE DIRECTOR FINANCE AND RESOURCES (S151)****1.0 SUMMARY OF PROPOSALS**

1.1 This report provides an update on the Council's strategic risks.

2. RECOMMENDATIONS

2.1 It is recommended that Members review the Council's Strategic Risk Register.

3. SUMMARY IMPACT ASSESSMENT

| | | |
|---|--|--|
| POLICY/COMMUNITY IMPACT | Do these proposals contribute to specific Council Plan objectives? | |
| | Yes | Effective risk management is about identifying and mitigating the risks that could prevent the Council achieving its strategic objectives. |
| | Has an Equality Impact Assessment (EqIA) been completed? | |
| | No | This report does not impact upon equality issues |
| SCRUTINY POWERS APPLICABLE | No | |
| KEY DECISION | No | |
| TARGET COMPLETION/ DELIVERY DATE | April 2022 | |
| FINANCIAL IMPACT | Yes | Effective risk management is linked to effective financial and performance management. |
| LEGAL ISSUES | Yes | The Council is required to have effective risk management arrangements. |
| OTHER IMPACTS, RISKS & OPPORTUNITIES | None | This report includes all strategic risks |
| IMPACT ON SPECIFIC WARDS | No | All wards are impacted. |

PART B – ADDITIONAL INFORMATION

4.0 STRATEGIC RISK REGISTER – SUMMARY

4.1 The Council's strategic risks have been previously identified as:

- The focus of our resources is not planned or prioritised effectively;
- Budget pressures, increased income volatility and uncertainty as to the future of local government finance;
- Failure to deliver against the change, transformation, efficiency and savings agenda;
- Cyber security attack;
- Partner volatility;
- Information Governance Failure;
- Planning;
- Our communities do not become more prosperous and vibrant.

4.2 The Council's updated strategic risk register is set out in Appendix 1. Currently no strategic risks are red rated and all are being managed.

4.3 While the Covid 19 pandemic increased both the likelihood and impact of a number of the Council's strategic risks, over the last 6 months growing economic uncertainty and wider cost of living pressures have raised concerns. The register has been consistently updated to take account of latest information.

5.0 IMPACT ASSESSMENT – ADDITIONAL INFORMATION

5.1 Not applicable

6.0 PREVIOUS MINUTES

6.1 Not applicable

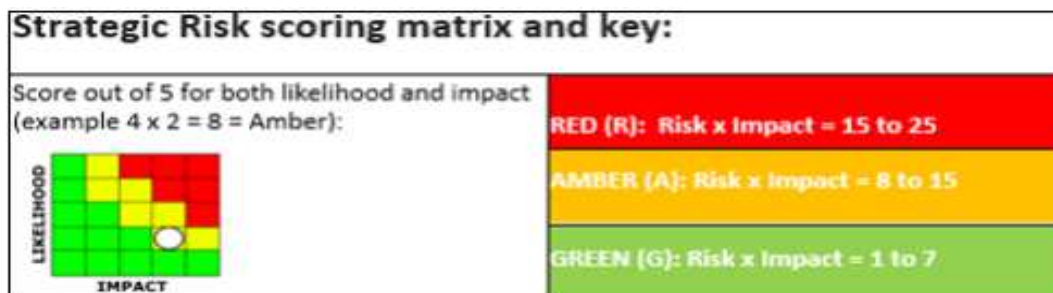
7.0 BACKGROUND PAPERS

7.1 Appendix 1 Strategic Risk Register

Report by: Pete Shakespear, Corporate Director Finance and Resources



STRATEGIC RISK



| Theme/short name | Risk description | Cause | Impact | Likelihood (input 1-5) | Impact (input 1-5) | Q3 22/23 RAG (Automated) | Mitigation/internal control Q3. Please update for Q3 |
|---|--|--|---|------------------------|--------------------|--------------------------|--|
| The focus of our resources is not planned or prioritised effectively. | Resources are not organised effectively to deliver against the Council's priorities. | Recovery from the Covid 19 pandemic outbreak | Services not provided at the correct level and standard | 1 | 4 | 4 | Resource Planning and Prioritisation (RPP) is in place to prioritise and focus on available resources. Taking Stock document, the Ten Point Economic Recovery Plan, and the Living with COVID document all support the Council's approach of managing risk. Moving on from the pandemic risks continued to be monitored through a regular check of key issues or 'pinchpoints' and weekly ELT meetings allow a continuous and dynamic check of these issues. If issues escalate appropriate teams are engaged to find solutions. |

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| | | <p>Workforce development does not meet priorities and challenges</p> <p>Failure to recruit and/or retain</p> <p>Workforce planning and succession planning are not in place</p> | <p>Residents' needs not met</p> <p>Competing priorities are not managed</p> <p>Failure to recruit/retain business critical posts which will impact on service delivery</p> | | | <p>The wider leadership team have plans in place to ensure that resources can be directed to areas of need in emergencies. Integrated reporting in place covering finance, performance, and risk. Ongoing communication with staff groups (Wider ELT, Team meetings). Staff surveys undertaken.</p> <p>The Council's Workforce Development Strategy has recently been updated to reflect current local and national drivers that are influencing our workforce development challenges and priorities.</p> <p>The new strategy sets out three broad areas of focus</p> <ul style="list-style-type: none"> • Values based leadership • Attracting and retaining the best talent • Continuing our ways of working journey <p>The strategy has been informed by external industry data and consultation with our services and workforce to ensure it includes a range of short- and longer-term measures to ensure the Council has appropriate recruitment pipelines, skills development/training plans, succession plans, employer of choice strategies, employee reward/benefit packages and strong partnership plans with recruitment bodies, education providers, schools, and businesses. We have recently launched a range of new recruitment incentive pilots, a new recruitment and onboarding system and a new recruitment landing page.</p> <p>Our workforce development plans will continue to support and maximise our new ways of working combining technology, virtual working, and the Community Hub. However further continuing professional development will</p> |
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| | | | | | | | <p>also strengthen our arrangements around being a learning organisation, being data led and community engagement to build on our Locality + Model.</p> <p>Employment trends data profiling our workforce is regularly produced and used to inform workforce planning, RPP and succession plannings.</p> <p>We have an established apprenticeship scheme and there are currently 12 apprentices studying a levy approved qualification. We successfully secured £18,000 funding from the Education and Skills Funding Agencies during 2022 and this has recently been re-invested in our apprenticeship programme. We are working in partnership with South Staffordshire College to support our apprentice scheme and we are also collaborating with local schools to promote the Council as an employer of choice</p> <p>We are working with West Midland Employers and have participated in the new local government regional career guide for job seekers.</p> <p>We continue to offer our annual talent management programme ASPIRE which has so far delivered strong outcomes where 1/3 delegates have gone on to progress their development whether that be educational achievement or career advancement</p> |
|--|--|--|--|--|--|--|--|

| Theme/short name | Risk description | Cause | Impact | Likelihood (input 1-5) | Impact (input 1-5) | Q3 22/23 RAG (Automated) | Mitigation/internal control Q3. Please update for Q3 |
|---|--|---|--|------------------------|--------------------|--------------------------|---|
| Budget pressures, increased income volatility and uncertainty as to the future of local government finance. | <p>The budget, the MTFS and the financial stability of the Council is severely impacted by reductions and/or changes in the way in which local government is financed.</p> <p>Indications are at this stage that the Fair Funding Review will redistribute funding away from District Councils to councils with Adult, Social Care and</p> | <p>Impact of major national and/or international factors on income streams and finances (e.g., recession, inflation, Brexit, Covid 19 further pandemic outbreak)</p> <p>Uncertainty re future of LG financial framework</p> <p>Costs passed on by other public authorities</p> <p>The fair funding review and</p> | <p>The Council's projected financial position is worse than anticipated.</p> <p>Our financial position becomes unsustainable</p> <p>The Council's reserves position becomes inadequate</p> <p>Residents' needs not met</p> | 2 | 4 | 8 | <p>The potential longer term financial impacts of Covid-19 are uncertain. Provision has been made within the authority's finances to support recovery post the pandemic. In addition, the authority has in place a transformation programme which has delivered significant savings to date.</p> <p>The 22/23 Budget and MTFS models general fund balances remaining above minimum levels for 4 years. Earmarked reserves increased to mitigate collection rate risks also.</p> <p>The Council is part of the Staffordshire and Stoke-on-Trent business rates pool which mitigate some of the financial risk associated with appeals and revaluations.</p> <p>Capital Strategy and Commercial Asset Strategy in place, supported by due diligence which balances risk/reward.</p> <p>Resource Planning and Prioritisation in place to focus available resources and integrated reporting in place which considers Finance, performance, and risk.</p> <p>The wider leadership team are looking to ensure that impacts from the Environment Bill and Waste pressures can be identified and mitigated as the implications become clear. Taking stock of finances to take place at each quarter. Income receipt at Hilton Cross to provide opportunity for investment.</p> |

| | | | | | | | |
|--|-------------------|--|--|--|--|--|--|
| | Children's duties | <p>funding baseline reset (both of which have been delayed) could significantly impact on the Council's finances.</p> <p>Collection rates (council tax, business rates, sundry debt, rental incomes) reduce as a result of an economic downturn.</p> | Services levels and / or quality are reduced | | | | <p>The Council has updated its contingency plans (inc for Covid-19) and is also monitoring any impact on business in the district, and this is being managed through the I&R group on a monthly basis with risks highlighted to ELT and CLT.</p> |
|--|-------------------|--|--|--|--|--|--|

| Theme/Short name | Risk description | Cause | Impact | Likelihood (input 1-5) | Impact (input 1-5) | Q3 22/23 RAG (Automated) | Mitigation/Internal control Q3. Please update for Q3 |
|---|--|---|---|------------------------|--------------------|--------------------------|---|
| Failure to deliver against the change, transformation, efficiency and savings agenda. | Plans to deliver further Efficiencies and Income and associated change programmes, transformation plans, commercial targets and/or other large projects are not delivered. | <p>Recovery from Covid 19 pandemic outbreak</p> <p>Workforce not equipped/lack of capacity.</p> <p>Project management failures.</p> <p>Digital shift fails to reduce cost base.</p> <p>Inflexible work arrangements.</p> <p>Over optimistic projections within business cases</p> | <p>Savings not achieved</p> <p>Resident, Community and Business needs not met</p> <p>Project timetables not achieved</p> <p>Outcomes not delivered</p> <p>Poor staff morale</p> <p>Our financial position becomes unsustainable</p> | 2 | 3 | 6 | <p>Transformation Programme in place focussed on digital, flexible working and IT infrastructure. While Covid-19 has tested these arrangements, it has validated the steps taken and also accelerated the pace of change. Transformation related staffing savings and the success of the charging for green waste project have achieved a saving of £0.6m in year.</p> <p>Resource Planning and Prioritisation process in place to identify savings and efficiency opportunities. Commercial Asset Strategy and commercial and marketing plans in place.</p> <p>Key projects are progressing well and being monitored in relation to costs, schedules, and timeframes. The Community hub project was completed and a successful handover took place in Quarter 4</p> <p>Commercial Asset Strategy in place supported by robust due diligence arrangements to balance risk and reward.</p> <p>Workforce development strategy and programme in place.</p> <p>Work ongoing with the County and parishes to develop options for stronger three tier working. Locality sessions being planned for 2022 to continue the progress made on the plans.</p> <p>The scope of the Transformation Programme is being revisited in response to Covid-19 and the 'new norm'. The</p> |

| | | | | | | | |
|--|--|---|--|--|--|--|--|
| | | Assets Strategy is not delivered / costs are higher than anticipated / income is lower than anticipated | The Council's reserves position becomes inadequate | | | | RPP process invested in further Digital Adoption and supported development of a business case for 'Digital Phase 2'. |
|--|--|---|--|--|--|--|--|

| Theme/Short name | Risk description | Cause | Impact | Likelihood (input 1-5) | Impact (input 1-5) | Q3 22/23 RAG (Automated) | Mitigation/Internal Control Q3. Please Update for Q3 |
|-----------------------|--|---|--|------------------------|--------------------|--------------------------|---|
| Cyber security attack | Cyber Security – risk of cyber security attack and ransomware type attacks | <p>Failure to maintain a high level of cyber security (technology, processes and awareness) throughout the Council</p> <p>Covid 19 recovery and New ways of working</p> <p>Phishing attacks, scam</p> | <p>May result in theft or loss of confidential data</p> <p>May lead to denial of service and inability to access key systems for some time both for the Council, its partners and its communities. In turn may lead to financial penalties, reputational damage and a loss in public confidence</p> <p>May lead to loss of all ICT services for weeks (specialist resources from the</p> | 3 | 5 | 15 | <p>In recognition of the success of agile working (but also the additional associated risk) investment has been made (from earmarked reserves) into an additional data security and compliance package from the Council's software suppliers. This is part of the second phase of the Agile Working Project which is focused on the:</p> <ul style="list-style-type: none"> • classification and labelling of council documents and emails • effective threat management and defensive mechanisms (layered to protect valuable data and information through "Defence in Depth") • creation of a "zero-trust architecture" to ensure that data and access across our technology environment remain secure. <p>Clear policies on ICT security. Enforcing of policies on ICT security including implementing latest software updates/virus protection and firewalls. Staff training and communications are also being issued frequently to maintain and increase awareness, including warnings re Covid-19 specific phishing and spam emails. PSN validation check undertaken to ensure security.</p> <p>Council has in place specialist insurance to cover the impact in the unlikely event that an attack does succeed.</p> |

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| | | <p>emails and texts pretending to provide information from authorities re Covid 19</p> <p>Increased use of Home Wi-Fi networks / connected devices and more staff registering with cloud service providers.</p> <p>Supply chain attacks bypassing traditional cyber security defences</p> | <p>National Cyber Security Centre unlikely to be available).</p> <p>Home working severely disrupted</p> <p>Software suppliers' security compromised facilitating the distribution and installation of dormant viruses as part of regular software maintenance update cycles</p> | | | | <p>Positive Internal Audit reports on Cyber Security, Agile & Mobile arrangements, and Office 365 have both provided positive assurance of the controls in place.</p> <p>Monitor national and regional notification/alerting mechanisms for new cyber scams and attacks.</p> <p>Council data backed-up to the Cloud using 'write once, read many times' approach to facilitate complete recovery of the Council's data following a potential successful Ransomware attack.</p> |
|--|--|---|---|--|--|--|--|

| Theme/short name | Risk description | Cause | Impact | Likelihood (input 1-5) | Impact (input 1-5) | Q3 22/23 RAG (Automated) | Mitigation/Internal Control Q3. Please Update for Q3 |
|--------------------|--|--|--|------------------------|--------------------|--------------------------|---|
| Partner volatility | Partner volatility results in service delivery failure | Financial failure/pressures on key partner National / International economic factors (including Covid 19 pandemic outbreak) | Negative impact on service provision Failure to meet legal duties Residents needs not met Risk of reputational and legal liability to the Council | 3 | 4 | 12 | <p>The Extended Leadership Team meets regularly. Business and Service delivery (including key partner contracts) are standing agenda items.</p> <p>Monitoring of delivery of existing contracts in place, and in light of Covid-19, made more regular for key contracts including Biffa and Capita.</p> <p>Appropriate financial due diligence takes place in entering long term contracts for key service delivery. The appointed contractor for the Community Hub has been subject to 'Experian' and other checks and due diligence.</p> <p>Effective Business Continuity Plans are regularly updated and reviewed.</p> |

| Theme/short name | Risk description | Cause | Impact | Likelihood (input 1-5) | Impact (input 1-5) | Q3 22/23 RAG (Automated) | Mitigation/Internal Control Q3. Please Update for Q3 |
|--------------------------------|--|---|---|------------------------|--------------------|--------------------------|---|
| Information Governance Failure | Failure to comply with Information Governance requirements – in particular Data Protection | Failing to put in place appropriate policies, procedures and technologies to ensure that the handling and protection of its data is undertaken in compliance with the General Data Protection Regulations | <p>May result in regulatory action including financial penalties</p> <p>May also lead to reputational damage and the loss of confidential information</p> <p>May also lead to legal liabilities as result of breaches</p> | 2 | 4 | 8 | <p>Data protection policy reviewed and refreshed and notified to all staff. Members oversight of this by Standards and Resources Committee</p> <p>Information Governance audit undertaken giving substantial assurance rating.</p> <p>A rolling programme of mandatory training for all staff is in place with focused training on key areas of risk including development management, customer services and management of Revenues and Benefits.</p> <p>A programme of training for members on the new duties as a result of changes in the legislation has taken place and the Constitution changed to make Data Protection training mandatory for members.</p> |

| Theme/short name | Risk description | Cause | Impact | Likelihood (input 1-5) | Impact (input 1-5) | Q3 22/23 RAG (Automated) | Mitigation/Internal Control Q3. Please Update for Q3 |
|------------------|---|---|--|------------------------|--------------------|--------------------------|--|
| Planning | <p>Unsustainable development taking place contrary to existing Core Strategy - development being driven by opportunity (as a result of National Policy) rather than being planned.</p> <p>Failing to meet Government targets on quality/speed of planning decisions</p> | <p>Lack of a 5 Year Housing Land Supply – harder to establish a 5YR HLS as a result of National Planning Policy Framework changes and National planning policy practice guidance. In turn this leads to a “tilted balance” for non-Green Belt applications, meaning that objections must significantly and demonstrably outweigh the benefits.</p> <p>National Policy drivers including demand for National</p> | <p>Unsustainable and unplanned development</p> <p>Development taking place in the wrong place</p> <p>Lack of suitable infrastructure</p> | 2 | 4 | 8 | <p>The Council’s Core Strategy was adopted in 2012. Adoption of Site Allocations Document took place in September 2018 to deliver on the Core Strategy and set out where development takes place. Work on the Local Plan Review, to replace SAD is well underway</p> <p>Work undertaken has resulted in confirmation that the Council has a 5-year housing land supply.</p> <p>Review of the Local Plan reached the Preferred Options stage with consultation running through NOV/NDEC 21 – this will ensure that any future development is sustainable. It is anticipated that the Local Plan will be submitted for examination in 2023.</p> <p>Regular Project Board meetings to ensure progress. Individual Locality sessions have been held with Members in relation to preparation of the preferred options. There are member meetings planned to discuss key items policy decisions during the next quarter and Members have continued to be engaged in the process through with external speakers/experts being engaged in the process to support plan production.</p> <p>Discussions with key partners and Parishes and attendance of meetings with partners to maintain progress and dialogue on timetable.</p> |

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| | | <p>Infrastructure – including National Policy Statement on Networks</p> <p>Not having an up-to-date Local Plan in place – as National policy has changed the current plan is no longer designated as up to date</p> <p>White Paper on the future of Planning provides some challenges for the future planning strategy and the potential to interrupt the current timetable for the production</p> | <p>Risk of designation by Government which leads to applications being made directly to the Planning Inspectorate with loss of control and loss of fee income</p> <p>Loss of quality of environment across the district</p> | | | | <p>Utilising digital methods to deliver engagement methods.</p> <p>The Local Plan Review is supported by an infrastructure delivery plan ensuring that any development has the right infrastructure in place.</p> <p>Quality and speed targets set by Government are regularly reviewed and monitored including through the Council’s Performance Management Framework – work is underway through the transformation team to improve the processes and procedures within the planning team.</p> <p>A review as recommended by the LGA Peer Review was completed into the way in which Planning Committee works. Following this the membership of the Committee was reduced to 18.</p> <p>Work progresses on the plan however the planning reforms provide a level of uncertainty for the next stage of plan production which carries risk. This is being mitigated by the approach taken in preparing the strategy and the conversations and engagement with members with the strategy being to continue to progress the plan. The Government has made clear that they expect Local Authorities to progress plans and will intervene where necessary. The team have met with the Planning Advisory Service who have confirmed that progress is being made and are supportive of the approach taken. Offers of external scrutiny and support from critical partners is being exploited.</p> |
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| | | of the plan along with unintended consequences for spatial development in the district. | | | | | |
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| Theme/short name | Risk description | Cause | Impact | Likelihood (input 1-5) | Impact (input 1-5) | Q3 22/23 RAG (Automated) | Mitigation/Internal Control Q3. Please Update for Q3 |
|---|--|---|---|------------------------|--------------------|--------------------------|--|
| Our communities do not become more prosperous and vibrant | The Covid 19 pandemic outbreak results in poor outcomes for our residents and our businesses | <p>Covid 19 pandemic outbreak (uncontrollable)</p> <p>Lack of capacity, resources and or agility/flexibility results in core council services not being delivered</p> <p>Internal business processes (including those relating to transactions)</p> | <p>Council performance and core service delivery is not effective</p> <p>Poor health and well-being outcomes for residents</p> <p>Economic opportunities for our residents are reduced</p> <p>Businesses do not receive the support they need</p> | 2 | 3 | 6 | <p>The Extended Leadership Team is meeting weekly. Standing agenda items include a focus on Community, business, service delivery and communications. Processes in place to pay Covid grants as quickly as possible to eligible businesses in a way that minimises the risk of fraud.</p> <p>Arrangements in place (post Covid) for tenants to defer an element of their bills and spread these costs over a period. This was prepared in 20/21 and is being rolled forward for 21/22.</p> <p>Council has published the economic recovery ten-point plan and launched a business place partnership.</p> <p>A coordinated response to emergency community issues in place including helpline, signposting, and coordinating emergency food deliveries. This has now been amalgamated into customer services call centre processes.</p> <p>Business Support methods and regular communications and business support webinars undertaken. Business Place Partnership is being set up to ensure businesses engage and can capitalise on the Council's connections to partners through our open door.</p> <p>A number of COVID Support Officers have been employed to provide direct support for the Localities. High Streets Recovery Action Plans have been</p> |

| | | | | | | | |
|--|--|--|--|--|--|--|--|
| | | which support residents and businesses) are not adapted to meet need | | | | | developed in conjunction with regional partners and Parishes. Locality Enablers and Environmental Health Officers providing ongoing support. |
|--|--|--|--|--|--|--|--|

SOUTH STAFFORDSHIRE COUNCIL

AUDIT & RISK COMMITTEE – 23rd March 2023

INTERNAL AUDIT – External Quality Assessment

REPORT OF THE CHIEF INTERNAL AUDITOR

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

- 1.1 This report informs Members of the results of the external quality assessment undertaken in January 2023; by the Chartered Institute of Public Finance and Accountancy (CIPFA) of Staffordshire County Council's and South Staffordshire's Internal Audit function.

2. RECOMMENDATIONS

- 2.1 To note the results of the external quality assessment undertaken in January 2023 which was carried out by CIPFA.

3. SUMMARY IMPACT ASSESSMENT

| | | |
|-------------------------------------|---|---|
| POLICY/COMMUNITY IMPACT | Do these proposals contribute to specific Council Plan objectives? | |
| | Yes | The delivery of the Internal Audit Plan by an effective Internal Audit function provides management with assurances that their service objectives which support the Council's priorities are being achieved. The work of Internal Audit covers those priorities contained within the Council's Plan 2020-2024. |
| | Has an Equality Impact Assessment (EqIA) been completed? | |
| | No | The delivery of the Internal Audit Plan and Counter Fraud Plan is not considered to have any adverse implications to equal opportunities and diversity policies. |
| SCRUTINY POWERS APPLICABLE | No | |
| KEY DECISION | No | |
| TARGET COMPLETION/ DELIVERY DATE | An external assessment of the Internal Audit Function must take place at least once every five years. The last external | |

| | | |
|--------------------------------------|-----|---|
| | | assessment was in January 2018. The latest review was planned for January 2023. |
| FINANCIAL IMPACT | No | There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium Term Financial Strategy as are the costs of insurance covers to mitigate the cost of any financial loss arising from the failure of internal controls. |
| LEGAL ISSUES | Yes | Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 The Accounts and Audit (England) Regulations 2015, specifically require that the Authority 'must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Proper internal audit practices for Local Government are defined as constituting adherence to the requirements of both the UK Public Sector Internal Audit Standards and CIPFA's Local Government Application Note. |
| OTHER IMPACTS, RISKS & OPPORTUNITIES | No | Internal audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers. |
| IMPACT ON SPECIFIC WARDS | No | No impact. |

PART B – ADDITIONAL INFORMATION

- 4.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 2013 (revised 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments (EQA) or a combination of both methods. However, the standards state (standard 1312) that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period. The service's last EQA was undertaken in January 2018 where the Service was deemed to be conforming to the standards and therefore a further external assessment was scheduled for January 2023 and which was subsequently procured from CIPFA following a quotation process.

- 4.2 The EQA comprised a combination of a review of documentation provided by Internal Audit; a review of a sample of completed audits, a survey completed by a range of stakeholders as well as interviews with key stakeholders at South Staffordshire Council. This work took place week commencing 16th January 2023.
- 4.3 The PSIAS define (i) the nature of internal auditing, (ii) set out the basic principles for carrying out internal audit in the public sector and provide a framework for the service which adds value to both Staffordshire County Council and South Staffordshire Council, leading to improved organisational processes and operations, and (iv) establish the basis for the evaluation of internal audit performance and to drive improvement planning. Within Local Government, further guidance as to how these standards are to be applied is provided within CIPFA's Local Government Application Note (LGAN) which were last revised in 2019.
- 4.4 The report attached as **Appendix 1** details the full results of the independent assessment. Paragraph 4 of the report outlines the overall conclusion and the opinion of the assessor. The key highlights are that there are no areas of non-compliance or partial compliance with the standards identified. In addition, the assessor has not identified any issues from the EQA that management need to address regarding the Service's conformance to the current standards.
- 4.5 Based on the assessor's work undertaken, the overall conclusion is – *'It is our opinion that the self-assessment for the Staffordshire County Council's Internal Audit Service is accurate and as such we conclude that the Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'*. This is the highest category level that can be awarded via the CIPFA assessment process.
- 4.6 Whilst no recommendations have been made, there is one advisory action for management to consider which relates to keeping a watching brief on the developments to the standards which are due to be consulted on and revised during 2023/24.

5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

- 5.1 None identified.

6. PREVIOUS MINUTES

- 6.1 Not Applicable.

Report prepared by: *Deborah Harris*
Chief Internal Auditor
7th March 2023



External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Staffordshire County Council's Internal Audit Service

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Quality Assessment: Diana Melville, FCPFA

24th February 2023

Staffordshire County Council's Internal Audit Service

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1. Introduction

- 1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments (EQA), or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period. The Service's last EQA was undertaken in January 2018 where the Service was deemed to be conforming to the standards.

2. Background

- 2.1 The Internal Audit Service provides the internal audit services to Staffordshire County Council and South Staffordshire District Council and are based at the County Council's offices in Stafford although the team are all mainly working remotely. The Chief Audit Executive for both Councils is the Head of Internal Audit and Adult and Children's Financial Services (ACFS) (referred to as the HIA). She is supported by a Chief Internal Auditor (CIA) who has a team of 12 individuals, although one audit assistant level post was vacant at the time of the review and one Audit Manager is on secondment elsewhere in the Council.
- 2.2 The staff are well-qualified and experienced Internal Auditors with all the team members either holding or working towards obtaining relevant professional or academic qualifications.
- 2.3 From an operational perspective, the Internal Audit service reports directly to the Senior/Corporate Leadership Teams at the respective Councils and the Audit Committees at both Authorities. These two bodies fulfil the roles of 'senior management' and 'the board' for each authority, as defined by the Public Sector Internal Audit Standards. Regular reports on the respective audit plans, progress on delivering the plans and the annual opinions and outturns, are made to the Senior/Corporate Leadership Teams and the Audit Committees for the respective Councils.
- 2.4 The Internal Audit Service has been operating under PSIAS since its launch in 2013, and this is the second external quality assessment (EQA) that they have commissioned, the previous one being in 2018. The previous EQA for South Staffordshire Council was also in 2018 when they were operating as an in-house Service but being managed by the County Council.
- 2.5 Internal Audit has an audit manual that provides the auditors with a comprehensive guide to all aspects of performing an internal audit or consultancy assignment. Standard templates are used for all engagement working papers and testing schedules. All these documents are held in the Service's audit management application, Pentana.
- 2.6 Supervision of the engagements takes place at every stage of the process and is recorded in Pentana.
- 2.7 There is a quality assurance process in place that includes internal and external quality assessments of the Service, reviews of live engagements and secondary reviews of a sample of completed engagements, etc., and these all feed into the Internal Audit Service's Quality Assurance and Improvement Programme (QAIP).

3. Validation Process

- 3.1 This validation of the Service's self-assessment comprised a combination of a review of the evidence provided by Internal Audit; a review of a sample of completed internal audits for both Councils, chosen by the assessor; a survey that was sent to and

completed by a range of stakeholders; and interviews with key stakeholders at both Councils, using MS Teams. The interviews focussed on determining the strengths and weaknesses of Internal Audit and assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

3.2 The Internal Audit Service provided a comprehensive range of documents that they used as evidence to support their self-assessment, and these were available for examination prior to and during this validation review. These documents included the:

- self-assessment against the standards;
- quality assurance and improvement plan (QAIP);
- evidence file to support the self-assessment;
- the audit charters;
- the annual reports and opinions;
- the audit plans and strategies;
- audit procedures manual;
- a range of documents and records relating to the team members;
- progress and other reports to the Audit Committees.

All the above documents were examined during this EQA.

3.3 The main phase of the validation process was carried out during the week commencing the 16th of January 2023 and involved a review of a sample of audit files for both Staffordshire County and South Staffordshire District Councils, and interviews with key stakeholders from the two Councils. Overall, the feedback from the interviewees was positive with clients valuing the professional and objective way the Internal Audit Service delivered their services.

3.4 A survey was sent to a range of other key stakeholders and the results analysed during the review. Details of the survey findings have been provided to the Head of Internal Audit & ACFS and the Chief Internal Auditor and a brief summary has been included in this report.

3.5 The assessor reviewed examples of completed audits, to confirm his understanding of the audit process used at the Councils and how Internal Audit has applied the PSIAS and LGAN in practice.

4. Opinion

It is our opinion that the self-assessment for the Staffordshire County Council's Internal Audit Service is accurate and as such we conclude that the Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

4.1 The table below shows the Internal Audit Service's level of conformance to the individual standards assessed during this external quality assessment:

| Standard / Area Assessed | Level of Conformance |
|--|---------------------------|
| Mission Statement | Generally Conforms |
| Core principles | Generally Conforms |
| Code of ethics | Generally Conforms |
| Attribute standard 1000 – Purpose, Authority and Responsibility | Generally Conforms |
| Attribute standard 1100 – Independence and Objectivity | Generally Conforms |
| Attribute standard 1200 – Proficiency and Due Professional Care | Generally Conforms |
| Attribute standard 1300 – Quality Assurance and Improvement Programmes | Generally Conforms |
| Performance standard 2000 – Managing the Internal Audit Activity | Generally Conforms |
| Performance standard 2100 – Nature of Work | Generally Conforms |
| Performance standard 2200 – Engagement Planning | Generally Conforms |
| Performance standard 2300 – Performing the Engagement | Generally Conforms |
| Performance standard 2400 – Communicating Results | Generally Conforms |
| Performance standard 2500 – Monitoring Progress | Generally Conforms |
| Performance standard 2600 – Communicating the Acceptance of Risk | Generally Conforms |

5. Areas of full conformance with the Public Sector Internal Audit Standards

5.1 Mission Statement and Definition of Internal Audit

The mission statement and definition of internal audit from the PSIAS are included in the audit charter.

5.2 **Core Principles for the Professional Practice of Internal Auditing**

The Core Principles, taken as a whole, articulate an internal audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance standards of the PSIAS.

The clear indication from this EQA is that the Core Principles are embedded in Internal Audit's procedures, working methodologies and their Pentana audit management system and that they are a very competent, experienced, and professional Service that conforms to all ten elements of the Core Principles.

5.3 **Code of Ethics**

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.

The clear indication from this EQA is that the Internal Audit Service conforms to the Code of Ethics, and this is embedded in their procedures, the Pentana audit management system, and their audit methodologies. The code of ethics is part of their overarching culture and underpins the way the Service operates.

5.4 **Attribute Standard 1000 – Purpose, Authority and Responsibility**

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The internal audit charter must be reviewed regularly and presented to senior management and the audit panel for approval.

There are audit charters in place for both Councils and these are reviewed on an annual basis. We reviewed these documents and found them to be comprehensive and well written documents. We are satisfied that the Internal Audit Service conforms to attribute standard 1000 and the LGAN.

5.5 **Attribute Standard 1100 – Independence and Objectivity**

Standard 1100 states that the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is an integral part of the Service's culture. The Service reports in its own name at both Authorities and directly to senior management and the Audit Committees at the respective authorities. All employees sign a declaration of interest each year and declare any potential impairment to independence or objectivity for each audit they undertake.

We have reviewed the Internal Audit Service's audit manual, procedures, and their standard documentation; their quality assurance and improvement plan; and a sample of completed audit files for both Authorities. We have also reviewed Internal Audit reporting lines and their positioning within the organisations. The Head of Internal Audit & ACFS has other roles and responsibilities to Internal Audit at Staffordshire County Council that are subjected to periodic internal audit. These are referred to in the audit charter and the annual report, and there are methodologies in place to avoid any potential conflicts of

interest. We are satisfied that the Internal Audit Service conforms with attribute standard 1100 and the LGAN.

5.6 Attribute Standard 1200 – Proficiency and Due Professional Care

Attribute standard 1200 requires the Internal Audit Services' engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

It is evident from this EQA that the Internal Audit Service has a professional and experienced workforce with all members of the team either holding or working towards relevant professional or academic qualifications.

The Internal Audit Service is fortunate in having a qualified specialist IT Audit Manager amongst the team, although all members of Internal Audit can perform basic, high-level IT audits. The Service also places reliance on the work of other sources of assurance for both Council's IT systems and their governance, such as the annual PSN accreditations and routine penetration testing organised by the respective IT Services. The Internal Audit Service uses IDEA and Excel for data analytics and makes use of the data analytics tools embedded in the respective Council's IT systems.

It is evident from this review that the Internal Audit Service's employees are experienced and well qualified and perform their duties with due professional care. We are satisfied that the Internal Audit Service complies with attribute standard 1200 and the LGAN.

5.7 Attribute Standard 1300 – Quality Assurance and Improvement Programmes

This standard requires the Head of Audit to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

The Internal Audit Service has developed an effective quality assurance process which feeds into their quality assurance and improvement programme that ensures engagements are performed to a high standard. Supervision of audit engagements is carried out at all stages of the audit. Evidence of the supervision process is recorded in their PENTANA audit management application. We have examined the supporting evidence provided by the Internal Audit Service during this EQA and are satisfied that they conform to attribute standard 1300 and the LGAN.

5.8 Performance Standard 2000 – Managing the Internal Audit Activity

The remit of this standard is wide and requires the Chief Audit Executive to manage the internal audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when internal audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Chief Audit Executive must produce an audit plan and communicate this and the Service's resource requirements, including the impact of resource limitations, to senior management and the Audit and Risk Committee for their review and approval. The Chief Audit Executive must ensure that Internal Audit's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Chief Audit Executive to establish policies and procedures to guide the internal audit activity, and to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Last, but by no means least, the standard requires the Chief Audit Executive to report periodically to senior management and the Audit Committees on internal audits activities, purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the Code of Ethics and the Standards. Reporting must also

include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the audit panels.

The Internal Audit Service has a range of procedures in place, including an audit manual, procedure notes, and supervision processes that meet the requirements of the PSIAS.

The Service have developed comprehensive planning processes that take into consideration the risks and objectives of each client and the deliverables set out in the respective Council corporate plans; their risk management and governance frameworks; any relevant and reliable other sources of assurance that are available; key issues identified by the various service managers at each Authority; the Service's own risk and audit needs assessments; and any emerging risks identified through horizon scanning and networking with other organisations. The Service produces a risk-based audit plan for each Authority that objectively provide them with relevant assurance on their governance (including ethics related controls), risk management and control frameworks. The audit plans are reviewed and approved by senior management and the Audit Committees of the respective Authorities.

Details of the completed audits and regular updates on the progress being made on delivering the audit plans and the performance of the Internal Audit Service, are reported to the respective senior management teams and Audit Committees at each Authority. Annual reports and opinions are also issued at the end of the year and presented to the respective Audit Committees.

The clear indication from this EQA is that the Internal Audit Service is effectively managed and conforms to standard 2000 and the LGAN.

5.9 Performance Standard 2100 – Nature of Work

Standard 2100 covers the way the internal audit activity evaluates and contributes to the improvement of the organisation's risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

This is the approach adopted by the Internal Audit Service and is embedded in their working methodologies and their Pentana audit management system. During this EQA, we reviewed a sample of completed audits and examined them to see if they conformed to standard 2100, the LGAN and Internal Audit's own methodologies. We found that all the evidence that we examined complied with all three elements.

The clear indication from this EQA is that the Internal Audit Service conforms to performance standard 2100 and the LGAN.

5.10 Performance Standard 2200 – Engagement Planning

Performance standard 2200 requires internal auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

As mentioned above, the Service have a robust audit manual and procedure notes, supervision processes, in place that cover engagement planning and meets the requirements of the PSIAS. We found that the evidence we examined during this EQA conformed to standard 2200, the LGAN, and the Service's own audit procedures, and therefore we conclude that Internal Audit conforms to performance standard 2200 and the LGAN.

5.11 Performance Standard 2300 – Performing the Engagement

Performance standard 2300 seeks to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

As we have mentioned above, the Internal Audit Service has an audit manual and procedure notes in place, sound supervision arrangements, and quality assurance processes in place that meet the requirements of the standards. We reviewed the evidence provided in support of the Service's self-assessment and a sample of audits to see if they conformed to the standards, and Internal Audit's own working methodologies. We found that all the evidence conformed to the standards and Internal Audit's own procedures and audit methodologies. We therefore conclude that Internal Audit conforms to performance standard 2300 and the LGAN.

5.12 **Performance Standard 2400 – Communicating Results**

This standard requires internal auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the expectations of their senior management, the audit panels and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”.

The Service's audit manual, procedure notes, and supervision processes cover the communication of results of individual audits and meet the requirements of the PSIAS. During the EQA we reviewed the evidence provided in support of the Service's self-assessment and the audit reports for a sample of control audits to see if they conformed to the standards. We found that all the evidence conformed to the standards and Internal Audit's own procedures and methodologies.

We also reviewed the progress and annual reports to the respective Audit Committees and found that these also conformed to the standards and the Service's own internal procedures.

We therefore conclude that the Internal Audit Service conforms to performance standard 2400 and the LGAN.

5.13 **Performance Standard 2500 – Monitoring Progress**

There is a comprehensive follow-up process in place, the objective of which is to monitor the client's progress towards the implementation of agreed actions. The results of the follow-up reviews are reported to the respective Audit Committees. From this EQA, it is evident that the Internal Audit Service conforms to performance standard 2500 and the LGAN.

5.14 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the Chief Audit Executive has concluded that management at either Authority has accepted a level of risk that may be unacceptable to the organisation. Situations of this kind are expected to be rare, consequently, we did not see any examples of this during this review. From this EQA, it is evident that the Internal Audit Service conforms to performance standard 2600 and the LGAN.

6. **Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note**

- 6.1 There are no areas of partial conformance with the Public Sector Internal Audit Standards or the CIPFA Local Government Application Note.

7. Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

- 7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards or the CIPFA Local Government Application Note.

8. Survey results

- 8.1 Overall, the results of the survey of key stakeholders from the Internal Audit Services clients were positive with respondents valuing the services provided by them. The overall number of negative responses were very low with most respondents either agreeing or partially agreeing with the survey statements. The detailed findings from the survey have been shared with the Head of Internal Audit and ACFS and the Chief Internal Auditor to enable them to explore any of the responses in more depth, if they wish, to understand if there are any underlying issues that may need to be addressed. A brief summary of the survey results is included in this report at page 13.

9. Issues for management action

- 9.1 We have not identified any issues from this EQA that management need to address regarding the Service's conformance to the current standards. There is however one advisory action for management to consider, as set out below:-

| Issues for management action | Priority |
|---|----------|
| Management should be mindful of the fact that a consultation on revising the standards is due to commence in March 2023. Whilst this will not impact on the Service's current level of conformance, any changes to the standards arising from the consultation may affect the Service's conformance in the medium term. It is therefore suggested that the Head of Internal Audit and ACFS and the Chief Internal Auditor keep a watching brief on the developments to the standards and how this may impact the Service. | Advisory |

10. Definitions

| Level of Conformity | Description |
|---------------------------|--|
| Generally Conforms | The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects. |
| Partially Conforms | The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards. |
| Does Not Conform | The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board. |

| Action Priorities | Criteria |
|------------------------|--|
| High priority | The internal audit service needs to rectify a significant issue of non-conformance with the standards. Remedial action to resolve the issue should be taken urgently. |
| Medium priority | The internal audit service needs to rectify a moderate issue of conformance with the standards. Remedial action to resolve the issue should be taken, ideally within six months. |
| Low priority | The internal audit service should consider rectifying a minor issue of conformance with the standards. Remedial action to resolve the issue should be considered but the issue is not urgent. |
| Advisory | These are issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice. |

The co-operation of the Head of Internal Audit and ACFS, the Chief Internal Auditor, and the Internal Audit Team in providing the information requested for the EQA, is greatly appreciated. Our thanks also go to the chairs of the Audit Committees and the key stakeholders from both Councils that made themselves available for interview during the EQAs and/or completed questionnaires.

Ray Gard, CPFA, FCCA, FCIIA, DMS

24th February 2023

11. Disclaimer

This report has been prepared by CIPFA at the request of the Staffordshire County Council, and the terms for the preparation and scope of the report have been agreed with them. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided to us. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues that exist with their conformance to the Public Sector Internal Audit Standards that exist, or of all the improvements that may be required.

The report was prepared solely for the use and benefit of Staffordshire County Council's Internal Audit Service, including the senior management and boards of the Council and the Service's clients, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any other third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Survey Results



SOUTH STAFFORDSHIRE COUNCIL

AUDIT & RISK COMMITTEE – 23 MARCH 2023

REVIEW OF THE INTERNAL AUDIT CHARTER

REPORT OF THE CHIEF INTERNAL AUDITOR

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

- 1.1 This report presents the Internal Audit Charter 2023 which sets out the purpose, authority and responsibility of internal audit activity.

2. RECOMMENDATIONS

- 2.1 To consider and approve the Internal Audit Charter for 2023.

3. SUMMARY IMPACT ASSESSMENT

| | | |
|-------------------------------------|--|--|
| POLICY/COMMUNITY IMPACT | Do these proposals contribute to specific Council Plan objectives? | |
| | Yes | The work of the Audit & Risk Committee can aid the achievement of the Authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements. The delivery of the Annual Internal Audit Plan provides management with assurances that their service objectives which support the Council's priorities are being achieved. The work of Internal Audit covers those priorities contained within the Council's Plan 2020-2024. |
| | Has an Equality Impact Assessment (EqIA) been completed? | |
| | No | The work of the Audit & Risk Committee is not considered to have any adverse implications to equal opportunities and diversity policies. |
| SCRUTINY POWERS APPLICABLE | No | |
| KEY DECISION | No | |
| TARGET COMPLETION/ DELIVERY DATE | 23 March 2023 | |
| FINANCIAL IMPACT | No | There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium-Term Financial Strategy as are the costs of insurance covers to mitigate the cost of |

| | | |
|--------------------------------------|-----|--|
| | | any financial loss arising from the failure of internal controls. |
| LEGAL ISSUES | Yes | Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties. The results of Internal Audit's work feed into the Council's Annual Governance Statement. |
| OTHER IMPACTS, RISKS & OPPORTUNITIES | No | Internal audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers. |
| IMPACT ON SPECIFIC WARDS | No | No impact. |

PART B – ADDITIONAL INFORMATION

- 4.1 This report presents the Internal Audit Charter 2023 to the Audit and Risk Committee and is attached as **Appendix 1**.
- 4.2 The Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) Standard 1000 require that the purpose, authority and responsibility of the internal audit activity must be formally defined in an Audit Charter. The Internal Audit Charter is a formal document setting out:
- internal audit's position within the organisation;
 - its reporting lines;
 - access to personnel, information and records;
 - the scope of internal audit activities; and
 - what the term Board means (i.e. the Audit Committee).
- 4.3 The Internal Audit Charter was approved by the Audit & Risk Committee in April 2015. Since this date, any revisions to the document have been presented to this Committee for approval. In 2023, there are no changes to be made to the Internal Audit Charter.
- 4.4 The Internal Audit Charter 2023 continues to cover all the requirements of the latest PSIAS (last issued in March 2017)/LGAN (last issued in March 2019) and the CIPFA statement regarding the Role of the Head of Internal Audit in Local Government 2019, the document also reflects current best practice. This was confirmed as part of the External Quality Assessment of the Internal Audit Service undertaken in January 2023.

5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

- 5.1 None identified

6. PREVIOUS MINUTES

6.1 Not Applicable

7. BACKGROUND PAPERS

Appendix 1 – Internal Audit Charter 2023

Report prepared by: Susan Bluck
Internal Audit Manager
13 March 2023



Internal Audit Charter

2023



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The Charter is a mandatory requirement of the UK Public Sector Internal Audit Standards (2017) and CIPFA's Local Government Application Note (2019). Also, this document considers the requirements of the CIPFA statement regarding the Role of the Head of Internal Audit in Public Sector Organisations (2019 Edition).

1. Introduction

This charter defines for the internal audit activity of South Staffordshire Council (the Council), its purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also aims to confirm relationships with key stakeholders. It is subject to annual approval by the Board¹.

Internal Audit has limited resources and therefore its workforce is deployed in accordance with the annual Audit Strategy having regard to relative risks and levels of assurance required, translated into an agreed annual Audit Plan and delivered through individual audit assignments. This is agreed by the Board each year.

The Audit Charter should be read in conjunction with the relevant sections of Financial Procedure Rules of the Council.

2. Mission and Core Principles of Internal Audit

The mission of Internal Audit articulates what it aspires to accomplish within an organisation. The mission statement below is that included within the updated PSIAS issued in April 2017.

‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.’

In addition, a set of core principles, detailed below, have also been developed which taken as a whole, articulate internal audit effectiveness. For an Internal Audit function to be considered effective, all principles should be present and operating effectively.

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.

¹ The Audit & Risk Committee is referenced in the PSIAS as the Board.

- Is insightful, proactive and future-focused.
- Promotes organisational improvement.

3. Purpose, Authority and Responsibility

Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes (*UK Public Sector Internal Audit Standards and CIPFA Local Government Application Note*).

Authority

The authority for the Internal Audit function is derived from legislation and the Council. The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs". The Accounts and Audit (England) Regulations 2015, specifically require that a relevant body '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'. Proper internal audit practices for Local Government are defined as constituting adherence to the requirements of both the UK Public Sector Internal Audit Standards and CIPFA's Local Government Application Note. These requirements are mandatory; instances of non-conformance must be reported to the Board as part of the Chief Internal Auditor's (CIA's) annual outturn report. The Corporate Director, Finance & Resources has been delegated with this requirement by the Council.

Responsibility

The CIA is required to provide an annual opinion to the Council and to the Corporate Director, Finance & Resources through the Audit & Risk Committee, on the adequacy and effectiveness of the risk management, governance and control environment for the whole organisation and the extent it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015. To achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained.
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- To investigate, in conjunction with the appropriate agencies when relevant, allegations of fraud, bribery and corruption.
- To evaluate whether the information technology governance of the Council supports its strategies and objectives.

4. Scope

The scope of the Internal Audit function includes the review of all activities (financial and operational) and the entire control environment of the Council. In addition to its Council internal audit work programme, the Internal Audit Section currently:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with

those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- In addition to the investigation of potential irregularities, work is undertaken to promote an anti-fraud culture, to detect fraud and to prevent fraud;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organisation's risk management processes;
- Monitoring the degree of coordination of Internal Audit and external audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Reporting periodically on the Internal Audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;
- Evaluating specific operations at the request of management, as appropriate;
- Supporting management upon the design of controls at appropriate points in the development of major change programmes.
- May provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract documentation.

- Furthermore, the CIA has overall responsibility for providing assurance over the adequacy and effectiveness of the organisation's framework of governance and risk management and the work of Internal Audit feeds into the Annual Governance Statement and Code of Corporate Governance, where appropriate.

In accordance with the PSIAS, most individual audits are undertaken using the risk-based systems audit approach, the key elements of which are listed below:

- Identify and record the objectives, risks, controls and tests;
- Establish the extent to which the objectives of the system are consistent with corporate priorities and to link audit work programmes to the Council's priorities and principles of the Council, where relevant;
- Evaluate the controls in principle to decide whether they are appropriate and can be reasonably relied upon;
- Identify any instance of over/under control;
- Determine an appropriate strategy to test the effectiveness of controls;
- Arrive at a conclusion and produce a report leading to management actions and provide an opinion on the effectiveness of the control environment.

Where possible Internal Audit will seek to identify and place reliance on assurance work completed elsewhere within the Council's areas of responsibility as part of the planning process. In addition, Internal Audit will as part of the audit plan contribute to the development of an assurance framework for the Council.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as 'Advisory' and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming responsibility'. See section 5 regarding Audit Independence.

Internal Audit does not undertake value for money studies routinely unless specifically requested.

The CIA cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control and managing the risk of fraud, corruption and potential for bribery within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.

Fraud and Corruption Related Work

The internal audit role and the counter fraud roles that internal auditors will be involved in, relating to fraud and corruption work are broken down into three divisions:

- Core internal audit roles that all internal auditors should include in their risk-based approach;
- Counter fraud roles that internal audit can undertake without compromising audit independence;
- Counter fraud roles where internal audit may provide consultancy or advisory services, with safeguards.

Core Internal Audit role - The primary role of Internal Audit is to provide assurance on counter fraud arrangements and fraud risks in accordance with the standards.

The Internal Audit Section as part of its activity will evaluate the potential for the occurrence of fraud and how the Council manages its fraud risk (standard 2120.A2). To enable this, the CIA will ensure that individual internal auditors have sufficient knowledge of fraud risks and fraud risk management practice (standard 1210.A2). Fraud risks that are covered within standard audit work programmes are identified within the Pentana Audit System. Controls within audit work programmes are also categorised as either preventative type controls or detective type controls.

Supporting counter fraud roles – The Internal Audit Section may also take on additional roles or undertake work as part of an advisory or consultancy role to support or promote the development of effective counter fraud practice in the Council. In these instances, the CIA will ensure that internal auditors have adequate proficiency to undertake the activity (standard 1210.A2). Any impairment to independence or objectivity will also be identified and managed prior to the work commencing (standard 1000).

For employee related frauds, the investigation is dealt with under the Council's Staff Disciplinary Procedure and upon conclusion; the matter may be referred to the Police. It should be noted that if the offence committed is serious and/or high value, the matter may be referred to the Police prior to the disciplinary proceedings being concluded. In these instances, the Police will be made aware of the Council's on-going investigations. It is not the normal practice of Internal Audit to issue formal cautions to suspects under the Police and Criminal Evidence Act (P.A.C.E.) 1984.

It is the responsibility of the Monitoring Officer (Director, Legal & Governance), Corporate Director, Finance & Resources and Chief Executive to decide, in consultation with the appropriate Corporate Leadership Team Member, whether there are sufficient grounds for the matter to be reported to the Police. This is in accordance with the Council's Counter Fraud & Corruption Policy.

A Counter Fraud Plan is produced and reviewed on an annual basis. In addition to the investigation of potential irregularities, work is undertaken to promote an anti-fraud culture.

In particular:

a) Creation of an Anti-Fraud Culture:

- Raising awareness of the e learning package.
- Adherence to the recommendations contained in the Fighting Fraud Locally Strategy and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
- Circulation of the Fraud-Watch Publication.
- Promotion of a Poster Campaign to raise awareness.

b) Deterrence

- Publicise both local and national cases of proven fraud within the Council.

c) Prevention

- A programme of continuous controls monitoring (CCM) is carried out throughout the year to identify 'red flags' for further investigation using data analysis and file interrogation solution, IDEA. Areas susceptible to fraud are monitored on an on-going basis. Areas where CCM is utilised include creditor payments, purchasing card transactions, mileage and expenses claims and casual hours claims and overtime.

d) Detection

- Participation in the Cabinet Office's national fraud initiative data

matching exercise. This exercise is managed by the Revenue and Benefits Team on behalf of the Council.

e) Investigation

- Hotline monitoring and intelligence gathering.
- Investigations of all areas of concern identified through routine audit, reported to management or via whistleblowing communication channels.

5. Stakeholder Roles and Audit Independence

The Audit & Risk Committee will fulfil the role of the Board for the Council. For this purpose, the Board is defined in the PSIAS/LGAN as 'the highest level of governing body charged with the responsibility to direct and/or oversee the activities and hold senior management of the organisation accountable. Typically, this includes independent Directors. Board may refer to an audit committee to which the governing body has delegated certain functions.'

Section 151 matters are reported by the CIA in all instances to the Corporate Director, Finance & Resources (S151 Officer) who reports to CLT.

The extent of non-Council related audit work undertaken by the Section shall be limited to that defined within the Audit Strategy unless approved otherwise by the Corporate Director, Finance & Resources.

Internal Audit is not responsible for the detailed development or implementation of new systems but will be consulted during the system development process on the control measures to be incorporated in new or amended systems. To maintain independence, the Auditor who was involved in the 'consultancy style exercise' will not take any further part in the audit process. Any significant 'consultancy' activity not already included in the annual Audit Plan which may impact on the ability to provide the required assurance opinion will be reported to the Audit & Risk Committee for approval. The nature and scope of this type of work includes facilitation, process and/or control design, training, advisory services and risk assessment support.

As a Condition of Service, all audit staff are expected to maintain conduct of the highest standard such that public confidence in their integrity is maintained. This includes declarations of interest, as appropriate (*organisational level*). Furthermore, all audit staff are required to make an annual declaration to ensure that Auditors objectivity is not impaired

and that any potential conflicts of interest are appropriately managed in line with the requirements of the Code of Ethics within the PSIAS and the Nolan Committee's Standards on the Seven Principles of Public Life (*individual auditor level*). In addition, all staff complete an audit declaration as part of each review which requires any conflicts of interest or impairments to be disclosed (*individual engagement level*).

All Internal Audit Contractor staff are also required to declare any potential conflicts of interest at the start of any assignment to the CIA.

6. Audit Reporting

Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. Audit assurance opinions are awarded on the completion of audit reviews reflecting the efficiency and effectiveness of the controls in place. Audit opinions are ranked either as; Substantial Assurance, Adequate Assurance or Limited Assurance. Recommendations made will be ranked as; High, Medium or Low depending upon the relative importance of the audit finding. The methodology used is attached at **Appendix 1**.

Work undertaken by Internal Audit will normally be concluded by the production of a formal written report to the respective individuals detailed below, dependent on the nature of the review and the opinion category.

| Distribution | Audit Reviews (Substantial Assurance / Adequate Assurance) | Audit Reviews (Limited Assurance) | Major Irregularity / Special Investigation – (loss > £10,000) |
|---|---|--------------------------------------|---|
| Operational Manager | ✓ | ✓ | ✓ |
| Section 151 (Corporate Director, Finance & Resources) | ✓ | ✓ | ✓ |
| Corporate Leadership Team | ✓ | ✓ | ✓ |
| Monitoring Officer (Director Legal & Governance) | ✓ | ✓ | ✓ |

| | | | |
|--|---|---|---|
| Local Member (where applicable) | | | ✓ |
| Relevant Cabinet Member | | ✓ | ✓ |
| Cabinet Member for Business Transformation | | ✓ | ✓ |
| Audit & Risk Committee Members | ✓ | ✓ | ✓ |

7. Role of the Head of Internal Audit (CIA)

The CIA must be a suitably professionally qualified individual who has the appropriate skills, knowledge, experience and resources to effectively perform in the role. They should also ensure that they take part in continuing professional development activities to remain up to date with developments within Internal Audit.

The CIA must establish an environment of trust, confidence and integrity in the work of the Internal Audit Section within the Council.

The CIA will have direct access to the Corporate Director, Finance & Resources, Monitoring Officer (Director of Corporate Services), Head of Paid Service, Audit & Risk Committee Chairman and Members as required.

The CIA will brief the Audit & Risk Committee Chairman regarding the content of Audit & Risk Committee agenda papers, including agreeing future agenda items and potential areas for training.

The CIA will contribute to the review of the Audit & Risk Committee effectiveness, advising the Chair of any suggested improvement.

The CIA is responsible for the overall development of the Audit Strategy and annual Internal Audit Plan, which demonstrates value for money to the organisation.

The UK Public Sector Internal Audit Standards require the CIA to report at the top of the organisation and this will be achieved by:

- The Internal Audit Strategy and Charter; including any amendments to them are reported to the Audit & Risk Committee annually for formal approval.
- The annual Internal Audit Plan is produced by the CIA taking account of the Council's risk framework and after input from Members of CLT

and the Council's External Auditor. It is then presented to CLT and subsequently Audit & Risk Committee for endorsement prior to approval by the Corporate Director, Finance & Resources.

- The adequacy, or otherwise of the level of internal audit resources (as determined by the CIA) and the independence of internal audit is reported annually to the Audit & Risk Committee. The approach to determining resources required is outlined in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk/control issues arising are reported to the Audit & Risk Committee.
- Annually to report the results of the quality assurance exercise to the Audit & Risk Committee.
- The CIA ensures that the requirements of the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note are met in full and adherence, together with any areas of non-conformance to these requirements reported as part of the annual review of the effectiveness of internal audit report to the Audit & Risk Committee. This will incorporate where the CIA has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be put in place to limit impairments to independence or objectivity.

The CIA should be consulted on all proposed major projects, programmes and policy initiatives. This is achieved through liaison with senior management and forms a key part of the annual Audit Plan. Business as Usual change projects are evaluated as part of the annual risk assessment planning process to determine the annual Internal Audit Plan.

The CIA should be consulted on proposed changes to the following key policy documents:

- a. Financial Procedure Rules;
- b. Contract Procedure Rules;
- c. Counter Fraud & Corruption Policy;
- d. Whistleblowing policy;
- e. Officers' Code of Conduct; and
- f. Risk Management Policy

Where partnership/ joint venture/ outsourced and shared service arrangements exist that require joint working with other organisations and their respective auditors, the CIA will produce a protocol outlining the respective roles and responsibilities of each partner, access to working papers, confidentiality and sharing of audit reports including reporting to the Audit & Risk Committee (where appropriate).

In instances where services are provided by third parties, the CIA will liaise with the Procurement Team to ensure that suitable clauses are included within Contract documentation to ensure that internal audit retains the right of access to documents/ personnel and systems as and when required.

8. Role of the Corporate Director, Finance & Resources (Section 151 Officer)

The Corporate Director, Finance & Resources has overall delegated responsibility from the Council for the Internal Audit function. Following consultation with the Corporate Leadership Team and the Audit & Risk Committee they will approve the annual Audit Plan.

The Corporate Director, Finance & Resources will ensure that they are periodically briefed by the CIA on the following:

- Overall progress against the annual Audit Plan;
- Those audit areas where a "Limited Assurance" opinion has been given;
- Progress on the implementation of all "high" level audit recommendations; and
- Progress on all fraud and irregularity investigations carried out by the Internal Audit Section.

Following on from the above, the Corporate Director, Finance & Resources will ensure that update reports are reported regularly to the Audit & Risk Committee, to include an annual outturn report.

9. Role of Corporate Leadership Team Members

For the purposes of the UK Public Sector Internal Audit Standards, the Council's Corporate Leadership Team performs the role of the 'senior management'.

Relevant extracts of those reports referred to above will receive prior consideration by the relevant CLT Member. This includes any fraud and corruption related exercises.

To assist the discharge of those responsibilities defined in Financial Procedure Rules, Appendix C – Risk Management & Control of Resources, CLT Members may appoint a senior officer to act as the first point of contact between Internal Audit and their area of responsibility.

The CIA will present the annual Internal Audit Plan and Audit Strategy to CLT members for their consideration and endorsement. The annual outturn report, together with the overall opinion of the Organisation's control environment will also be circulated to CLT, where appropriate.

CLT Members are also responsible for ensuring that staff within their areas participate fully in the audit planning process and actively enforce the implementation of agreed audit recommendations by the required date. The quality of these relationships impacts on the effective delivery of the internal audit service, its reputation and independence. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.

10. Responsibilities of the Audit & Risk Committee

The Audit & Risk Committee is a key component of the Council's governance framework. Their role is to operate as 'those charged with governance' and provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards, the Audit & Risk Committee performs the role of the 'Board'.

Members of the Audit & Risk Committee receive the following documents:

- The annual Audit Strategy & Plan;
- The Internal Audit Charter;
- The annual assessment of Internal Audit to ensure that it meets the requirements set out in the Accounts and Audit Regulations 2015 and UK Public Sector Internal Audit Standards;
- The results of the external assessment of Internal Audit which must be performed every 5 years wef April 2013 (which was last completed January 2023);
- Regular updates on progress against High Level Recommendations;
- Periodic progress reports and the annual outturn report including results of anti-fraud and corruption work / special investigations;

- A copy of the audit report/ briefing note for all reviews irrespective of opinion.
- A copy of the audit report for all major special investigations (i.e. those areas where the potential loss is greater than £10,000);
- A copy of the audit report for those reviews given an opinion of "Limited Assurance" to be formally presented to Audit & Risk Committee;
- The Annual Governance Statement (AGS) prior to approval to consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- A copy of the audit report for those reviews relating to the governance and assurance arrangements for significant partnerships and/or collaborations.
- A copy of the Council's Assurance Framework relating to key risk areas.

Note

Notwithstanding the above, all audit reports will be made available to members of the Audit & Risk Committee (either individually or collectively) upon request.

Members of the Audit & Risk Committee will agree key performance targets for the Internal Audit Section and ensure that they are reported upon as part of the annual outturn report and the review of the effectiveness of internal audit.

The Audit & Risk Committee will publish an annual report on its work including performance in relation to the terms of reference and effectiveness in meeting its purpose.

11. Relationship with External Audit

Internal Audit will liaise with the external auditors of the Council to:

- Foster a co-operative and professional working relationship;

- Eliminate the incidence of duplication of effort;
- Ensure appropriate sharing of information; and
- Co-ordinate the overall audit effort.

12. Due Professional Care

Since April 2013, the Internal Audit Section (including its external providers) has operated in accordance with the professional standards and practice statements included within the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Instances of non-conformance with the standards must be reported to the Audit & Risk Committee.

To demonstrate that due care has been exercised, the internal auditor is expected to:

- Exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
- Apply confidentiality as required by law and best practice;
- Obtain and record sufficient audit evidence to support their findings and recommendations;
- Show that audit work has been performed competently and in a way that is consistent with applicable audit standards; and
- Consider the use of technology-based audit and other data analysis techniques.

13. Quality Assurance

The CIA maintains a Quality Assurance and Improvement Programme to review all aspects of activity of the Internal Audit Section (including its external providers) to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. An external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor as required by the Public Sector Internal Audit Standards. Results and any resultant improvement plans will be agreed with and reported to the Audit & Risk Committee in the annual report. Significant deviations will be considered for inclusion in the Annual Governance Statement.

14. Audit Processes

An Audit Manual is maintained detailing the procedures to be followed at each stage of the audit process including an instruction documents, guidance and video guides for the operation of the Audit Management System, Pentana Audit. The content of the Manual will be reviewed regularly and will include details of the arrangements to be followed in the event of suspected irregularities. The CIA shall periodically ensure adherence to its content.

A Data Utilisation Strategy is in place which outlines a vision of how the Internal Audit Service will use available data sources and analytics to enhance efficiency, reduce key risks and facilitate the Council in effectively making best use of data sources available.

15. Use of and the Processing of Data

Internal Audit is entitled to conduct its duties in line with its Charter and will review, appraise and report on the governance risk management, internal control and counter fraud environment. The provision of internal audit services may involve the processing of personal data. In respect of this, new data protection legislation came into force from the 25th May 2018, which aims to protect the privacy of all UK and prevent data breaches.

The Internal Audit Service is aware of the requirements of the UK Data Protection Act 2018 and ensures that it complies with the requirements contained within the Act.

The Internal Audit Service shall be provided in accordance with the Data Sharing Agreement in place between Staffordshire County Council (SCC) and South Staffordshire District Council (SSDC) as specified within Schedule 2 of the Agreement for Provision of Internal Audit Services, which states:

"The parties agree that SSDC is a Controller and SCC is a Processor for the purposes of processing Protected Data pursuant to this Agreement. SCC shall, and shall ensure any Sub-Processors and each of their Personnel shall, at all times, comply with all Data Protection Laws in connection with the processing of Protected Data and the provision of the Services and shall not by any act or omission cause SSDC (or any other person) to be in breach of any of the Data Protection Laws. Nothing in this Agreement relieves SCC of any responsibilities or liabilities under Data Protection Laws."

South Staffordshire Council's core data protection obligations and commitments are set out in the Council's primary privacy notice.

<https://www.sstaffs.gov.uk/information/privacy-notice.cfm>

Appendix 1

Audit Opinions

Recommendation Risk Ratings

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation, and likelihood of any associated risks occurring.

The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may subsequently be adjusted; for example, in a system with a total budget of £100,000, financial loss of £5,000 would be considered a more significant risk to system objectives than the matrix below would initially suggest.

Impact Ratings

| Risk Type | Marginal 1 | Significant 2 | Fundamental 3 | Catastrophic 4 |
|------------------|--|---|--|--|
| Financial | Lack of VFM or overspend resulting in a financial loss below £10,000 | Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000 | Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m | Lack of VFM or overspend resulting in a financial loss in excess of £0.5m |
| Reputation | Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.) | Needs careful public relations (e.g. Minor theft of property or income.) | Adverse local publicity (e.g. Minor fraud case.) | Adverse national publicity (e.g. Major fraud or corruption case.) |
| Legal/Regulatory | Breaches of local procedures / standards | Breaches of regulations / standards | Breaches of law punishable by fines only | Breaches of law punishable by imprisonment |
| Legal/Regulatory | Not an issue that would interest the External Auditors | An issue that may require further checks to satisfy the External Auditor that control is sufficient. | Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS). | Could lead to qualification of Council's Statement of Accounts |
| Legal/Regulatory | Unlikely to cause complaint / litigation | High potential for complaint, litigation possible | Litigation to be expected | Litigation almost certain and difficult to defend |
| Performance | Doesn't materially affect a departmental performance indicator or service objective. | Has a material adverse affect on a departmental/corporate performance indicator or service objective. | Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities. | Could call into question the Council's overall performance framework or seriously damage a Council objective / priority. |
| Service Delivery | Doesn't affect any identified objectives | Adversely affects a service objective | Seriously damage Departmental objective / priority | Seriously damage any Council objectives / priorities |
| Service Delivery | No significant disruption to service capability | Short term disruption to service capability | Short term loss of service capability | Medium term loss of service capability |
| Service Delivery | No more than 3 people involved | No more than 10 people involved | Up to 50 people involved | More than 50 people involved |
| Health & Safety | No injuries beyond "first aid" level | Medical treatment required - long term injury | Extensive, permanent injuries; long term sick | Death |

Likelihood ratings:

| Risk Score | Description | Example Detail Description |
|------------|-------------|---|
| 5 | Very Likely | Likely to occur within a year / Over 80% Probability of Likelihood |
| 4 | Likely | Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood |
| 3 | Possible | Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood |
| 2 | Unlikely | Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood |
| 1 | Remote | Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood |

Priority Ratings Matrix

[illegible]

| Risk Score | | Recommendation Rating |
|------------|----|-----------------------|
| >20 | <5 | |
| 1 | 5 | Minor Priority |
| 6 | 10 | Low Priority |
| 10 | 15 | Medium Priority |
| 15 | 21 | High Priority |

Internal Audit Assurance Ratings

Each Internal Audit report completed provides a level of assurance of; Limited, Adequate or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the auditor may increase or decrease the level of assurance provided. For example a single very significant control weakness may give rise to only one recommendation, but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

| Assurance Level | Typical Findings |
|-----------------|---|
| Limited | Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations |
| Adequate | Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations |
| Substantial | 0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations |

