

Governance, Audit, Risk Management and Standards Committee **AGENDA**

DATE: Wednesday 5 December 2018

TIME: 7.30 pm

VENUE: Committee Room 5, Harrow Civic Centre, Station
Road, Harrow, HA1 2XY

MEMBERSHIP (Quorum 3)

Chair: Councillor David Perry

Councillors:

Ghazanfar Ali
Peymana Assad
Maxine Henson

Philip Benjamin
Amir Moshenson
Kanti Rabadia (VC)

Reserve Members:

- | | |
|------------------|------------------|
| 1. Nitin Parekh | 1. Pritesh Patel |
| 2. Niraj Dattani | 2. John Hinkley |
| 3. Antonio Weiss | 3. Chris Mote |
| 4. Chloe Smith | |

Contact: Miriam Wearing, Senior Democratic Services Officer
Tel: 020 8424 1542 E-mail: miriam.wearing@harrow.gov.uk

Useful Information

Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:
<http://www.harrow.gov.uk/site/scripts/location.php>.

Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

Meeting access / special requirements.

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

Agenda publication date: Tuesday 27 November 2018

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

3. MINUTES (Pages 5 - 8)

That the minutes of the meeting held on 4 September 2018 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, Friday 30 November 2018. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

8. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID-YEAR REVIEW 2018/19 (Pages 9 - 24)

Report of the Corporate Director Finance

9. AUDIT COMMITTEE REVIEW (Pages 25 - 58)

Report of the Corporate Director of Finance

10. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

11. EXCLUSION OF THE PRESS PUBLIC

To resolve that the press and public be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

| <u>Agenda Item No</u> | <u>Title</u> | <u>Description of Exempt Information</u> |
|-----------------------|---|---|
| 12 | IIINFORMATION REPORT - internal Audit Red Assurance reports | Information relating to the financial or business affairs of any particular person (including the authority holding that information) |

AGENDA - PART II

12. INFORMATION REPORT - INTERNAL AUDIT RED ASSURANCE REPORTS (Pages 59 - 88)

Report of the Corporate Director Finance

*** DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE MINUTES

4 SEPTEMBER 2018

Chair: * Councillor David Perry

Councillors:

| | |
|-------------------|------------------|
| * Ghazanfar Ali | * Maxine Henson |
| * Peymana Assad | * Amir Moshenson |
| * Philip Benjamin | * Kanti Rabadia |

* Denotes Member present

17. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

18. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 11 – Information Report – Internal Audit Red Assurance Reports
Councillor Maxine Henson declared a non-pecuniary interest in that she was an Assistant to the Portfolio Holder for Adults and Public Health. She would remain in the room whilst the matter was considered and voted upon.

19. Minutes

RESOLVED: That the minutes of the meeting held on 17 July 2018, be taken as read and signed as a correct record.

20. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions, petitions or deputations were received at this meeting.

21. References from Council and other Committees/Panels

RESOLVED: To note that no references had been received.

RESOLVED ITEMS

22. INFORMATION REPORT - Audit Committee Review

The Committee received a report which outlined the approach to be taken to the Internal Audit review of the Audit Committee agreed as part of the 2018/19 Internal Audit Plan.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report and informed the Committee that the annual governance review had identified that the Audit Committee role undertaken by the GARMS Committee had not been specifically reviewed against best practice, as contained in CIPFA guidance, for several years.

It was noted that, as part of the review, the Committee would undertake a self-assessment against the CIPFA guidance facilitated by the Head of Internal Audit and Corporate Anti-Fraud. The results would be reported to the next Committee meeting together with a proposed action plan. In addition, a review of the Terms of Reference would be undertaken by the Head of Internal Audit and Corporate Anti-Fraud and the results and any suggested improvements would be submitted to the next meeting.

RESOLVED: That the report be noted.

23. Annual Audit Letter

The Committee received a report on the Annual Audit Letter from the Council's external auditors.

The Director of Finance introduced the report with reference to the presentation of the Statement of Accounts by the External Auditors at the last meeting when a view, based on audit work completed, had been given and outstanding items identified. The audit had now been concluded and an unqualified audit opinion on the Financial Statements, Value for Money and the Pension Fund had been confirmed. The Committee was informed that there were no audit recommendations from the 2017/18 audit and that all recommendations from the previous years had been implemented by officers during the financial year and the auditors had no issues to report.

In response to a question the Director of Finance stated that, following confirmation that the review of the consolidation pack to support the

production of Whole of Government by HM Treasury had been completed, the Annual Audit Letter had been published on the Council's website.

The Committee was informed that the officers would be meeting with the new auditors, Mazars, and representatives would be in attendance at the committee to discuss the audit plan.

In response to a question, Members noted that the audit fees were set by Public Sector Audit Appointments (PSAA) and the contract was tendered on a five year basis.

A Member expressed surprise that the final letter did not contain any recommendations given the number of issues reported over the last few years and hoped that this was not a reflection on the three year arrangement with the existing External Auditor coming to an end. He enquired whether the completion of the previous recommendations had been documented. The Director of Finance made reference to the fourteen recommendations made by KPMG in the first year of the contract and four in the second year all of which had been implemented to the auditor's satisfaction. It was agreed that the officers would request more detailed feedback from the auditors.

RESOLVED: That the report be noted.

24. Exclusion of the Press Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item for the reasons set out below:

| <u>Item</u> | <u>Title</u> | <u>Reason</u> |
|-------------|--|---|
| 11. | INFORMATION REPORT – Internal Audit Red Assurance | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |

25. INFORMATION REPORT - Internal Audit Red Assurance Reports

The Committee received a report on the final red or red/amber assurance reports undertaken by Internal Audit as part of the 2017/18 Internal Audit Plan and reported at a high level in the Year End Report presented at the last GARMS meeting in July.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report and informed the Committee of the process for a review and a follow up report to reassess assurance. In response to a question it was noted that internal audit identified with management the risks in order to determine what controls should be in place to mitigate the risks. Every review across the Council was assessed using the same methodology. Further Internal Audit red and

red/amber assurance reports and follow up reports would be submitted to the next meeting of the Committee.

The Committee requested the attendance of officers from the reviewed departments at future meetings.

The Committee scrutinised the review reports and made comments and asked questions which were responded to by the officers

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.25 pm).

(Signed) COUNCILLOR DAVID PERRY
Chair

**REPORT FOR: Governance, Audit, Risk
Management and
Standards Committee**

| | |
|-----------------------------|--|
| Date of Meeting: | 5 December 2018 |
| Subject: | Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review 2018/19 |
| Responsible Officer: | Dawn Calvert, Director of Finance |
| Exempt: | No |
| Wards affected: | All |
| Enclosures: | Appendix A – Economic and Interest Rates Update |

Section 1 – Summary and Recommendations

Summary

This report sets out the mid-year review of Treasury Management activities for 2018/19.

Recommendation

The Committee is asked to note the Treasury Management Mid-Year review for 2018-19 and provide comments for consideration by Cabinet at their meeting on 6 December 2018.

Section 2 – Report

Introduction

1. This report deals with Treasury Management activity which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Options considered

2. The consideration of this report is a requirement of the CIPFA "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)" [The Treasury Management Code]

Background

3. The Chartered Institute of Public Finance and Accountancy (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.”

4. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.
5. The first main function of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. In line with the Treasury Management Strategy Statement surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
6. The second main function of the Treasury Management service is the funding of the Council's capital programme. This programme provides a guide to the borrowing need of the Council, essentially the longer term cashflow 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, any debt previously drawn may be restructured to meet Council risk or cost objectives.
7. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' "The Prudential Code for Capital Finance in Local Authorities (2017 Edition)" [The Prudential Code] and the Treasury Management Code to set Treasury and Prudential Indicators for the next three years to ensure that the Council's capital investment programme is affordable, prudent and sustainable.

8. The CIPFA Treasury Management Code has been adopted by the Council.
9. The primary requirements of the Treasury Management Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full Council or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
 - Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is Governance, Audit, Risk Management and Standards Committee.
10. The purpose of this report is to provide the mid-year update report of Treasury Management activities for financial year 2018/19. The report details progress during the year against the Strategy approved by Council on 22 February 2018. The report covers the following:
 - Treasury position as at 30 September 2018 including investment portfolio and borrowing portfolio (paragraphs 12-22);
 - Economic and interest rates update (paragraph 23 and Appendix A);
 - Compliance with Prudential Indicators (paragraphs 24-33);
 - Local Housing Revenue Account (HRA) indicators (paragraphs 34-35)
 - Additional investment opportunities (paragraphs 36-38)

Capital Strategy

11. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -
 - a high-level overview of how capital expenditure, capital financing and Treasury Management activity contribute to the provision of services

- an overview of how the associated risk is managed
- the implications for future financial sustainability

The Prudential Code has also expressed concern that local authorities should ensure that an authority's approach to commercial activities should be proportional to its overall resources.

A report setting out the Capital Strategy will be brought to Cabinet in February 2019.

Treasury Position as at 30 September 2018

12 The Council's borrowings and investment (cash balances) position as at 30 September 2018 is detailed below:

Table 1: Outstanding Investments and Borrowings

| | As at 30 September 2018 | | | As at 31 March 2018 | | |
|--------------------------|-------------------------|-------------|-------------------|---------------------|-------------|-------------------|
| | Principal | Rate | Life | Principal | Rate | Life |
| | £m | % | | £m | % | |
| Total Investments | 36.62 | 0.27 | 2 Days | 16.84 | 0.22 | 2 days |
| Total Borrowing | | | | | | |
| Public Works Loan Board | 218.5 | 4.09 | 32.7 Years | 218.5 | 4.09 | 33.2 Years |
| Market Loans | 105.8 | 4.23 | 36.8 Years | 105.8 | 4.29 | 37.3 Years |
| Total | 324.3 | 4.13 | 34.0 Years | 324.3 | 4.15 | 34.5 Years |

The above analysis assumes loans structured as Lender Option, Borrower Option loans (LOBOs) mature at the end of the contractual period. If the first date at which the lender can reset interest rates is used as the maturity date, the average life for market loans would be 14.2 years and, for the whole debt portfolio, 26.9 years.

Review of Investment Portfolio

13. The Council is a prudent investor placing security and liquidity considerations ahead of income generation. With the Bank Rate having risen to 0.75%, by September 30th the rate on offer for instant access investments has risen to 0.60% (RBS). The Council has reduced cash balances and a cash management strategy focused on minimising the net cost of borrowing. Therefore it has not been appropriate to commit investments to periods beyond one month with a consequent effect on investment return.

14. The Council held £36.6m of investments as at 30 September 2018 compared with £16.8m at 31 March 2018. The investment portfolio yield for the first six months of the year is 0.35% against the average three months LIBOR of 0.71%. The Council's investment income budget is £1.4m and the forecast outturn is £1.3m, the variance of £0.1m is due to the combination of the reduction in the cash balances and low yields on short-term cash investments.

15. The only counterparties actively in use during the period have been Lloyds, Royal Bank of Scotland PLC and Svenska Handelsbanken.
16. The performance of the investment portfolio is measured on a quarterly basis by the Treasury Management Adviser against their risk adjusted model. As at 30 September 2018, the average yield on the portfolio was 0.35%. This reflects lower priced investment rates available before the base rate increase in August 2018.
17. In addition to the investment of cash balances, the Council, at its meeting in July 2013, approved a loan of £15m to West London Waste Authority to help finance the cost of a new energy from waste plant. The term of the loan is 25 years at an interest rate of 7.604% on a reducing balance. The loan balance at the end of March 2018 is £16.3m which includes interest accrued to date. As the Waste Plant went live in December 2016 WLWA are now repaying the loan with Interest as agreed. For the financial year 2018/19, the outturn forecast on the interest accrued is £1.25m which is included as part of the investment income budget.
18. The table below sets out the counterparty position as at 30 September 2018.

Table 2: Investment Balances

| | 2017/18 | | | | 2018/19 | |
|-----------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|
| | Sep-17 | | Mar-18 | | Sep-18 | |
| | £m | % | £m | % | £m | % |
| Specified Investments | | | | | | |
| Banks & Building Societies | 11.3 | 21.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Money Market Funds | 1.6 | 3.0 | 1.6 | 9.5 | 1.6 | 4.4 |
| Non –Specified Investments | | | | | | |
| Banks & Building Societies | 40.4 | 75.7 | 15.1 | 89.9 | 34.9 | 95.4 |
| Enhanced Money Market Funds | 0.1 | 0.2 | 0.1 | 0.6 | 0.1 | 0.3 |
| Total | 53.4 | 100.0 | 16.8 | 100.0 | 36.6 | 100.0 |

Review of Borrowing Portfolio

19. At 30 September 2018 the Council held £324.3m of long terms external borrowing. It is currently expected that temporary borrowing of up to £85m may be required before the end of the current financial year. This will be replaced by PWLB long-term borrowing in 2019/20, or in the final quarter of the current financial year, should forecast borrowing rates increase before 31 March 2019.

20. The table below analyses the maturity profile of borrowing.

Table 3: Borrowing Maturity Profile

| Maturity structure of borrowing | upper limit % | lower limit % | LOBO final maturity | | LOBO interest reset date | |
|---------------------------------|------------------|------------------|---------------------|--------------|--------------------------|--------------|
| | | | £m | % | £m | % |
| under 12 months | 30 | 0 | 10.0 | 3.1 | 80.8 | 24.9 |
| 12 months and within 24 mths | 20 | 0 | 12.0 | 3.7 | 12.0 | 3.7 |
| 24 months and within 5 years | 30 | 0 | 5.0 | 1.5 | 5.0 | 1.5 |
| 5 years and within 10 years | 40 | 0 | 5.0 | 1.5 | 5.0 | 1.5 |
| 10 years and above | 90 | 30 | 292.3 | 90.1 | 221.5 | 68.3 |
| Total | | | 324.3 | 100.0 | 324.3 | 100.0 |

21. The average borrowing rate as at 30 September 2018 was 4.1% and the forecast outturn on borrowing cost was £7.4m, a favourable variance of £0.7m on the budget of £8.1m.
22. Debt rescheduling opportunities have been very limited in the current economic climate given the structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling was undertaken during the first six months of the year. In October 2018 the Council negotiated a premature loan redemption after Royal Bank of Scotland advised of their intention to assign the loans held by the Council to a third party. The assignment was for £30 million fixed loans with an average interest rate of 3.9% and 40.5 year average maturity. A loan was borrowed from the Public Works Loan Board for £30 million at 2.75% for 40.5 years. These restructuring results in reduced long-term borrowing costs for the Council.

Economic and Interest Rates Updates

23. An economic update for the first part of the 2018/19 financial year along with the interest rate forecast and commentary provided by Link Treasury Services as at 30th September 2018 is included as Appendix A.

Compliance with Prudential Indicators

Capital Expenditure and Funding

24. The Council's capital expenditure programme is the key driver of Treasury Management activity. The output of the capital expenditure programme is reflected in the statutory prudential indicators, which are designed to assist Members' overview and confirm the capital expenditure programme. The table below summarises the capital expenditure and funding for the current financial year and gives an indication of future levels of investment.

Table 4: Capital Expenditure

| | 2017/18 | 2018/19 | 2018/19 |
|--|---------------|----------------|---------------|
| | Actual | Estimate | Forecast |
| | £'000 | £'000 | £'000 |
| Expenditure | | | |
| Non - HRA | 67,180 | 53,430 | 78,025 |
| HRA | 11,877 | 2,739 | 10,380 |
| Regeneration | 15,074 | 71,900 | 7,062 |
| TOTAL | 94,131 | 128,069 | 95,467 |
| Funding:- | | | |
| Grants | 13,309 | 9,674 | 15,663 |
| Capital receipts | 8,137 | 11,044 | 3,044 |
| Revenue financing | 8,753 | 7,418 | 18,492 |
| Section 106 / Section 20 | 5,456 | 4,618 | 559 |
| TOTAL | 35,655 | 32,754 | 37,758 |
| Net financing need for the year | 58,476 | 95,315 | 57,709 |

25. The capital estimate is in accordance with the budget set. This has an impact on the annual change in capital financing requirement and net borrowing requirement as detailed in tables below. The revised forecast is due to slippage and underspending in year on the capital programme.

Capital Financing Requirement (CFR)

26 The CFR as set out in Table 5, is 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 new capital expenditure, which has not immediately been paid for, will increase the CFR.

Table 5: Capital Financing Requirement

| | 2017/18 | 2018/19 | 2018/19 |
|-----------------------------|----------------|----------------|-----------------|
| | Actual | Estimate | Forecast |
| | £'000 | £'000 | £'000 |
| CFR as at 31 March | | | |
| Non – HRA | 343,209 | 452,419 | 400,901 |
| HRA | 151,014 | 150,683 | 150,683 |
| TOTAL | 494,223 | 603,102 | 551,584 |
| Annual change in CFR | | | |
| Non – HRA | 39,557 | 109,210 | - 51,518 |
| HRA | 1,477 | - 331 | - |
| TOTAL | 41,034 | 108,879 | - 51,518 |

27. Debt outstanding, including that arising from PFI and leasing schemes, should not normally exceed the CFR. As the Council has funded a substantial amount of capital expenditure from revenue resources, as shown in Table 6 below, current forecast gross debt of £340m is below the forecast CFR of £552m.

Table 6: Changes to Gross Debt

| | 2017/18 | 2018/19 | 2018/19 |
|--|----------------|----------------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| | £'000 | £'000 | £'000 |
| External Debt | | | |
| Debt at 1 April | 324,261 | 324,261 | 324,261 |
| Expected change in Debt | 58,476 | 95,315 | 58,833 |
| Other long-term liabilities (OLTL) 1st April | 16,000 | 16,000 | 16,000 |
| Expected change in OLTL | | | - |
| Actual gross debt at 31 March | 340,261 | 340,261 | 340,261 |
| Capital financing requirement | 494,223 | 603,102 | 552,708 |
| Under / (Over) borrowing | 153,962 | 262,841 | 212,447 |

28. The table below shows the net borrowing after investment balances are taken into account.

Table 7: Net Borrowing

| Net Borrowing | 2017/18 | 2018/19 | 2018/19 |
|--------------------------------|---------------|---------------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| | £'000 | £'000 | £'000 |
| Brought forward 1 April | 258,201 | 307,421 | 389,576 |
| Carried forward 31 March | 307,421 | 389,576 | 352,806 |
| Change in net borrowing | 49,220 | 82,155 | -36,770 |

£5 million temporary borrowing has been taken in the financial year to date. Any further temporary borrowing taken in the current year to minimise borrowing costs will be replaced by long-term PWLB borrowing in the next financial year.

Operational Boundary and Authorised Limit

29. Operational Boundary – This limit is based on the Council's programme for capital expenditure, capital financing requirement and cash flow requirements for the year.
30. Authorised Limit – This represents a limit beyond which external debt is prohibited. The Council's policy is to set this rate at the Capital Financing Requirement. The Government retains an option to control either the total of all councils' programmes, or those of a specific council, although this power has not yet been exercised.

Table 8: Boundaries

| | 2017/18 | 2018/19 | 2018/19 |
|--|---------|----------|---------|
| | Actual | Original | Revised |
| | £m | £m | £m |
| Authorised Limit for external debt | | | |
| Borrowing and finance leases | 568 | 607 | 607 |
| Operational Boundary for external debt | | | |
| Borrowing | 448 | 435 | 435 |
| Other long term liabilities | 16 | 16 | 16 |
| Total | 464 | 451 | 451 |
| Upper limit for fixed interest rate exposure | | | |
| Net principal re fixed rate borrowing | 448 | 435 | 435 |
| Upper limit for variable rate exposure | | | |
| Net principal re variable rate borrowing | - | - | - |
| Upper limit for principal sums invested over 364 days* | 60 | 60 | 60 |

Affordability Indicators

31. Ratio of Financing Costs to Net Revenue Streams – This indicator identifies the trend in the cost of capital (borrowing, depreciation, impairment and other long term obligation costs net of investment income) against the net revenue stream. Tables 9 and 10 show the current position for the General Fund and HRA respectively.

Table 9: Ratio of Financing Costs to Net Revenue Stream – General Fund

| | 2017/18 | 2018/19 | 2018/19 |
|--|---------------|---------------|------------------|
| | Actual | Estimate | Forecast Outturn |
| Net revenue stream (£'000) | 164,804 | 167,913 | 167,913 |
| Interest costs (£'000) | 7,316 | 8,174 | 7,400 |
| Interest costs - finance leases (£'000) | 1,682 | 1,700 | 1,700 |
| Interest and investment income (£'000) | -1,360 | -1,300 | -1,300 |
| MRP (£'000) | 16,584 | 18,925 | 16,600 |
| Total financing costs (£'000) | 24,222 | 23,478 | 24,400 |
| Ratio of total financing costs against net revenue stream (%) | 14.7 | 14.2 | 14.5 |

The ratio shows a small reduction between 2017/18 and 2018/19 which indicates that the capital programme remains affordable.

Table 10: Ratio of Financing Costs to Gross Revenue Stream HRA

| | 2017/18 | 2018/19 | 2018/19 |
|---|---------|----------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| Gross revenue stream (£'000) | 32,245 | 32,114 | 31,761 |
| Interest costs of self-funding borrowing (£'000) | -3,751 | -3,751 | -3,751 |
| Interest costs of other borrowing (£'000) | -2,491 | -2,614 | -2,486 |
| Interest and investment income (£'000) | 26 | 0 | 0 |
| Depreciation (£'000) | -7,679 | -7,636 | -8,026 |
| Impairment (£'000) | -230 | 0 | 0 |
| Total financing costs (£'000) | -14,125 | -14,001 | -14,263 |
| Ratio of total financing costs against net revenue stream (%) | -43.8 | -43.6 | -44.9 |
| Ratio of total financing costs (excluding depreciation and impairment) against net revenue stream (%) | -19.3 | -19.8 | -19.6 |

32. Incremental impact of Capital Investment Decisions on Council Tax and Housing Rents – This indicator identifies the revenue costs associated with proposed changes to the capital programme and the impact on Council Tax and Housing Rents.
33. The tables below identify the revenue costs associated with the proposed capital programme and the impact on Council Tax and housing rents.

Table 11: Incremental Impact of Capital Investment Decisions – Council Tax

| | 2017/18 | 2018/19 | 2018/19 |
|--|--------------|--------------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| Net financing need (£'000) | 41,952 | 46,131 | 50,447 |
| Borrowing at 25-50 years PWLB rate (£'000) | 1,133 | 1,401 | 1,513 |
| MRP (2%) (£'000) | 839 | 923 | 1,009 |
| Total increased costs (£'000) | 1,972 | 2,324 | 2,522 |
| CTax base (£'000) | 82,000 | 84,466 | 84,466 |
| % increase | 2.4 | 2.8 | 2.8 |
| Band D Council Tax | 1,560 | 1,689 | 1,689 |
| Overall increase £ pa | 37.51 | 46.47 | 47.29 |

Table 12: Incremental Impact of Capital Investment Decisions – Housing Rents

| | 2017/18 | 2018/19 | 2018/19 |
|--|-------------|-------------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| Net Financing need (£'000) | 5,306.0 | 2,160 | 5,242 |
| Borrowing @ 2% (25-50years PWLB rate) (£'000) | 106.1 | 43.2 | 104.8 |
| Depreciation @ 2% (£'000) | 106 | 43 | 105 |
| Total increased costs | 212 | 86 | 210 |
| Number of dwellings | 4,825 | 4,781 | 4,812 |
| Increase in average housing rent per week £ | 0.84 | 0.34 | 0.84 |

Local HRA indicators

34. The ratio of gross revenue stream to debt shows a consistent pattern which is affordable by the HRA. As the number of dwellings reduces over the two years, the debt outstanding per dwelling is estimated to increase. However, the annual increases are only marginal and the ratio compared

to the average value of each dwelling is low enough for the measure to raise no concern.

Table 13: Local HRA Indicators

| | 2017/18 | 2018/19 | 2018/19 |
|--|---------------|---------------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| Debt (CFR) (£m) | 151,015 | 150,683 | 150,683 |
| Gross Revenue Stream (£m) | 32,245 | 32,114 | 31,761 |
| Ratio of Gross Revenue Stream to Debt (%) | 21% | 21% | 21% |
| Average Number of Dwellings | 4,825 | 4,781 | 4,812 |
| Debt outstanding per dwelling (£) | 31,302 | 31,517 | 31,317 |

35. HRA Debt Limit is shown in the table below

Table 14: HRA Debt

| | 2017/18 | 2018/19 | 2018/19 |
|----------------|---------|----------|---------------------|
| | Actual | Estimate | Forecast Outturn |
| | £m | £m | £m |
| HRA Debt Limit | 150,683 | 150,683 | 150,683 |
| HRA CFR | 151,015 | 150,683 | 150,683 |
| Headroom | - 332 | - | - |

Additional investment opportunities

36. As discussed in paragraph 12 above interest rates available from institutions on the Council's counterparty list and remain at low levels and the Council is earning, overall, under 0.30% on its cash balances. Advice available to the Council suggests that returns are likely to remain low.
37. Notwithstanding this both officers and Members have expressed concern over the poor rates available and officers keep the counterparty list under review and opportunities to potentially realise better returns are investigated.
38. Regular meetings are held with the Treasury Management Adviser and they are always asked to update officers on investment opportunities which might be available. Vehicles discussed include gilts, European Investment Bank, money market funds, enhanced cash plus funds property funds and covered bonds.

Legal Implications

39. The purpose of this report is to comply with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and other relevant guidance referred to in the report.

Financial Implications

40. In addition to supporting the Council's revenue and Capital programmes the Treasury Management net budget of £6.1m (Interest payable £7.4m; Interest receivable £1.3m) discussed in paragraphs 16 and 22 is an important part of the General Fund budget. Any savings achieved, or overspends incurred have a direct impact on the delivery of the budget.

Risk Management Implications

41. The identification, monitoring and control of risk are central to the achievement of the Treasury Management objectives. Potential risks are included in the directorate risk register and are identified, mitigated and monitored in accordance with Treasury Management Practice notes approved by the Treasury Management Group.

Equalities Implications

42. There are no equalities implications arising from this report.

Corporate Priorities

43. This report deals with the Treasury Management activity which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

| | | |
|------------------------|-------------------------------------|-------------------------------------|
| Name: Dawn Calvert | <input checked="" type="checkbox"/> | Chief Financial Officer |
| Date: 31 October 2018 | | |
| Name: Caroline Eccles | <input checked="" type="checkbox"/> | On behalf of the Monitoring Officer |
| Date: 23 November 2018 | | |

| | |
|-----------------------------------|--|
| Ward Councillors notified: | NO as report impacts on all Wards |
| EqIA carried out: | NO |
| EqIA cleared by: | There are no equalities implications arising from this "information" report. |

Section 4 - Contact Details and Background Papers

Contact: Iain Millar (Treasury and Pensions Manager)
Tel: 020-8424-1432 / Email: iain.millar@harrow.gov.uk

Background Papers: None

Appendix A

Provided by Link Asset Services at 30 September 2018

Economics update

UK. The first half of 2018/19 has seen UK **economic growth** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase **Bank Rate** on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market**, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

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

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

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

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

Interest rate forecasts

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

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

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

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

**REPORT FOR: GOVERNANCE, AUDIT
AND RISK
MANAGEMENT AND
STANDARDS
COMMITTEE**

| | |
|-----------------------------|---|
| Date of Meeting: | 5 December 2018 |
| Subject: | Audit Committee Review |
| Responsible Officer: | Dawn Calvert – Director of Finance |
| Exempt: | No |
| Enclosures: | Appendix A – The draft Internal Audit report Appendix B – The Committee’s Self-Assessment Appendix C – The Committee’s current Terms of Reference Appendix D – The proposed updated Terms of Reference |

Section 1 – Summary and Recommendations

This report outlines the draft findings and recommendations of the Internal Audit review of the audit committee as agreed as part of the 2018/19 Internal Audit Plan.

Recommendations:

The Committee is requested to:

- Review the draft Internal Audit report;
- Agree the report’s recommendations; and
- Review the proposed updated Terms of Reference for the Committee for referral to Council so that it may be included in the constitution.

Section 2 – Report

Background

- 2.1. As part of the 2017/18 annual governance review it was identified that the audit committee role, undertaken by the GARMS Committee, has not been specifically reviewed against best practice, as contained in CIPFA guidance, for several years. This was identified as a minor governance gap and to address this an Internal Audit review of the audit committee was included in the 2018/19 Internal Audit Plan, as agreed by the GARMS Committee on 17/07/18.
- 2.2. A Terms of Reference for the review, was agreed with the Chair of GARMS, and presented to the last meeting of the Committee for information along with the CIPFA Audit Committees/Practical Guidance for Local Authorities on which the review was based.

Overview of CIPFA Guidance

- 2.3. The CIPFA guidance incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018)* ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee.
- 2.4. The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and recognises that audit committees are a key component of governance.
- 2.5. It states that the purpose of an audit committee is to provide to those charged with governance 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.
- 2.6. Audit committees in local authorities are necessary to help satisfy certain statutory requirements. For example in England, the Accounts and Audit (England) Regulations 2015 state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs".
- 2.7. The chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit, helping to ensure that it is adequate and effective. Both these elements are now enshrined in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN).

- 2.8 The guidance states that best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues.
- 2.9 As well as the Position statement the guidance (provided in full at the last meeting) covers:
- The purpose of audit committees;
 - The core functions of an audit committee;
 - Possible wider functions of an audit committee;
 - Independence and accountability;
 - Membership and effectiveness;
 - Sector and devolved government guidance;
 - Suggested terms of reference;
 - Audit committee members – knowledge and skills framework;
 - Self-assessment of good practice; and
 - Evaluating the effectiveness of the audit committee.

Review Findings

- 2.10 Appendix A is the draft Internal Audit report outlining the findings of the review. Overall an Amber/Green assurance has been given to the performance of the Audit Committee (GARMS) against the good practice principles outlined in the CIPFA Guidance indicating that the committee is soundly based and has in place a knowledgeable membership. Overall 71% of the good practice was found to be in place and operating or substantially operating effectively. 11 recommendations have been made to address the areas identified as only partially or not operating, 8 are rated as medium risk and 3 are rated as low risk.
- 2.11 Appendix B documents the self-assessment undertaken by the Committee at the last meeting that underpins the report's findings.
- 2.12 Appendix C is the current terms of reference of the Committee and indicates what has and has not been included in the updated terms of reference. Appendix D is the proposed updated Terms of Reference for the Committees consideration.

Further Information

Once the Committee has approved the updated terms of reference it will go to full Council for approval.

Financial Implications

There are no financial implications to this report.

Equalities implications

None

Corporate Priorities

The Internal Audit and Corporate Anti-Fraud Service contribute to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

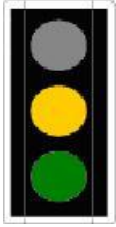
Section 3 - Statutory Officer Clearance

| | | |
|----------------------|-------------------------------------|---|
| Name: Dawn Calvert | <input checked="" type="checkbox"/> | on behalf of the Chief Financial Officer |
| Date: 21/11/18 | | |
| Name: Jessica Farmer | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 21/11/18 | | |

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud,
Tel: 0208 424 1420

Background Papers: None



AMBER/GREEN
ASSURANCE

AUDIT COMMITTEE REVIEW

DATE: 21st November 2018

CLIENT: GARMS Committee

AUDITOR: Susan Dixson – Head of Internal Audit

MANAGER: Susan Dixson – Head of Internal Audit

DISTRIBUTION LIST: GARMS Committee
Dawn Calvert – Director of Finance

Internal Audit

Executive Summary

1. The review forms part of the 2018/19 Internal Audit annual plan which has been developed from a risk assessment and consultation process. This review provides an independent and objective opinion on the system under review by evaluating its effectiveness in achieving the organisations objectives.
2. **The system objective:**
The purpose of an audit committee is to provide to those charged with governance 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.
CIPFA :Audit Committees: Practical Guidance for Local Authorities and Police \ 2018 Edition
3. **The audit objective:**
The objective of this review is to provide assurance that the Council's Audit Committee (Governance, Audit, Risk Management and Standards Committee – GARMS) complies with best practice as outlined in the CIPFA :Audit Committees: Practical Guidance for Local Authorities and Police \ 2018 Edition.
4. **The Scope:**
 - Audit committee purpose and governance;
 - Functions of the committee;
 - Membership and support;
 - Effectiveness of the committee;
 - Review and update of the GARMS Committee Terms of Reference.
5. **Methodology**
An evidence based self-assessment was undertaken by the GARMS Committee against the CIPFA: Audit Committees: Practical Guidance for Local Authorities and Police \ 2018 Edition facilitated and evidenced by the Head of Internal Audit & Corporate Anti-fraud. In addition the Terms of Reference for the Committee has been reviewed against the guidance.
6. Recommendations made have been rated according to risk:
High Risk: major issues that require action, key objectives will not be met and serious threat of fraud.
Medium Risk: serious threat to the achievement of objectives and potential threat of fraud.
Low Risk: best practice where there is a small effect on objectives.
7. All internal audit reports are given an assurance rating.

Amber/Green reports will indicate medium to low risk in need of attention to prevent them becoming high risk and

Audit Opinion

8. An **Amber/Green** assurance is given to the performance of the Audit Committee (GARMS) against the good practice principles outlined in the CIPFA Guidance indicating that the committee is soundly based and has in place a knowledgeable membership. Overall 71% of

the good practice was found to be in place and operating or substantially operating effectively. 11 recommendations have been made to address the areas identified as only partially or not operating, 8 are rated as medium risk and 3 are rated as low risk.

Agreed Actions

9. In the final report the agreed actions will be shown with the implementation date and the responsible officer.

DETAILED REPORT

10. An evidence based self-assessment was undertaken by the GARMS Committee against the CIPFA: Audit Committees: Practical Guidance for Local Authorities and Police\2018 Edition, facilitated and evidenced by the Head of Internal Audit & Corporate Anti-fraud. Results are shown in Appendix B. All members of the Committee took part in the self-assessment and were asked to individually assess whether the committee meets the good practice outlined in the guidance. Part 1 is covered in paragraphs 11 – 14 below and good practice was rated Yes (in place), Partially (in place) or No (not in place) with the majority of answers being used as the final rating. For Part 2 covered in paragraph 15 below individual assessments were rated 1-5 (descriptions for each assessment shown in Appendix A) and an average was taken of these to provide the final assessment as there was not a clear majority in very area.

11. Audit Committee Purpose and Governance

The following good practice was identified as being in place:

- the authority has a dedicated audit committee;
- the audit committee report directly to full council;
- the audit committee provide support to the authority in meeting the requirements of good governance.

The following good practice was identified as being partially in place:

- the role and purpose of the audit committee is understood and accepted across the authority;
- the arrangements to hold the committee to account for its performance are operating satisfactorily.

The following good practice was identified as not being in place:

- the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement

12. Functions of the Committee

The following good practice was identified as being in place:

- the committee's terms of reference explicitly address all the following core areas identified in CIPFA's Position Statement:
 - good governance;
 - internal audit:

- external audit;
 - financial reporting;
 - risk management;
 - counter fraud and corruption;
- the audit committee have considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them;
 - the committee has maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose.

The following good practice was identified as being partially in place:

- the committee's terms of reference explicitly address all the following core areas identified in CIPFA's Position Statement:
 - assurance framework, including partnerships and collaboration arrangements;
 - supporting the ethical framework.

The following good practice was identified as not being in place:

- the committee's terms of reference explicitly address all the following core areas identified in CIPFA's Position Statement:
 - value for money or best value;
- an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas

13. **Membership and Support**

The following good practice was identified as being in place:

- the chair of the committee has appropriate knowledge and skills;
- arrangements are in place to support the committee with briefings and training;
- the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO;
- adequate secretariat and administrative support to the committee is provided;
- an effective audit committee structure and composition of the committee has been selected including separation from the executive, an appropriate mix of knowledge and skills among the membership, a size of committee that is not unwieldy.

The following good practice was identified as being substantially in place:

- consideration has been given to the inclusion of at least one independent member.

The following good practice was identified as not being in place:

- the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory.

14. Effectiveness of the Committee

The following good practice was identified as being in place:

- meetings are effective with a good level of discussion and engagement from all the members;
- the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers;

The following good practice was identified as not being in place:

- the committee has obtained feedback on its performance from those interacting with the committee or relying on its work;
- the committee make recommendations for the improvement of governance, risk and control and are these acted on;
- the committee evaluated whether and how it is adding value to the organisation;
- the committee have an action plan to improve any areas of weakness (however the action plan of this review will serve this purpose);
- the committee publish an annual report to account for its performance and explain its work.

15. Evaluating the Effectiveness of the Audit Committee

Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable:

- supporting the development of robust arrangements for ensuring value for money.

Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of these areas:

- contributing to the development of an effective control environment;
- supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks;
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
- supporting the quality of the internal audit activity, particularly by underpinning its organisational independence;
- helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.

The committee has had mixed experience in supporting improvement in these areas. There is some evidence that demonstrates their impact but there are also significant gaps:

- promoting the principles of good governance and their application to decision making;
- aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.

There is some evidence that the committee has supported improvements in the following area, but the impact of this support is limited:

- promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.

16. Review of the Terms of Reference

The review of the committee's terms of reference takes into account the current terms of reference (Appendix C) indicating what has been included in the new terms of reference and what has not, the CIPFA Guidance suggested terms of reference (as reported to the last meeting), the self-assessment against best practice undertaken by the committee as part of this review and current practice.

The proposed updated terms of reference (Appendix D) is provided for the committee's consideration and agreement.

D
R
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F
T

DETAILED REPORT / ACTION PLAN

| Ref | Associated Risk | Findings | Recommendation | Risk Rating H/M/L | Agreed Action / Responsible Officer / Implementation Date |
|---|---|--|--|----------------------|--|
| 1.Audit Committee Purpose and Governance | | | | | |
| 1.1 | The purpose and role of the committee is unclear. | <p>The GARMS Committee Terms of Reference has not been reviewed/updated since 2010 although it is being reviewed as part of this review.</p> <p>The current Terms of Reference does not clearly set out the purpose of the committee in accordance with CIPFA's 2018 Position Statement and does not clearly reflect the committee's current role.</p> <p>Having an up to date and clear Terms of Reference will help to ensure that the role and purpose of the committee is understood and accepted across the authority as it forms part of the Constitution.</p> | To agree the Terms of Reference updated as part of this review to clearly reflect the purpose of the committee and its current role. | M | <p>Agreed Action:</p> <p>Responsible Officer:</p> <p>Implementation Date:</p> |

DRAFT

DETAILED REPORT / ACTION PLAN

36

| Ref | Associated Risk | Findings | Recommendation | Risk Rating H/M/L | Agreed Action / Responsible Officer / Implementation Date |
|-----|---|--|---|----------------------|--|
| 1.2 | The committee is not accountable for its performance. | <p>The committee does not currently report on its performance to those charged with governance: the Council.</p> <p>The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: the council. In addition, publication of the report will assist other stakeholders to understand the work of the committee.</p> <p>Many Audit Committees in other authorities prepare such a report.</p> | <p>(a) An annual report should be prepared for Council and published. Consideration should be given to including the following aspects in the report:</p> <ul style="list-style-type: none"> • whether the committee has fulfilled its agreed terms of reference • whether the committee has adopted recommended practice • whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities • whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review • what impact the committee has on the improvement of governance, risk and control within the authority. | M | <p>Agreed Action:</p> <p>Responsible Officer:</p> <p>Implementation Date:</p> |
| | | | <p>(b) The Head of Internal Audit should prepare a draft format for the report, taking into account reports in other authorities, for the committee to agree.</p> | | M |

DETAILED REPORT / ACTION PLAN

| Ref | Associated Risk | Findings | Recommendation | Risk Rating H/M/L | Agreed Action / Responsible Officer / Implementation Date |
|--------------------------------------|--|---|--|----------------------|--|
| 2.Functions of the Committee: | | | | | |
| 2.1 | The committee do not cover the core areas identified in the CIPFA's Position Statement. | <p>The committee's terms of reference does not explicitly/fully address the following core areas identified in CIPFA's Position Statement:</p> <ul style="list-style-type: none"> ➤ assurance framework, including partnerships and collaboration arrangements; ➤ supporting the ethical framework; ➤ value for money or best value; <p>These have been included in the proposed new Terms of reference prepared as part of this review.</p> | See recommendation 1.1 | | |
| 2.2 | The committee does not fulfil its terms of reference and core areas are not adequately considered. | An annual evaluation is not currently undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas. | An annual evaluation should be undertaken and the results included in the annual report. | M | <p>Agreed Action:</p> <p>Responsible Officer:</p> <p>Implementation Date:</p> |

DETAILED REPORT / ACTION PLAN

| Ref | Associated Risk | Findings | Recommendation | Risk Rating H/M/L | Agreed Action / Responsible Officer / Implementation Date |
|---|--|---|--|----------------------|---|
| 3. Membership and support: | | | | | |
| 3.1 | The core knowledge and skills of committee members are not satisfactory. | The membership of the committee has not been assessed against the core knowledge and skills framework and found to be satisfactory. | Committee members should review their knowledge and skills against the core knowledge and skills framework contained within the CIPFA guidance to enable training needs to be identified and addressed. | M | Agreed Action: Responsible Officer: Implementation Date: |
| 4. Effectiveness of the committee: | | | | | |
| 4.1 | The committee spends too much time on minor areas rather than strategic or wide-ranging issues. | The committee has not obtained feedback on its performance from those interacting with the committee or relying on its work. | (a) Consideration should be given to seeking feedback from meeting participants, e.g. support officers, managers, external auditors and Council on an annual basis to supplement the annual evaluation process recommended in 2.2. | M | Agreed Action: Responsible Officer: Implementation Date: |
| | Political points of view interfere with the work of the audit committee. | | (b) The Head of Internal Audit should prepare a draft format seeking feedback for the committee to agree. | M | Agreed Action: Responsible Officer: Implementation Date: |
| 4.2 | The committee does not help to improve the governance, risk and control environment of the organisation. | The committee does not generally make formal recommendations for the improvement of governance, risk and control. However informal recommendations have been made in the past on, for example, the Corporate Risk Register, management responses to internal audit reports and changes have been formally requested to the draft annual governance statement and matters have occasionally been referred to other committees. | Consideration to be given to whether the committee wishes to make formal recommendations for action to senior management for the improvement of governance, risk and control in the future and how this will be recorded and responses received and followed up. | L | Agreed Action: Responsible Officer: Implementation Date: |

DETAILED REPORT / ACTION PLAN

| Ref | Associated Risk | Findings | Recommendation | Risk Rating H/M/L | Agreed Action / Responsible Officer / Implementation Date |
|--|---|--|---|----------------------|---|
| 4.3 | The committee is not recognised as adding value to the organisation. | The committee does not currently evaluate whether and how the governance arrangements support the achievement of sustainable outcomes. | To be evaluated annually and covered in the annual report. | L | Agreed Action: Responsible Officer: Implementation Date: |
| 4.4 | Failing to promote effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability | The committee does not currently publish an annual report to account for its performance and explain its work | See recommendation 1.2(a) | | |
| 5. Evaluating the effectiveness of the audit committee: | | | | | |
| 5.1 | The committee does not effectively promote the principles of good governance and their application to decision making | The committee does not actively work with key members to improve their understanding of the AGS and their contribution to it. | Consideration should be given by the committee to how this could be achieved e.g. the publication of an annual report by the committee, briefings provided by the Chair to the Leader/Cabinet, briefings provided by the Vice-chair to the Leader of the opposition/shadow cabinet. | M | Agreed Action: Responsible Officer: Implementation Date: |

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| Ref | Associated Risk | Findings | Recommendation | Risk Rating H/M/L | Agreed Action / Responsible Officer / Implementation Date |
|-----|---|--|---|-------------------|--|
| 5.2 | Failure to aid the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements | <p>The committee review how the governance arrangements support the achievement of sustainable outcomes via the annual review of governance process; reviews of major projects and programmes to ensure governance and assurance arrangements are in place are included in the Internal Audit Plan and the committee specifically considers the performance management of Internal Audit, Corporate Anti-fraud, Finance and Treasury Management (via regular reports throughout the year) and performance in value for money is considered as part of the Annual Governance Review and Statement.</p> <p>However the committee's self- assessment rated this area as a 3 = The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.</p> | <p>Consideration should be given to whether the committee would like to increase their review of:</p> <ul style="list-style-type: none"> • governance arrangements support the achievement of sustainable outcomes; • major projects and programmes to ensure that governance and assurance arrangements are in place; <p>or</p> <ul style="list-style-type: none"> • the effectiveness of performance management arrangements; <p>and how this would be achieved.</p> | L | <p>Agreed Action:</p> <p>Responsible Officer:</p> <p>Implementation Date:</p> |
| 5.3 | Failure to promote effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability | <p>Committee meetings are held in public, with the exception of exempt items, and this contributes to the accountability of the authority to the public and stakeholders.</p> <p>However, as stated above the committee do not currently publish an annual report.</p> | See recommendation 1.2(a) | | |

Self-assessment of good practice

This self-assessment provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and Guidance. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

| PART 1 | | | | |
|---|--|------------|----------------|-----------|
| Good practice questions | | Yes | Partly | No |
| Audit committee purpose and governance | | | | |
| 1 | Does the authority have a dedicated audit committee? | 7 | | |
| 2 | Does the audit committee report directly to full council? (applicable to local government only) | 7 | | |
| 3 | Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement? | | | 7 |
| 4 | Is the role and purpose of the audit committee understood and accepted across the authority? | 1 | 6 | |
| 5 | Does the audit committee provide support to the authority in meeting the requirements of good governance? | 7 | | |
| 6 | Are the arrangements to hold the committee to account for its performance operating satisfactorily? | | 6 ¹ | |
| Functions of the committee | | | | |
| 7 | Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? | | | |
| | <ul style="list-style-type: none"> good governance | 7 | | |
| | <ul style="list-style-type: none"> assurance framework, including partnerships and collaboration arrangements | | 7 | |
| | <ul style="list-style-type: none"> internal audit | 7 | | |
| | <ul style="list-style-type: none"> external audit | 7 | | |

¹ One member did not respond to this question

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| | | | | |
|-------------------------------|--|----------------|----------------|---|
| | <ul style="list-style-type: none"> financial reporting | 7 | | |
| | <ul style="list-style-type: none"> risk management | 7 | | |
| | <ul style="list-style-type: none"> value for money or best value | | | 7 |
| | <ul style="list-style-type: none"> counter fraud and corruption | 6 | 1 | |
| | <ul style="list-style-type: none"> supporting the ethical framework | | 5 | 2 |
| 8 | Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas? | | | 7 |
| 9 | Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them? | 7 | | |
| 10 | Where coverage of core areas has been found to be limited, are plans in place to address this? | n/a | | |
| 11 | Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose? | 7 | | |
| Membership and support | | | | |
| 12 | Has an effective audit committee structure and composition of the committee been selected? This should include: separation from the executive an appropriate mix of knowledge and skills among the membership a size of committee that is not unwieldy consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) | 2 | 5 ² | |
| 13 | Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation? | n/a | | |
| 14 | Does the chair of the committee have appropriate knowledge and skills? | 6 ³ | | |
| 15 | Are arrangements in place to support the committee with briefings and training? | 5 ⁴ | 2 | |
| 16 | Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory? | | | 7 |

² This is considered to be substantially operating as all but one element (consideration of an independent member) is in place

³ One member did not respond to this question

⁴ One positive response included comment 'could do more'

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| | | | | |
|---------------------------------------|--|---|---|---|
| 17 | Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO? | 7 | | |
| 18 | Is adequate secretariat and administrative support to the committee provided? | 5 | 2 | |
| Effectiveness of the committee | | | | |
| 19 | Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work? | | 2 | 5 |
| 20 | Are meetings effective with a good level of discussion and engagement from all the members? | 7 | | |
| 21 | Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers? | 5 | 2 | |
| 22 | Does the committee make recommendations for the improvement of governance, risk and control and are these acted on? | | 1 | 6 |
| 23 | Has the committee evaluated whether and how it is adding value to the organisation? | 1 | | 6 |
| 24 | Does the committee have an action plan to improve any areas of weakness? | | 1 | 6 |
| 25 | Does the committee publish an annual report to account for its performance and explain its work? | 1 | | 6 |

PART 2

Evaluating the effectiveness of the audit committee

Assessment key

| Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable. | | | 5 |
|--|---|--|--|
| Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area. | | | 4 |
| The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps. | | | 3 |
| There is some evidence that the committee has supported improvements, but the impact of this support is limited. | | | 2 |
| No evidence can be found that the audit committee has supported improvements in this area. | | | 1 |
| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 – 1 See key above |
| Promoting the principles of good governance and their application to decision making | <ul style="list-style-type: none"> Supporting the development of a local code of governance Providing robust review of the AGS and the assurances underpinning it Working with key members to improve their understanding of the AGS and their contribution to it Supporting reviews/audits of governance arrangements Participating in self-assessments of governance arrangements Working with partner audit committees to review governance arrangements in partnerships | <ul style="list-style-type: none"> Annual governance process Review of draft and final AGS + evidence table detailing the assurances underpinning the AGS] Internal Audit annual plan process, approval of annual plan Audit committee self-assessment | 2x4 5x3 Ave=3 |

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| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 – 1 See key above |
|---|--|--|---|
| Contributing to the development of an effective control environment | <ul style="list-style-type: none"> • Actively monitoring the implementation of recommendations from auditors • Encouraging ownership of the internal control framework by appropriate managers • Raising significant concerns over controls with appropriate senior managers | <ul style="list-style-type: none"> • Review of mid-year and year-end Internal Audit reports detailing implementation of recommendations • Requiring managers, including senior managers, to attend the committee to discuss red and red/amber audit reports and significant governance gaps | <p>3x5</p> <p>3x4</p> <p>1x2</p> <p>Ave = 4</p> |
| Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks | <ul style="list-style-type: none"> • Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking • Monitoring improvements • Holding risk owners to account for major/strategic risks | <ul style="list-style-type: none"> • Review of the Corporate Risk Register 3/4 times a year • Corporate Risk Register shows improvements from one quarter to the next • Risk Owners are identified in the register and issues raised by the Committee are referred back to them and responses provided | <p>2x5</p> <p>3x4</p> <p>1x3</p> <p>1x2</p> <p>Ave=4</p> |
| Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively | <ul style="list-style-type: none"> • Specifying its assurance needs, identifying gaps or overlaps in assurance • Seeking to streamline assurance gathering and reporting • Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit | <ul style="list-style-type: none"> • Other sources of assurance are highlighted in the Internal Audit Plan committee report • The annual governance review evidence table presented to committee to support the AGS demonstrates how assurance has been gathered • The effectiveness of internal audit is reviewed annually and reported to the committee | <p>2x5</p> <p>2x4</p> <p>2x3</p> <p>1x2</p> <p>Ave=4</p> |
| Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence | <ul style="list-style-type: none"> • Reviewing the audit charter and functional reporting arrangements • Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements • Actively supporting the quality assurance and improvement programme of internal audit | <ul style="list-style-type: none"> • Reviewed annually as part of the Internal Audit Annual Plan report to Committee • Annual Internal Audit self-assessment/5 yearly external assessment reported as part of the Internal Audit Annual Plan report to Committee as is the output of the quality assurance and improvement programme | <p>4x5</p> <p>2x4</p> <p>1x2</p> <p>Ave=4</p> |

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| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 – 1 See key above |
|---|---|--|---|
| Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements | <ul style="list-style-type: none"> • Reviewing how the governance arrangements support the achievement of sustainable outcomes • Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place • Reviewing the effectiveness of performance management arrangements | <ul style="list-style-type: none"> • Covered by the annual review of governance • Review of major projects/programmes included in the Internal Audit Plan • The committee specifically considers the performance management of Internal Audit, Corporate Ant-fraud, Finance and Treasury Management (via regular reports throughout the year) and performance in value for money is considered as part of the Annual Governance Review and Statement. | <p>1x5</p> <p>2x4</p> <p>3x3</p> <p>1x2</p> <p>Ave=3</p> |
| Supporting the development of robust arrangements for ensuring value for money | <ul style="list-style-type: none"> • Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee • Considering how performance in value for money is evaluated as part of the AGS | <ul style="list-style-type: none"> • Covered by annual review of governance reported annually to the Committee | <p>5x5</p> <p>1x4</p> <p>1x3</p> <p>Ave=5</p> |
| Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks | <ul style="list-style-type: none"> • Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) • Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks • Assessing the effectiveness of ethical governance arrangements for both staff and governors | <ul style="list-style-type: none"> • Annual self-assessment against CIPFA Code undertaken and reported to Committee • Fraud risk Register being developed • Ethical governance arrangements reviewed annually as part of the annual governance review and also included in the risk based Internal Audit Plan as appropriate | <p>2x5</p> <p>4x4</p> <p>1x3</p> <p>Ave=4</p> |

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| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 – 1 See key above |
|---|---|--|---|
| <p>Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability</p> | <ul style="list-style-type: none"> • Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English • Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency • Publishing an annual report from the committee | <ul style="list-style-type: none"> • Committee meetings are held in public, with the exception of exempt items, and this contributes to the accountability of the authority to the public and stakeholders. | <p>1x3</p> <p>6x2</p> <p>Ave=2</p> |

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Information about Governance, Audit, Risk Management and Standards Committee

This Committee was formerly known as the [Audit Committee](#). It was renamed at Council on 18 October 2007.

The Governance Audit and Risk Management Committee was amalgamated with the Standards Committee on 12 June 2014 and has the following powers and duties:

- i) To ensure that the Council's governance framework is in line with current guidance and best practice ✓
- ii) To review the Council's governance framework and annual improvement plan and monitor progress ✓
- iii) To review the Council's risk management strategy and monitor progress on risk management ✓
- iv) To monitor the Council's insurance arrangements ✗ *No longer undertaken by the committee*
- v) To review the Council's emergency planning and business continuity arrangements and monitor progress on emergency planning and business continuity ✗ *No longer undertaken by the committee*
- vi) To review the Council's Health and Safety arrangements and monitor progress on Health and Safety ✓
- vii) To approve the financial statements of the authority, in particular: ✓
 - The outcome of reviews of the effectiveness of the internal control arrangements including internal audit ✓
 - Changes in and compliance with accounting policies and practices ✓
 - Unadjusted mis-statements in the financial statements ✗ *Covered in review of External Audit recommendations*
 - Major judgemental areas ✓
 - Significant adjustments resulting from the audit ✓
 - Any relevant issues raised in the external auditor's report to those charged with governance ✓
 - the Annual Governance Statement prior to sign-off ✓

- viii) To review the Treasury Management strategy and monitor progress on treasury management in accordance with CIPFA codes of practice ✓
- ix) To monitor compliance with internal controls ✓
- x) To consider matters arising from External Audit work which are required to be communicated to those charged with governance under the Statement of Auditing Standards (ISA260) ✓
- xi) To receive and consider the Annual Audit and Inspection Letter (or equivalent) and make recommendations as appropriate ✓
- xii) To scrutinise/comment on the Internal Audit three year strategic plan and annual plan ✓
- xiii) To monitor progress against the Internal Audit plan and receive summaries of audit work completed and key recommendations ✓
- xiv) To consider all individual Internal Audit reports on a regular basis* *This has never actually happened – summaries of all individual reports are included in the mid-year and year-end reports.*
- xv) To scrutinise/comment on the External Audit plan and fees ✓
- xvi) To monitor progress against the External Audit plan and receive summaries of audit work completed and key recommendations ✓
- xvii) To consider individual External Audit reports and inspection reports carried out by external agencies as appropriate and at the request of the Committee. ✓
- xviii) To review the management response to audit and regulatory recommendations and progress on implementation of recommendations ✓
- xix) To recommend action where audit and regulatory recommendations are not being implemented ✓
- xx) To monitor on a regular basis the Council's approach to tackling fraud and corruption and promote an anti-fraud culture ✓
- xxi) To consider the appointment of co-opted members and review the adequacy of meeting frequencies in response to the Committee's remit ✓
- xxii) To appoint and maintain appropriate Lead Members from the Committee to monitor, review and update on specific areas of the Committee's remit.* *Lead members no longer in place*
- xxiii) Promoting and maintaining high standards of conduct by Councilors, co-opted members and "church" and parent governor representatives. ✓

- xxiv) Assisting Councillors, co-opted members and “church” and parent governor representatives to observe the Members’ Code of Conduct.✓
- xxv) Advising the Council on the adoption or revision of the Members’ Code of Conduct.✓
- xxvi) Monitoring the operation of the Members’ Code of Conduct.✓
- xxvii) Developing and recommending local protocols to the Council to supplement the Members’ Code of Conduct.✓
- xxviii) Enforcing local protocols and applying sanctions in respect of breaches as appropriate.✓
- xxix) Advising, training or arranging to train Councillors, co-opted members and “church” and parent governor representatives on matters relating to the Members’ Code of Conduct.✓
- xxx) Granting dispensations to Councillors, co-opted members and “church” and parent governor representatives from requirements relating to interests set out in the Members’ Code of Conduct.✓
- xxxi) To keep under review and amend, as appropriate, the Protocol on Councillor/Officer Relations.✓
- xxxii) To keep under review the Officer Code of Conduct and, after consultation with unions representing staff, make recommendations to Council for amendment or addition.✓
- xxxiii) To receive reports and keep a general overview of probity matters arising from ombudsman investigations, Monitoring Officer reports, reports of the Chief Financial Officer and Audit Commission.✓
- xxxiv) To have oversight of the Council’s Whistleblowing Policy.✓
- xxxv) To agree the policy for decisions on payments to those adversely affected by Council maladministration (under section 92 Local Government Act 2000).✓
- xxxvi) To establish sub-committees and working groups to deal with complaints that a member or a co-opted member has failed to comply with the Council’s Code of Conduct.✓
- xxxvii) To consider any application received from any officer of the Authority for exemption from political restriction under Sections 1 and 2 of the Local Government and Housing Act 1989 in respect of the post held by that officer and may direct the Authority that the post shall not be considered to be a politically restricted post and that the post be removed from the list maintained by the Authority under Section 2(2) of that Act.✓

- xxxviii) Upon the application of any person or otherwise, consider whether a post should be included in the list maintained by the Authority under Section 2(2) of the 1989 Act, and may direct the Authority to include a post in that list. ✓
- xxxix) On referral from the Monitoring Officer, to decide whether to take action against a member for breach of the Code of Conduct and if so, to decide what action should be taken. ✓

Membership rules:

- i. An Elected Mayor or the Leader may not be Members; ✓
- ii. The Chair of the Committee must not be a Member of the Executive; ✓
- iii. Only one member of the Executive can be a member of the Committee. * *No longer considered good practice to have a member of the Executive as a member of the committee.*
- iv. The Independent Persons are not members of GARMS and shall be invited to meetings if there is a Standards item on the agenda. ✓

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE

1. Statement of purpose

- 1.1 The Governance, Audit, Risk Management and Standards Committee is a key component of Harrow Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 1.2 The purpose of the committee is to provide independent assurance to the members of the adequacy of Harrow Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place. It also acts as the Standards Committee.
- 1.3 The Governance, Audit, Risk Management and Standards Committee has the following powers and duties:

2. Governance

- 2.1 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 2.2 To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances and legal and financial advice, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 2.3 To monitor the progress of agreed actions to close significant governance gaps.
- 2.4 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 2.5 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 2.6 To review the governance and assurance arrangements for significant partnerships.

3. Risk Management

- 3.1 To review the Council's risk management strategy.
- 3.2 To monitor the effective development and operation of risk management in the council via the review of the Council's Corporate Risk Register on a regular basis.

- 3.3 To monitor progress in addressing risk-related issues reported to the committee.

4. Countering Fraud and Corruption

- 4.1 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 4.2 To monitor the counter-fraud strategy, actions and resources and the Council's approach to tackling fraud and corruption and promote an anti-fraud culture.
- 4.3 To review and approve the annual Corporate Anti-Fraud Team Plan.
- 4.4 To consider reports from the Head of Internal Audit/ Corporate Anti-Fraud Manager on the Corporate Anti-Fraud Team's performance at mid-year and at year-end.

5. Internal audit

- 5.1 To approve the internal audit charter and support the independence of Internal Audit.
- 5.2 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 5.3 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 5.4 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 5.5 To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- 5.6 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit.
- 5.7 To approve and periodically review safeguards to limit such impairments.

- 5.8 To consider reports from the Head of Internal Audit on internal audit's performance at mid-year and year-end, including the performance of external providers of internal audit services.¹
- 5.9 To consider Red and Red/Amber assurance reports and summaries of specific internal audit reports as requested.
- 5.10 To contribute to the Quality Assurance Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 5.11 To consider the report on the effectiveness of internal audit contained within the AGS.
- 5.12 To provide free and unfettered access to the GARMS Committee Chair for the Head of Internal Audit, including the opportunity for a private meeting with the committee.

6. External audit

- 6.1 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA).
- 6.2 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 6.3 To consider specific reports as agreed with the external auditor.
- 6.4 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 6.5 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

¹ These will include:

- a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- b) annual report on the results of the internal audit Quality Assurance Improvement Programme (QAIP)
- c) statement of the level of conformance with the Public Sector Internal Audit Standards (PSIAS) and reports on instances where the internal audit function does not conform to the PSIAS, considering whether the non-conformance is significant enough that it must be included in the AGS.
- d) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- e) the level of management response to internal audit recommendations and progress on implementation of recommendations and to recommend action where internal audit recommendations are not being implemented.
- f) the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

- 6.6 To scrutinise/comment on the External Audit plan and fees.
- 6.7 To monitor progress against the External Audit plan and receive summaries of audit work completed and key recommendations.
- 6.8 To review the management response to external audit recommendations and progress on implementation of recommendations.
- 6.9 To recommend action where external audit recommendations are not being implemented.

7. Financial reporting

- 7.1 To review the annual statement of accounts prior to approval and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Specifically to:
- review the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
 - review whether the narrative report is readable and understandable by a lay person
 - review the key messages from each of the financial statements and evaluating what that means for the authority in future years
 - monitor trends and review for consistency with what is known about financial performance over the course of the year
 - review the suitability of accounting policies and treatments
 - seek explanations for changes in accounting policies and treatments
 - review major judgemental areas, eg provisions or reserves
 - seek assurances that preparations are in place to facilitate the external audit.
- 7.2 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

8. Treasury Management

- 8.1 To review the Treasury Management strategy and monitor progress on treasury management in accordance with CIPFA codes of practice.

9. Health & Safety

- 9.1 To review the Council's Health and Safety arrangements and oversee progress on Health and Safety.

10. Accountability arrangements

- 10.1 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control

frameworks, financial reporting arrangements, and internal and external audit functions.

- 10.2 To report to full council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 10.3 To publish an annual report on the work of the committee.

11. Standards

- 11.1 Promoting and maintaining high standards of conduct by Councillors, co-opted members and "church" and parent governor representatives.
- 11.2 Assisting Councillors, co-opted members and "church" and parent governor representatives to observe the Members' Code of Conduct.
- 11.3 Advising the Council on the adoption or revision of the Members' Code of Conduct.
- 11.4 Monitoring the operation of the Members' Code of Conduct.
- 11.5 Developing and recommending local protocols to the Council to supplement the Members' Code of Conduct.
- 11.6 Enforcing local protocols and applying sanctions in respect of breaches as appropriate.
- 11.7 Advising, training or arranging to train Councillors, co-opted members and "church" and parent governor representatives on matters relating to the Members' Code of Conduct.
- 11.8 Granting dispensations to Councillors, co-opted members and "church" and parent governor representatives from requirements relating to interests set out in the Members' Code of Conduct.
- 11.9 To keep under review and amend, as appropriate, the Protocol on Councillor/Officer Relations.
- 11.10 To keep under review the Officer Code of Conduct and, after consultation with unions representing staff, make recommendations to Council for amendment or addition.
- 11.12 To receive reports and keep a general overview of probity matters arising from ombudsman investigations, Monitoring Officer reports, reports of the Chief Financial Officer and Audit Commission.
- 11.13 To have oversight of the Council's Whistleblowing Policy.
- 11.14 To agree the policy for decisions on payments to those adversely affected by Council maladministration (under section 92 Local Government Act 2000).

- 11.15 To establish sub-committees and working groups to deal with complaints that a member or a co-opted member has failed to comply with the Council's Code of Conduct.
- 11.16 To consider any application received from any officer of the Authority for exemption from political restriction under Sections 1 and 2 of the Local Government and Housing Act 1989 in respect of the post held by that officer and may direct the Authority that the post shall not be considered to be a politically restricted post and that the post be removed from the list maintained by the Authority under Section 2(2) of that Act.
- 11.17 Upon the application of any person or otherwise, consider whether a post should be included in the list maintained by the Authority under Section 2(2) of the 1989 Act, and may direct the Authority to include a post in that list.
- 11.18 On referral from the Monitoring Officer, to decide whether to take action against a member for breach of the Code of Conduct and if so, to decide what action should be taken.

12. Membership rules:

- 12.1 An Elected Mayor, the Leader or a member of the Executive may not be Members;
- 12.2 The Chair of the Committee must not be a Member of the Executive;
- 12.3 The appointment of co-opted/independent members can be considered;
- 12.4 The Independent Persons are not members of GARMS and shall be invited to meetings only if there is a Standards item on the agenda.

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