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Queen Victoria Road
High Wycombe
Bucks HP11 1BB

Audit Committee

Date: 25 January 2018
Time: 7.00 pm
Venue: Committee Room 1
District Council Offices, Queen Victoria Road, High Wycombe Bucks

Membership
Chairman: Councillor M C Appleyard
Vice Chairman: Councillor R J Scott

Councillors: G C Hall, M Hanif, A Lee, Ms C J Oliver, N J B Teesdale and R Wilson

Standing Deputies
Councillors P R Turner, D A C Shakespeare OBE, C Whitehead and K Ahmed

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Agenda

Item **Page**

1 **Apologies for Absence**

To receive any apologies for absence.

2 **Minutes** 1 - 3

To confirm the minutes of the meeting held on 16 November 2017.

3 **Declarations of Interest**

To receive any disclosure of disclosable pecuniary interests by Members relating to items on the agenda. If any Member is uncertain as to whether an interest should be disclosed, he or she is asked if possible to contact the District Solicitor prior to the meeting.

Members are reminded that if they are declaring an interest, they should state the nature of that interest whether or not they are required to withdraw from the meeting.

For further information, please contact Jemma Durkan on 01494 421635, committeeservices@wycombe.gov.uk

Audit Committee Minutes

Date: 16 November 2017

Time: 7.00 - 7.22 pm

PRESENT: Councillor M C Appleyard (in the Chair)

Councillors G C Hall, A Lee, Ms C J Oliver, R J Scott and N J B Teesdale,
Also present: (External Auditor, Ernst & Young)

26 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Wilson.

27 MINUTES

RESOLVED: That the minutes of meeting held on the 21 September 2017 be confirmed as a correct record and signed by the Chairman.

28 DECLARATIONS OF INTEREST

There were no declarations of interest.

29 2017/18 SERVICE PERFORMANCE: Q2 (JULY – SEPTEMBER)

The Committee were provided with an update on a selection of the corporate performance measures for Q2 (July – September).

It was reported that of the 42 performance measures reported by the Council a majority were within target with three off target. It was noted that these performance measures were not part of the selection reported regularly to the Audit Committee.

The follow issues were highlighted:

- **Average time for processing new HB / CTB claims (days)** – There had been a drop in performance due to a combination of sickness and inability of contractors to provide processing resources on demand.

- **Achieve 100% cost recovery of work that attracts a charge** – There was a slight backlog in invoicing for inspection fees, however year end outturn was within budget.

- **Percentage of fee earning BC work carried out in-house –** There tends to be a market share fluctuation through the year. The team are also working to benchmark with neighbouring authorities to determine whether it is an isolated or more widespread issue and therefore determine what action is best taken. Currently awaiting benchmark data from neighbouring authorities.

It was noted that recruitment was a council wide issue and the Personnel Committee considered staff salary bands.

RESOLVED: That the 2017/18 Services Performance Q2 (July – September) be noted.

30 BUSINESS ASSURANCE MANAGER'S HALF YEARLY REPORT

The Business Assurance Manager presented his progress update of the Audit, Risk and Fraud Division for the first six months of the 2017/18 financial year.

It was reported that the number of audits that had been undertaken to date was low due to a reduced audit programme and the scheduling of core financial reviews. Two reviews had been completed, Parking Services and Commercial Leases, and it was noted that no issues had been identified. The reports were due to be published in the near future.

It was noted that following the re-fresh of the Corporate Plan the content of the Strategic Risk Register may need to restructured.

The Committee were informed that the Corporate Investigations Team overall had a decrease in the number of referrals, however the number of investigations had increased due to the better quality of referrals presented. The fewer cases had enabled the Corporate Investigations Team to engage in Member and staff training and awareness of fraud.

The Committee noted that overpayments of £11,270 of Council Tax Reduction and Discretionary Housing Payments had been identified. Also that £5,167 of Council Tax Single Person discounts to which there were no valid eligibility had also been identified. The Committee congratulated the team for this work and suggested that these achievements be publicised. It was noted successful prosecutions were publicised in the Wycombe District Times magazine. The Committee also requested that the amount of investigations involved be indicated in a future reports.

In response to a query it was confirmed that with regards to helping detect and prevent tenancy fraud partnership working had been offered by the Business Assurance Manager to Red Kite Housing, however this offer had not been accepted. The Committee were concerned that Red Kite was not adequately dealing with issues regarding tenancy fraud. The Chairman confirmed that he would write a letter to the Chief Executive of Wycombe District Council regarding the matter and this would be discussed at the next meeting.

RESOLVED: That the Business Assurance Manager's Half-Yearly Report for the period ending 30 September 2017 be noted.

31 TREASURY MANAGEMENT MID-YEAR REPORT 2017/18

The Committee considered the Treasury Management mid-year report, covering the period 1 April to 30 September 2017.

Members noted that the treasury investments were earning an average rate of return at 0.64% which provided a greater return than the current Libor rate.

It was reported that on one occasion the Council exceeded it £4m limit with its banking provider Natwest Plc. This was due to an unexpected payment late in the day and investments were brought within the approved limited with Natwest at the first available opportunity.

It was noted that the Council was considering a £7.500m investment in the CCLA Property Fund, the forecast yield for the fund was estimated to be around 4.0%. The Committee also noted that the Council had complied with the prudential indicators.

RESOLVED: That the Treasury Management mid-year report for the period 1 April to 30 September 2017 be noted.

32 AUDIT COMMITTEE WORK PROGRAMME

The Audit Committee work programme as appended to the agenda was reviewed by the Committee. The Committee noted and agreed the future meeting dates.

RESOLVED: That the forward work programme be noted.

33 INFORMATION SHEETS

RESOLVED: That the following Information Sheets be noted.

i) 03-2017 Health & Safety 2017-18 – mid-year progress report.

ii) 04-2017 Update on the Local code of Governance Action Plan.

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Chairman

The following officers were in attendance at the meeting:

Jemma Durkan - Senior Democratic Services Officer

Mike Howard - Business Assurance Manager

Certification of grants and claims

Officer contact: Andy Green

Tel: 01494 421001
email: andy.green@wycombe.gov.uk

Wards affected: All

PROPOSED DECISION

That the Certification of Claims and Returns Annual Report 2016-17 be noted.

Corporate Implications

1. The audit fee for this work has been budgeted for within the cost of corporate management in 2017/18

Executive Summary

2. The Annual Report covering the work of the External Audit team in assessing the Council's various statutory grant claims is attached at Appendix 1.

3. Context is given to the work of the benefit section, and outlines plans in place to maximise future subsidy payments

4. There are no recommendations for action in the report.

Sustainable Community Strategy/Council Priorities – Implications

5. None

Background and Issues

6. The outcome from the 2016/17 audit shows improvement from last year. The value of errors found was £1,387 (0.003% total expenditure) out of the total subsidy claim for £46m.

7. A Threshold is set by DWP which, if exceeded means the amount of subsidy is reduced. The threshold takes two factors into account:

   (a) Admin delay which occurs when a LA does not process claims as quickly as DWP would like. This which represents approximately 54% of the overall total for WDC in 2016/17; and

   (b) LA error is where the Council incorrectly overpays benefit, for example where income on a claim is input incorrectly.

8. Although in overall terms the value of the errors is exceedingly small, audit certification guidelines require auditors to "extrapolate" the value of the errors. The extrapolation process increases the likelihood that the maximum subsidy amount is not achieved. In this latest audit this £1,387 (0.003% total claim) resulted in an extrapolated value of £56,174. This year the extrapolated value has tipped Wycombe over the DWP threshold of £241,297. The DWP will determine the precise amount of the reduction but this is expected to be around £254,000 against the overall grant claim of £46m. Reductions in subsidy are

offset against past years surpluses through an appropriation fund specifically set up for this eventuality. This fund is currently in surplus (£1.3m). An element of the shortfall will also be recovered over time through the usual recovery processes that are in place for housing benefit overpayments.

9. There may be a possibility that further checking on the calculations of a sample of the data for 2016/17 could reduce the LA error figure below the threshold. An assessment of the cost effectiveness and likelihood of success is currently in progress.

10. Despite the fact that maximum subsidy has not been achieved in administrative terms the small number of errors found in this audit underlines the actions taken to date to minimise the risk of administrative errors. The Checking officer is identifying and correcting errors at an early stage and in so doing minimises the risk of costly extrapolations. Appropriate actions are taken to prevent further errors. The DWP Performance and Development Team (PDT) were also invited in during 2017 for an independent review of processes in place. The PDT were confident with the processes in place and made no recommendations for procedural change

11. There are risks in future years. These include lack of processing resources (in the current year even external providers have been unable to provide resources on demand) & IT issues that prevent processing – both of which have had an impact during 2017/18. IT issues are being addressed corporately. Resilience is a national issue with the backdrop of reductions in funding and increased workloads. With this in mind opportunities for a LA partnership are currently being explored as this may deliver the wider resource pool needed.

12. **Summary of risk for future subsidy claims:**

Issue	**Risk**	**Details/Actions**	**Timescale**
1. Availability of resources to minimise Admin delay	H	Mixed economy comprising: External support from LGSS (3 FTE) Extra market support for peaks to be extended Upskilling revenues staff Review wider partnership working	In place In place January 2018 October 2018 July 2018
2. LA errors	M	Checking officer to identify & minimise errors Follow up actions as required	In place In place
3. IT systems	M	Prompt reporting of issues Corporate management of IT support	In place In place
4. DWP changes to Housing Benefit	H	Resource availability essential to manages changes & implement and test software	Linked to 1. above
5. Universal credit live rollout (Sept '18)	H	This will increase workloads and adversely affect WDC's council tax reduction (CTR) scheme. Consider review & simplification of Council Tax Reduction scheme 1/4/19	Linked to 1 above November 2018

Background Papers

13. Grant claims are held within Financial Services.

Certification of claims and returns annual report 2016-17

Wycombe District Council

6 December 2017

Ernst & Young LLP

Building a better working world

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Audit Committee
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HP11 1BB

Direct line: **07769 932604**
Email: MGrindley@**uk.ey.com**

Dear Members

Certification of claims and returns annual report 2016-17 Wycombe District Council

We are pleased to report on our certification work on Wycombe District Council's 2016-17 claims, which we summarise here.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the main findings.

We checked and certified the housing benefits subsidy claim with a total value of £46,161,130. We met the submission deadline. We issued a qualification letter; details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had no effect on the grant due.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee on 25 January 2018.

We would like to thank the Council’s officers, especially Housing Benefits staff, for their help. The certification process requires considerable input from them to be carried out efficiently and we are most grateful for their professionalism and assistance.

Yours faithfully

Maria Grindley
Associate Partner
Ernst & Young LLP
Enc

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£46,161,130
Amended/Not amended	Amended – no impact
Qualification letter	Yes
Fee – 2016-17 Fee – 2015-16	£29,145 £16,833

Recommendations from 2015-16	None

Findings in 2016-17

Non-HRA rebate cases:

1 case where eligible services had been omitted. As this error could only result in underpayments, no further work was carried out.

1 case with overstatement of eligible rent. However the Council had already corrected this for 2017/18.

1 case where ESA benefit had been overpaid by 2 days. We were unable to do further specific work on this as the system does not allow interrogation for this parameter: however we found no other cases in our other further testing.

2 cases where benefit was overpaid as a result of miscalculating earnings. The Council carried out a 100% check of all other relevant cases and amended the claim for them.

Rent allowance cases:

We found no errors in our initial testing.

However the Department for Work and Pensions (DWP) require us to test in areas where there were errors in the previous year. We therefore selected additional samples of 40 in the following areas: miscalculation of earned income, self- employed earnings, occupational pensions, and non-dependants, and misclassification of errors.

We used a smaller sample of 20, as allowed by DWP, for tax credits: this was because testing in 2015-16 was done on the basis of 2014-15 findings, and there were no errors of this type in the initial 2105-16 testing.

Earnings, self-employed income, occupational pension and eligible overpayment misclassification also gave rise to errors in 2014-15, as well as in 2015-16.

Modified schemes:

We identified no issues in this area and there was no impact on the claim.

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years' claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP will decide whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Testing of the initial sample and 40+ identified (2016-17):

Incorrect employed earnings calculation

Initial testing identified no errors, but there was a prior year qualification for this type of error, so the Council was required to complete testing in line with DWP requirements.

Testing the additional sample of 40 cases identified:

- 8 cases where the Council had overpaid benefit as a result of incorrectly assessing and inputting earned income.
- 4 cases where the Council underpaid benefit as a result of incorrectly assessing earned income.

Incorrect assessment of occupational pension

Initial testing identified no errors, but there was a prior year qualification for this type of error, so the Council was required to complete testing in line with DWP requirements.

Testing the additional sample of 40 cases identified:

- 5 cases where the Council had overpaid benefit as a result of incorrectly inputting/failing to update increased occupational pension amounts
- 1 case where the Council had underpaid benefit because of a duplicated deduction of pension where the applicant had changed pension provider.

Incorrect assessment of self-employed earnings

Initial testing identified no errors, but there was a prior year qualification for this type of error, so the Council was required to complete testing in line with DWP requirements.

Testing the additional sample of 40 cases identified:

- 4 cases where the Council had overpaid benefit as a result of incorrectly assessing/inputting self-employed earnings
- 4 cases where the Council had underpaid benefit as a result of incorrectly assessing/inputting self-employed earnings

These errors were also found in 2014-15.

Incorrect classification of eligible overpayments

Initial testing identified no errors, but there was a prior year qualification in both 2015-16 and 2014-15 for this type of error, so the Council was required to complete testing in line with DWP requirements.

Testing the additional sample of 40 cases identified one case where benefit was underpaid.

Incorrect assessment of non-dependants

Initial testing identified no errors, but there was a prior year qualification for this type of error, so the Council was required to complete testing in line with DWP requirements.

Testing the additional sample of 40 cases identified:

- 1 case where the Council had overpaid benefit as a result of incorrectly assessing non-dependants
- 1 case where the Council had underpaid benefit as a result of incorrectly assessing non-dependants.

Upper threshold for total local Council error and administrative delay overpayments

The Council currently receives 100% subsidy for “Local Council error and administrative delay” overpayments (total value of £197,536 on the 2016-17 claim). If the DWP choose to apply the extrapolations arising from the errors identified above (total extrapolated value £56,174), the Council would breach the upper threshold set for total “local Council error and administrative delay” overpayments of £241,307. In this event, the Council loses all subsidy for this type of overpayment, i.e. the amount of subsidy previously received would be repayable to the DWP.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	29,145	29,145	16,833

No changes to the 2016-17 fees are being proposed.

The fee level is set by referring to the actual fee for two years previously, adjusted for the 25% "discount" arising from the last of the savings made through the final Audit Commission regime negotiations. The base set for 2016-17 is therefore based on the fee for 2014-15, when we charged an additional fee for extra work required.

We do not need to charge extra fee in the current year

3. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £16,833. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address: https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

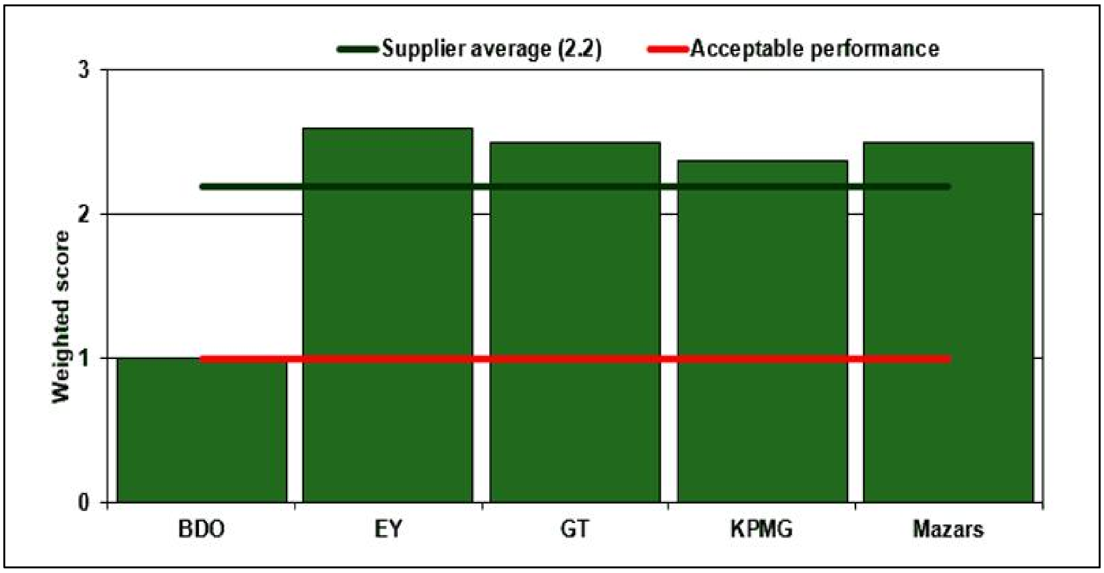
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Finance and Commercial before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you and can provide a competitive quotation.

We currently provide HB subsidy certification to 106 clients through our specialist Government & Public Sector team. We provide a high quality service and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we scored the highest of all providers, with an average score of 2.6 (out of 3).



As we also expect PSAA to appoint us your statutory auditor in December 2017, we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

Ernst & Young Annual Audit Planning Report

Officer contact: Dave Skinner Email : Dave.Skinner@wycombe.gov.uk

Wards affected: ALL

PROPOSED DECISION
To receive and comment on the Annual Audit Plan from our external auditors Ernst and Young LLP.

Reason for Decision
The report provides the Committee with the opportunity to see the work planned by the external auditors for the 2017/18 final accounts.

Corporate Implications
1. There are no direct financial implications arising from this report. The Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budgets.

Executive Summary
2. To note the content of the Annual Audit Plan for the financial year 2017/18.

Sustainable Community Strategy/Council Priorities – Implications
3. None

Background and Issues
4. The Accounts Audit Plan provides the Council with clarity about how the external audit of the accounts for 2017/18 will be conducted. The audit planning report sets out the following:-
    a. Estimated overall planning materiality is £1.7m for General Fund;
    b. Impact on the Council's Statement of Accounts resulting from the developments in financial reporting standards;
    c. Scope of audit work and approach;
    d. Significant audit risks as summarised below:-
        i. Management override;
        ii. Revenue and Expenditure recognition
        iii. Valuation of properties; and
        iv. Valuation of pension liability.
    e. Value for Money;
    f. Audit Timetable and Fees.

Options
5. None

Conclusions
6. The Annual Audit Plan sets out the audit work for the financial statements for 2017/18.

Wycombe District Council

Audit planning report

Year ended 31 March 2018

25 Jan 2018

EY

Building a better working world

Private and Confidential

25 January 2018

Councillor Mike Appleyard
Audit Committee Chairman
Queen Victoria Road,
High Wycombe, HP11 1BB

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 25 January 2018, as well as to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley

For and on behalf of Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Wycombe District Council in accordance with the statement of responsibilities. Our work has been done in order to tell the Audit Committee, and management of Wycombe District Council, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Wycombe District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud due to management override	Fraud risk	No change: this is required on all audits	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue & expenditure recognition	Fraud risk	No change: this is required on all audits	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
PPE – Valuations	Other area of audit focus Inherent Risk	This risk was identified in the prior year.	Findings raised by the FRC's Audit Quality Review team in their report on their inspection findings in the prior year for the firm found PPE valuation of land and buildings included in the financial statements is complex and often includes a number of assumptions and judgements and that enhanced procedures are required to challenge and evaluate key assumptions.
IAS19 – Pension Accounting	Other area of audit focus Inherent Risk	This risk was identified in the prior year.	The Local Authority Accounting Code of Practice and IAS19 require Wycombe DC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Buckinghamshire County Council. The CC's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the balance sheet.

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Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Materiality- Wycombe District Council

Materiality

Planning materiality
£1.7m

Materiality has been set at £1.7m, which represents 2% of the prior year's gross expenditure on provision of services.

Performance materiality
£1.2m

Performance materiality has been set at £1.2m, which represents 75% of materiality.

Audit differences
£83k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £83k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Wycombe District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO) on the Council's Whole of Government Accounts return, to the extent and in the form required by them.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

02 Audit risks

Our response to significant risks

Risk of fraud due to management override

What is the risk?	What will we do?
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	• Identify fraud risks during the planning stages; • Ask management about risks of fraud and the controls put in place to address those risks; • Understand the oversight given by those charged with governance of management's processes over fraud; • Consider the effectiveness of management's controls designed to address the risk of fraud; • Determine an appropriate strategy to address those identified risks of fraud; and • Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Risk of fraud in revenue & expenditure recognition

What is the risk?	What will we do?
Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	• Review and test revenue and expenditure recognition policies; • Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias; • Develop a testing strategy to test material revenue and expenditure streams; • Review and test revenue cut-off at the period end date; • Review in-year financial projections and comparing them to year-end position; and • Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents significant balances in the Council's accounts and is subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: • Consider any work performed by the Council's internal valuers and external valuers, (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre); • Consider using our valuation experts if necessary to gain the required assurance; • Consider the annual cycle of valuations to ensure that assets have been valued within a five-year rolling programme as required by the Code for PPE, and annually for IP. We also consider if there are any specific changes to assets communicated to the valuer; • Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test accounting entries have been correctly processed in the financial statements,

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Audit risks

Other areas of audit focus (continued)

We have identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Asset Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Council’s pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council’s balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary Barnett Waddingham. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Undertake IAS19 protocol procedures assisted by the pension fund audit team to obtain assurances over the information supplied to the actuary in relation to Wycombe District Council; • Assess the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used. We do this by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors - and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council’s financial statements in relation to IAS19.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

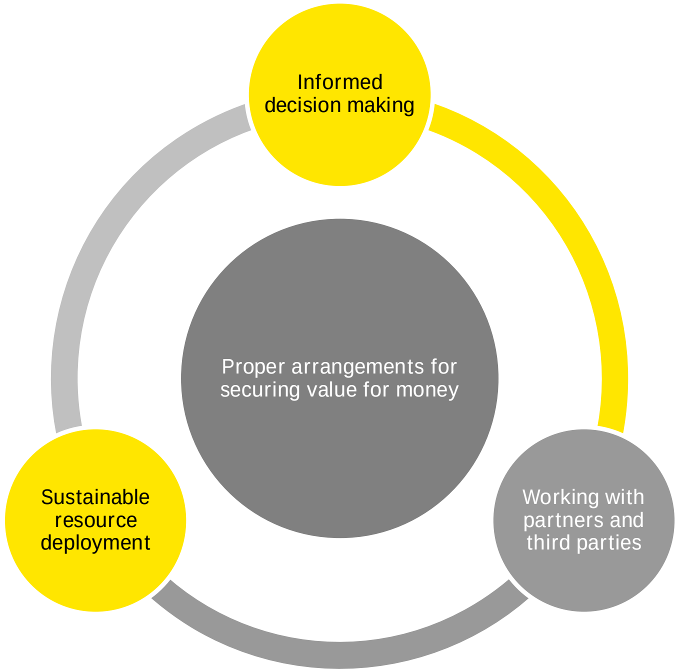
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks relevant to our value for money conclusion.



04 Audit materiality

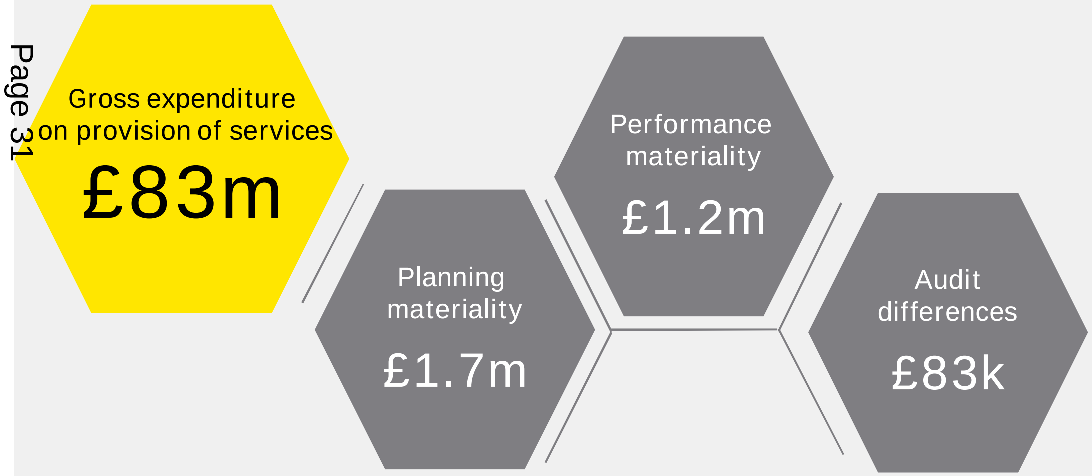
Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.7m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process.

The rationale for this is that for a public sector entity, the expectations of users (including regulators) of the entity are focused on the measurement of expenditure and cost of services. Therefore gross expenditure is the appropriate basis for determining materiality for public sector bodies.

We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.2m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Scope of our audit

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test Key controls:

- Accounts Payables

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will meet the Head of Internal Audit regularly, and review internal audit plans and the results of IA’s work. We will reflect relevant findings from these reports (together with reports from any other work completed in the year) in our detailed audit plan, where they raise issues that could have an impact on the financial statements.
We do not intend to place direct reliance on the work of internal audit for testing controls.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes are set out below. We provide scope details for each component-

Higginson Park Charity- The Council is sole trustee of Higginson Park Charity and the assets are required to be recognised within a set of group accounts.

The component is not significant by size or risk; it has been designated as a “not significant” component. Our assessment has determined that the not significant component cannot include risks of material misstatement to the group financial statements because it represents a relatively small contribution to the group financial statements. We have therefore excluded this component from our audit scope

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 4% of the Group’s Gross Expenditure

06 Audit team

Audit team

Audit team structure:

Maria Grindley
Associate Partner

Sue Gill
Manager

Preeti Malik
Audit Senior

Pension specialists	Property Valuation specialists
EY Actuaries	EY Property Valuation Team

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* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

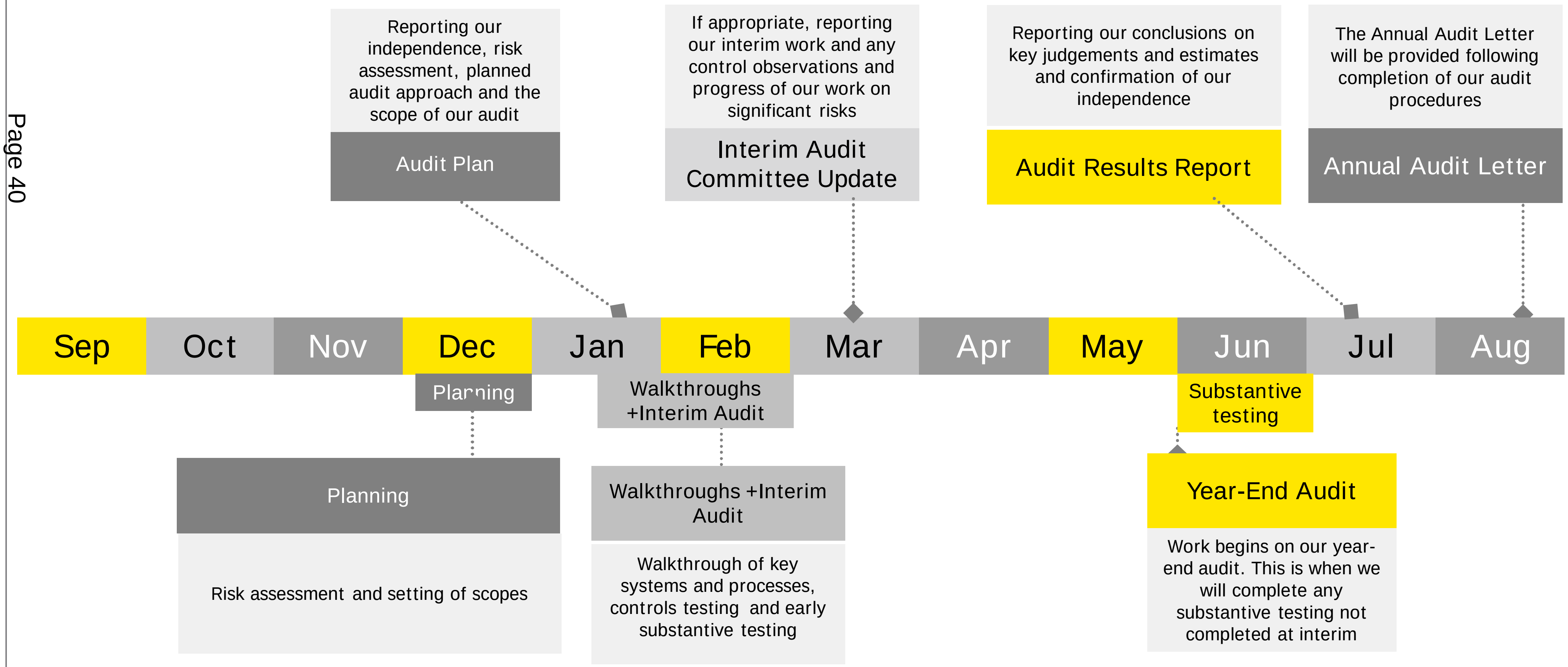
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chairman as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate promptly with the Committee on all significant facts and matters that have a bearing upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure that we make full and fair disclosure to those charged with the Council's governance on matters in which it has an interest.

Required communications	
Planning stage	**Final stage**
► Any principal threats to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the Council and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence. ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	► In order for you to assess the integrity, objectivity and independence of the firm and your audit team, we must provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged for them; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between FRC Ethical Standard and the Council's policy for the supply of non-audit services by EY, and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us; and ► An opportunity to discuss auditor independence issues.

During the audit, we must also communicate with the Committee whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards, e.g. when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services contracted, and details of any written proposal to provide non-audit services submitted;

We ensure that the total amount of fees that EY has charged to the Council for the provision of services during the reporting period are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment
Overall, we consider that the safeguards adopted appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self-interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that the Council has approved.

None of the services are prohibited under the FRC's ES or the National Audit Office’s Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit to audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit to audit fees is approximately 0%. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to the Council, in compliance with Ethical Standard part 4.

There are no other self-interest threats at this date.

Relationships, services and related threats and safeguards

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at this date.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at this date.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no such threats at this date.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Indicative fee 2017/18	Actual fee 2016/17	Actual Fee 2015/16
	£	£	£
Total Fee – Code work	61,936	61,936	61,936
Total audit	61,936	61,936	61,936
Certification work on Housing Benefits	TBC	29,145	16,833
Total other and non-audit services	0	29,145	16,833
Total fees	0	91,081	78,769

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ► Officers meet the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion is unqualified;
- ► The Council provides appropriate quality documentation; and
- ► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report
Fraud	• Results of asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report
Related parties	• Significant matters arising during the audit in connection with the Council's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's objectivity and independence, including all individuals involved in the audit, Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Asking the Audit Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Annual audit letter/audit results report

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Group audits	• An overview of the type of work to be performed on the financial information of the components	Audit planning report Audit results report
Representations	Written representations from management and those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report/ Audit results report
Certification work	Summary of certification work	Certification report

Appendix C

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we must perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards Page 52	• Identifying and assessing the risks of material misstatement of the financial statements, whether from fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal controls. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence on the Council's financial information or business activities to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, reviewing that Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

To determine whether the financial statements are free from material error, we define materiality as the size of any omission or misstatement that, individually or added together, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with the Committee its expectations on our approach to this.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may be different from our initial planning. At this stage we cannot anticipate all the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by considering all matters that could be significant to users of the accounts, including the total effect of any identified audit misstatements, and our evaluation of materiality at that date.

Scoping the group audit

We have considered the significance of the components identified to the group as a whole, and we have concluded that the components (as per FY 16/17) values are not significant to the group, and that the risk of material misstatement is low given the amount of intra-group transactions and balances which are eliminated on consolidation. As these components represent a small portion of the group, they are not expected to present a risk of material misstatement of the group financial statements. Therefore, they will not be included in the group audit scope.

Given this (and subject to no significant changes in the value of the components) our approach for 2017/18 will be to test the consolidation of the components into the group accounts, and to review the elimination of intra-group transactions and balances. The primary audit team will be able to undertake this work locally, and we are not seeking to rely on the work of the component auditor.

We will continue to review the Group position throughout the audit. It should also be noted that the approach being proposed above is consistent with that undertaken in FY 16/17.

ANNUAL REVIEW OF THE RISK MANAGEMENT POLICY

Officer contact: Michael Howard **Tel: 01494 421357**

Wards affected: All

PROPOSED DECISION

That the 2018 Risk Management Policy, as attached at Appendix A be approved.

Corporate Implications

The delivery of a Risk Management Policy forms an integral consideration to the Councils approach to governance and is an essential element of effective management.

Executive Summary

1. The management of risk is essential as it enables the Council to discharge its various functions, as a deliverer of public services, as an employer and as a custodian of public funds in a way which supports good corporate governance.

2. The Risk Policy aims to provide a comprehensive framework and associated processes that have been designed to support Management in ensuring that the Council is able to discharge its risk management responsibilities fully.

3. The Risk Policy outlines the objectives and benefits of managing risk, describes the responsibilities for risk management and provides an overview of the process that is to be followed for risk to be managed successfully.

4. The management of risk is about improving the ability to deliver strategic objectives outlined in the Councils' Corporate Plan as well as operational risks outlined in individual Service based service plans. In addition, the policy has been designed to be used as a toolkit for those involved in managing risk.

5. The most significant amendment to the Policy reflects the cessation of the internal Corporate Governance Group who previously had an oversight and reporting role in respect of the Councils' risk management arrangements. This role now resides with senior officers.

Background Papers

Wycombe District Councils' 2017 Risk Management Policy as approved by the Audit Committee in January 2017.

Risk Management Policy 2018/19

Date	December 2017.
Version	1.00
Author	Business Assurance Manager

POLICY CONTEXT

The Council's **Corporate Plan** was agreed by the Council on 22nd February 2018, setting out four priorities to 2020:

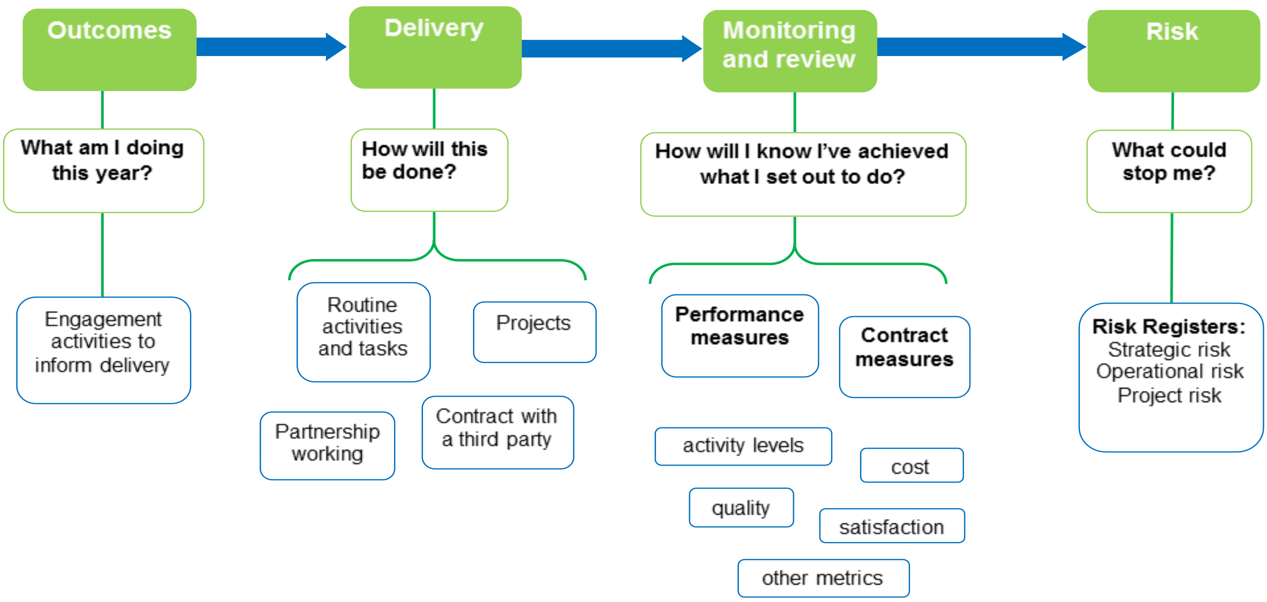
- **A great place to be:** our `place' priority.
- **Strong Communities:** our 'people' priority.
- **Growth and Prosperity:** our `prosperity' priority and
- **Efficient and Effective:** our `progress' priority

Each priority is supported by a set of ambitions. Each ambition is underpinned by a set of objectives which are delivered through specific projects and activities set out in delivery programmes. Other activities and day-to-day work also contribute to the delivery of our priorities.

In order to make the link between the Council priorities and individual service plans, a strategic risk register has been introduced. The strategic risk register captures those risks which will have an impact on the way in which our priority outcomes are to be delivered, along with those risks that have been identified from the service planning risk assessment process which are considered to be of sufficiently significant importance to warrant inclusion in the strategic risk register.

Each service area has a **service plan** that sets out the service objectives and outcomes for the year ahead, drawing down the Corporate Plan priorities, and outlines day-to-day activities, tasks and projects at a headline level. Integral to the service plan is the **operational risk register** that identifies the risks to achieving these outcomes along with controls and improvement tasks to reduce the impact or likelihood – should the risk materialise.

This is illustrated in the figure below:



RISK MANAGEMENT POLICY

Managing risk is a core component of our operational management arrangements and approach to corporate governance, ensuring that we deliver service objectives and outcomes. It involves the identification of both uncertainty and opportunities: helping us to mitigate against failure or enhance the outcomes we could achieve for our residents.

Identification of risks that could cause issues with service delivery (whether delivered directly by the Council itself or through a contract arrangement) or on project work - and taking action on this - is an everyday management activity that we often do without thinking that this is 'risk management'.

This policy sets out the 'who, what, why, when and how' of risk management at Wycombe District Council and covers the following aspects:

1 Definitions	2 Objectives	3 Scope	4 Principles	5 Scoring	6 Appetite	7 Roles and Responsibilities

The Audit Committee first endorsed and formally adopted this policy in January 2016. Strategic Management Board will ensure it is integrated into the efficient and effective running of relevant areas of the Council's responsibility.

1. DEFINITIONS

The Council defines risk as:

The impact of uncertainty on the achievement of its objectives.

Risk management is defined as:

A systematic and iterative approach to identify, assess and address risks that could stop us delivering our services and achieving our objectives'.

Risks can be categorised as:

Pure risks that can have one of two outcomes - either nothing will happen or a loss will occur and **Speculative risks** where there are three possible outcomes – nothing will happen, a loss occurs, or a gain occurs

The Council also uses the following categorisation of risk:

Strategic Risk: a significant risk which, should it materialise, will have a significant impact on the whole Council and have a material effect on the Council's reputation or financial standing. A quarterly monitoring framework is in place that provides the Strategic Management Board the opportunity to review the strategic risks that have been identified by Senior Management of the Council. This is reported half yearly reporting process to the Audit Committee.

Operational Risk: a less significant risk requiring management at an individual Service level in the Council. Operational risks are captured in the relevant operational risk register, and also reviewed when compiling the annual service plan, as this sets out the objectives and expected outcomes from which risks can be identified, assessed and managed accordingly. Where such risks are of such magnitude that they could have a significant corporate impact they will be escalated to Strategic Risk level.

Project Risk: those risks that could prevent the successful completion of an individual project e.g. lack of time, finance, human resources, quality. The Council has adopted a pragmatic and proportional approach to the use of a recognised project management methodology, which has a clearly defined process for using a project specific risk register.

Partnership Risk: Joint working and partnerships involves a range of risks, for example, financial, legal, contractual and governance risks. As a Council we need to make an assessment of the Partnership arrangement from which risk can be identified, assessed and managed as Partnerships operate within their own a defined decision making framework which does not necessarily accord with the Council's own Contract Standing Orders and Financial Regulations. Therefore there is a need for a greater understanding of their governance arrangements.

2. OBJECTIVES

The objectives of risk management are to:

- Preserve and protect the Council's assets
- Ensure strong corporate governance by integrating risk management and internal control.
- Improve business performance
- Protect and improve quality of service
- Ensure a risk aware culture in order to avoid unnecessary liabilities and costs, but to encourage the taking of calculated risks in pursuit of opportunities that benefit the organisation.
- Protect staff, contractors, and members of the public and improve their well-being

3. SCOPE

Risk management is required for all of the Council's operations, projects and partnerships.

The consideration of risks must be expressed in all decisions made.

Informed decisions in respect of policy or service delivery can only be made if the risks involved have been identified. All relevant committee reports, business cases must illustrate the key risks involved.

4. PRINCIPLES

These principles will be applied at all levels within the Council. All managers and staff must follow the risk management principles listed below:

- Members and Senior Management will foster a culture to support well-judged decisions about risks and opportunities.

- The management of risk will be integrated within existing processes, for example service planning, performance management and project management.

- Honesty and openness will be encouraged in the reporting and escalation of risks.

- The Council will strive to continually improve the management of its risks.

- Staff will be encouraged to challenge existing processes in order to identify innovative ways to better manage key risks to the delivery of objectives.

Documentary evidence of identified risks and risk management will be maintained via the use of corporate risk software, in order to support assurance and to inform the evaluation of risk management. The Council will maintain both a strategic risk register (SRR), overseen by Strategic Management Board as well as individual Service based operational risk registers (ORR), overseen by the respective Head of Service to ensure that:
.

- Risk registers will be kept under continuous review, to determine what, if any, risks and opportunities have "dropped off" and no longer apply and, more importantly, to identify new risks which have manifested themselves.

- Clear roles will be agreed relating to the accountability, management, escalation and communication of key risks.

5. SCORING RISK

The scoring matrix on the following page is used to define the severity of individual risks relative to the **impact** and **probability** (likelihood) score, with low risks (green) scoring between 2 – 5, medium risks (blue) 6-10 and high risks (red) ranging from 12 – 25.

When determining the impact of a risk the following three **impact categories** are also given consideration, although not all may be applicable for some risks:

- Financial cost
- Disruption to services
- Reputation

The scoring matrix is used to undertake the initial risk scoring exercise, which is then refined as part of the compilation of individual risk registers which reflect the application of internal controls and mitigating actions, all of which seek to reduce the level of risk exposure.

Risk Score Matrix

					Probability				
					1 Rare	2 Possible	3 Likely	4 Very Likely	5 Almost Certain
		Financial	**Disruption**	**Reputation**	**10%** Remote	**30%** Unlikely to happen	**50%** May happen	**70%** Likely to occur	**90%** Certain to occur
Impact	**5** **Very High**	Over £500,000	Five or more days Death(s)	Adverse / persistent national and local publicity Removal of powers Officers / Members resign	Score: **5**	Score: **10**	Score: **15**	Score: **20**	Score: **25**
	4 **High**	£250,000 - £499,999	Four days Serious injury or illness	Adverse and persistent national publicity Major and persistent adverse local publicity Audit intervention	Score: **4**	Score: **8**	Score: **12**	Score: **16**	Score: **20**
	3 **Medium**	£100,000 - £249,999	Three days	Adverse national publicity Major and persistent adverse local publicity	Score: **3**	Score: **6**	Score: **9**	Score: **12**	Score: **15**
	2 **Low**	£25,000 - £99,999	Two days	Adverse local publicity Multiple complaints	Score: **2**	Score: **4**	Score: **6**	Score: **8**	Score: **10**
	1 **Very Low**	Under £25,000	Minor - up to a day	Contained within service Individual complaints No press interest	Score: **1**	Score: **2**	Score: **3**	Score: **4**	Score: **5**

RISK APPETITE

Risk is unavoidable and the Council does take action to manage risk in a way which it can justify to a level which is tolerable. The amount of risk which is judged to be tolerable and justifiable is also known as **risk appetite**. Risk appetite indicates the organisation's tolerance for exposure to risk.

Our approach to risk taking will be dependent upon the nature of the risk. Particular care is needed in taking action that could:

- Impact on the reputation of the Council
- Impact on performance
- Results in censure/fines by regulatory bodies
- Results in financial loss

However, in other areas we support a measured approach to risk taking against a background of encouraging innovation where there is a good chance that significant business or financial benefits will result.

6. ROLES AND RESPONSIBILITIES

Everyone has a responsibility for managing risk. All Members and Officers have a responsibility for maintaining good internal control and managing risk in order to achieve corporate, service, team and individual objectives as set out in our service plans and ambitions in our Corporate Plan.

Specific **responsibilities** and **accountabilities** are also required of the following individuals and groups:

Cabinet, Cabinet Members and Committee Chairman to have an understanding of the processes involved in the management of risk and that due consideration is given to applying this knowledge so as to ensure informed decisions are made at Cabinet and Committee level. To enable this, they should be cognisant of the following:

- Officers are responsible for developing and maintaining an effective framework for risk management.
- Officers are challenged to ensure risk is considered and documented in all reports to ensure informed decision making.
- Risk is formally considered at the start of major projects and re-evaluated throughout the life of the project.
- Officers are required to report significant risks on a regular basis

Audit Committee (with recommendations to full Council and Cabinet as appropriate)

- Approving and reviewing the Council's framework for Corporate Governance
- Approving and reviewing the policies and overall process for identifying and assessing business risks and assessing their impact on the Council

- Reviewing and making recommendations to Cabinet as regards the effectiveness of the arrangements in place for the periodic review of the Strategic Risk Register.
- Regularly reviewing the assurance reports from Strategic Management Board, Head of Finance and Commercial, Internal Audit and Risk Management, External Audit and others on the operational effectiveness of matters related to risk and control.
- Reviewing the timeliness of the corrective action taken by management
- Approving and reviewing the Council's Annual Governance Statement

Chief Executive and Corporate Director

- Implement and keep under review the Council's approach and Policy for the management of risk
- Overall accountability for securing adherence to the Council's Risk Management Policy.
- Affirm and support the work of risk management throughout the Council, which contributes towards the Council's Annual Governance Statement
- Take ownership for the management and monitoring of the Council's Strategic Risk Register.
- Regularly report significant risks to Cabinet Members and/or the Audit Committee.

Heads of Service

- Effectively embedding risk management in their service area(s)
- Setting a clear leadership example, and promote a high degree of risk management awareness
- Taking an active role in the identification, analysis, profiling and management of risk and escalating any potential strategic risks to their Director and Strategic Management Board for consideration.
- Ensuring that the details of risks which they are personally accountable for are documented, kept up to date and reviewed in line with the Council's risk appetite.
- Ensuring that the risk management process is an explicit part of all major projects and change initiatives and of all partnerships
- Escalating significant risks to Strategic Management Board via the use of corporate risk software and the appropriate Cabinet Member(s) via formal and informal mechanisms.
- Having up to date Business Continuity Plans (BCP)

Service Managers

- Effectively managing risk in their service area
- Ensuring that details of risks which they are personally responsible for are documented, kept up to date and reviewed in line with the Council's risk appetite.
- Escalating risks to Head of Service as appropriate via the corporate risk software.
- Maintaining an awareness of risks and feed this into risk identification process
- Recommending staff who require risk management training
- Ensuring that any committee reports, business cases contain a comprehensive risk assessment as appropriate

All Staff

- Identifying risks surrounding their everyday work processes and working environment
- Reporting risks to Line Management.
- Maintaining control mechanisms as part of the responsibility for achieving agreed objectives
- Demonstrating awareness of risk and risk management
- Participating in risk management training and applying it as appropriate.

Risk Management Team (Officers from Corporate Policy and Internal Audit)

- Bringing together analysis of risk across the organisation to identify potential scenarios that may impact the achievement of the organisation's objectives
- Escalating high level risk and issues to the Strategic Management Board as and when they arise
- Ensuring risk management actions arising from corporate assessments are implemented.
- Providing risk management training, advice and support to Members and Officers.

Insurance Team

- Managing the Council's insurance portfolio to make sure insurable risks are cost effectively managed.
- Providing periodic reports to SMB as regards the Councils claims history.

Internal Audit

- Providing assurance to the Council through an independent and objective opinion on the control environment comprising risk management, control procedures and governance
- Reporting on the control environment
- Drawing up a strategic and annual audit plan that is based on a reasonable evaluation of risk.

Health and Safety Well Being Group

- Producing detailed plans to achieve Health and Safety objectives
- Establishing standards for planning and implementing, measuring performance, auditing and periodic status reviews of Health and Safety policy
- Keeping up-to-date with Health and Safety legislation, standards, best practice, and performance
- Seeking specialist Health and Safety advice, as necessary, to ensure efficient and effective use of resources for Health and Safety management
- Ensuring participation and involvement of workers.

Corporate Policy Team and Environmental Services Team

- Complying with the requirements of the Civil Contingency Act 2004

- Co-ordination of the development and validation of WDC's Emergency Planning and Business Continuity arrangements.

Senior Information Risk Officer (SIRO)

- Responsible for managing information risk from a business, not technical, perspective.
- Overseeing the risks to the Council regarding Information Governance and to make appropriate recommendations and/or decisions to mitigate these risks. The SIRO is supported in their role by Information Asset Owners who have assigned responsibility for the information assets of the Council.
- The Chief Executive has delegated the Head of Democratic, Policy and Legal Services as the Council's SIRO.

Katrina Wood	
Leader of the Council	
Date of signature	

Karen Satterford	
Chief Executive	
Date of signature	

Version 1.00

Location: Wycopedia – Internal Audit and Risk Management.

Audit Committee Annual report - Draft

Officer contact: Michael Howard

Tel 01494 421357

Email: mike.howard@wycombe.gov.uk

Wards affected: All

PROPOSED DECISION

That the draft 2017 Annual report for the Audit Committee is agreed.

Corporate Implications

1. Contained within CIPFA's Audit Committee Practical Guidance for Local Authorities and Police 2013 Edition is a recommendation of good practice to publish an Annual report reflecting the work of the Audit Committee.

Background and Issues

2. In demonstrating compliance with the CIPFA guidance an annual report has been produced.

3. Attached at Appendix A is the draft report that reflects the work that has been undertaken by the Audit Committee during 2017 and provides information as regards the work plan for future meetings.

4. The draft annual report has been prepared on behalf of the Audit Committee by the Business Assurance Manager. .

5. When agreed, the annual report will be made available on the Council's website

Background Papers

None

WYCOMBE DISTRICT COUNCIL

ANNUAL AUDIT COMMITTEE REPORT 2017

Date: December 2017

Version: 1.0

Author: Michael Howard: Business Assurance Manager

Introduction by the Chair of the Audit Committee.

I am pleased to present the Annual Report of the Audit Committee which describes the Committee's work and its achievements.

The Annual Report helps to demonstrate to the various stakeholders in the district of the vital role that is carried out by the Audit Committee and the contribution that it makes to the Council's governance arrangements.

To provide ongoing assurance over the Council's internal controls and systems the Committee is attended by the Council's in house Business Assurance Manager.

Similarly, representatives from Ernst Young, the Councils External Auditor attend and report upon the Councils financial statements and value for money arrangements.

Looking forward to 2018/19, the Audit Committee will continue to provide robust oversight of Council's spending and value for money.

Whilst there is a cyclical work plan, the Committee is able to seek assurance from Management that any emerging areas of risk are being properly managed and controlled.

I would like to thank all Members who have served on the Audit Committee during the year and those officers who have supported the work of the Committee in presenting and discussing reports.

Councillor Mike Appleyard

Chairman of the Audit Committee

1 Audit Committee responsibilities.

1.1 The Audit Committee is responsible for:

- Liaison with the Council's external auditors
- Reviewing and discussing the annual financial statements, external audit reports and external auditor's annual management letter prior to consideration by Cabinet and full Council.
- Corporate governance
- Internal audit
- Risk Management
- Counter Fraud
- Maintaining an overview of Health and Safety in the Council's capacity as employer or regulator.
- Analysis of key performance indicators and identification of actions required.

1.2 To ensure that the Audit Committee is able to deliver against the responsibilities outlined above, a work programme is prepared and this forms the basis of the meetings that are held throughout the year.

1.3 Attached at appendix 1 is a brief outline of the meetings that have been held and the items that were covered. The planned agenda is supplemented by reports where the Committee has requested additional information or assurance from Management.

1.4 Taking the year as whole, the Audit Committee has been successful in:

- ❖ Maintaining an overview of internal control and governance
- ❖ Focussing attention on services where there are internal control or performance issues.
- ❖ Maintaining an overview of the Council's finances and receives reports from the Councils External Auditors, EY, based on their annual cycle of external audit work. We are pleased to record that the Council received an Unqualified Audit Opinion for it's 2016/17 Accounts.
- ❖ Maintaining an overview of the Councils Health and Safety arrangements.
- ❖ Undertook a review of Service Performance for Quarters 1 (April – June 2016 and Quarter 2 (July – September 2016).

1.5 Attached at Appendix 2 is a brief outline of the work programme for the Audit Committee up to 2017. Audit Committee members may also request reports or ask for the details of any follow up action on a specific area of concern.

1.6 All agenda and minutes from the Audit Committee meetings are available on the Councils website: www.wycombe.gov.uk

2. Audit Committee Membership

2.1 The Membership of the Audit Committee is made up 8 Councillors: 7 Conservatives and 1 Labour and 4 standing deputies: 3 Conservatives and 1 Labour.

2.2 Detailed below is a brief outline of the Audit Committee members:

 Chair – Cllr Mike Appleyard	 Vice Chair – Cllr Richard Scott	 Cllr Tony Lee
 Cllr Catherine Oliver	 Cllr Roger Wilson	 Cllr Mohammed Hanif
 Cllr Gary Hall	 Cllr Nigel Teesdale	

3. Review of the Audit Committee's effectiveness

3.1 The Committee regularly undertakes a formal review of its own effectiveness with the last one being formally reported in September 2016.

3.2 The coverage for the review was based on CIPFA's Audit Committee Practical Guidance for Local Authorities and Police 2013 Edition. This highlighted the following training needs and opportunities of key aspects of the remit of the Audit Committee to further improve its effectiveness:

- Knowledge of the six principles of the CIPFA / SOLACE Good Governance Framework and the requirements of the Annual Governance Statement (AGS). Knowledge of the local code of governance.
- Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. Understanding of good financial management principles. Knowledge of how the organisation meets the requirement of the role of the chief financial officer, as required by CIPFA's statement on the Role of the Chief Financial Officer in Local Government.
- Understanding of the principles of risk management including linkage to good governance and decision making. Knowledge of the risk management policy and the strategy of the organisation. Understanding of risk governance arrangements, including the role of members of the Audit Committee.
- Knowledge of the Seven Principles of Public Life. Knowledge of the authority's key arrangements to uphold ethical standards for both members and officers. Knowledge of the Whistleblowing arrangements at the authority.

4 Further information:

If you have any comments or questions arising from this report or would like to know more about the work of the Audit Committee, please contact

Jemma Durkan Senior Democratic Services Officer

Email: Jemma.Durkan@wycombe.gov.uk DDI: 01494 421635

APPENDIX 1 - WORK UNDERTAKEN BY THE AUDIT COMMITTEE JANUARY 2017–NOVEMBER 2017.

Thursday 12th January 2017
Items covered:

- Red Kite Update
- Audit Committee Annual Report – Draft
- Annual Review of the Risk Management Policy
- Treasury Management Strategy 2017/18
- EY Annual Audit Plan 2016/17
- EY Annual Fee Letter 2016/17
- Audit Committee Work Programme

Thursday 23rd March 2017
Items covered:

- Health & Safety Work Programme 2017/18
- 2016/17 Service Performance Q3 – October – December
- Red Kite Update
- Regulation of Investigatory Powers Act 2000 (RIPA) Annual Report
- Certifications of Grants Claims
- Proposed Internal Audit Programme 2017-18
- Audit Committee Work Programme

Information Sheets:
Homelessness – Customer Journey
Revenue and Benefits information

Thursday 15th June 2017
Items covered:

- 2016/17 Service Performance Report
- Update on the Whistleblowing Policy
- Draft Annual Governance Statement 2016/17
- EY Progress Report
- EY Annual Fee Letter 2017/18
- Annual review of the Anti-Fraud and Corruption Policy
- Audit Committee Work Programme

Information Sheet:
Health & Safety Annual report

<u>Thursday 21st September 2017</u>
Items covered:

- 2017/18 Service Performance Report (Quarter 1 – April – June)
- Audit, Risk and Fraud Managers Annual Report
- Approval of 2016/17 Statement of Accounts.
- Annual Review of the Anti-Fraud and Corruption Policy
- External Auditor's Audit ISA 260 Audit Results Report
- Treasury Management Annual Report 2017/18 and Prudential Indicators.
- Audit Committee Terms of Reference -Self Assessment of Good Practice
- Implementation of Internal Audit Recommendations
- Audit Committee Work Programme

<u>Thursday 16th November 2017</u>
Items covered:

- 2017/18 Quarter 2 Service Performance Report
- Business Assurance Manager's Half-Yearly Report
- Treasury Management Mid-Year Report 2017/18
- Audit Committee Work Programme

Information Sheets:
Health and Safety 2017-18 – mid-year progress report
Update on the local Code of Governance Action Plan

PRESENTATIONS

During the year, a series of presentations were made to the members of the Audit Committee. The presentations were made in support of the Committees terms of reference and to ensure that Members were aware of the relevant policies and procedures in operation at the Council. The following presentations were made:

Framework for Corporate Governance and its compliance with Delivering Good Governance in Local Government Framework 2016. (March 2017)

Knowing What Counts "Interpreting, reviewing and challenging local government accounts". (September 2017)

In addition, members of the Audit Committee were invited to attend Members Training Seminar that included a presentation on "The Work of the Corporate Investigation Team". (September 2017)

APPENDIX 2 – 2018 FORWARD WORK PROGRAMME

Thursday 25th January 2018

Items to be covered:

Draft Audit Committee Annual Report
Annual Review of the Risk Management Policy
Treasury Management Strategy 2018/19
Ernst & Young Annual Audit Plan & Annual Fee Letter
2017/18 Q3 Service Performance Report (*)
Certification of Grants and Claims Annual Report
Strategic Risk Register - Quarter 3 Monitoring Report
Audit Committee Work Programme

(*) Information Sheet

31st May 2018

Items to be covered:

Proposed Internal Audit Programme 2018/19
Internal Audit Charter 2018/2019
Regulation of Investigatory Powers Act Annual Report
Health & Safety Annual Report 2017/18 and Work Programme 2018/19
Annual Review of Anti-Fraud & Corruption Policy
Draft Annual Governance Statement
Audit Committee Terms of Reference - Self-Assessment of Good Practice
2017/18 Q4 and End of Year Service Performance Report (*)
Audit Committee Work Programme

(*) Information Sheet

26th July 2018

Items to be covered:

Approval of 2017/18 Statement of Account
External Audit- ISA 260 Audit Results Report
Higginson Park Trust Annual Report and Accounts for 2017/18
Business Assurance Manager's Annual Report
2018/19 Q1 Service Performance Report (*)
Audit Committee Work Programme

<u>25th October 2018</u>
Items to be covered
Treasury Management Annual report 2017/18 Prudential Indicators
2018/19 Q1 Service Performance Report (*)
Implementation of agreed Internal Audit recommendations
Health & Safety Mid-Year Progress Report
2018/19 Q2 Service Performance Report (*)
Audit Committee Work Programme

(*) Information Sheet

Treasury Management Strategy Statement 2018/19
Annual Investment Strategy 2018/19 and Minimum Revenue Provision Policy Statement 2018/19

Wards affected: **All**

Officer Contact: **David Skinner: David.Skinner@wycombe.gov.uk**

Portfolio holder: David Watson

1. RECOMMENDATION

The Committee considers and comments on:

- The draft Treasury Management Strategy Statement (TMSS) and Prudential Indicators for 2018/19;
- Draft Annual Investment Strategy (AIS) for 2018/19 at Appendix 1;
- Draft Minimum Revenue Provision Policy Statement for 2018/19 at Appendix 2; and
- Authorise the Head of Finance & Commercial, to update the prudential indicators and the report following completion of work on 2018/19 capital programme.

The TMSS and AIS form part of the Council's overall budget setting and financial framework, and will be finalised and updated as work on the Council's 2018/19 revenue budgets and capital programme is progressed. The final version of the Strategy will be presented to the Cabinet on 5th February 2018, to recommend to the Council for approval.

2. Reason

To comply with the Local Government Act 2003, other regulations and guidance and to ensure that the Council's investment plans are prudent, affordable, sustainable and comply with statutory requirements.

The Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy.

Corporate Implications

The Treasury Management Strategy plays a significant part in supporting the delivery of the Council's vision and corporate priorities.

3. Executive Summary

3.1. The Local Government Act 2003 requires the Council to set out a statement of its treasury management strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.2. This report sets out the Council's proposed Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) for the year 2018/19.

4. Background

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

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

4.3. Treasury management is defined as:

"The management of the local authority's 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."

4.4. CIPFA requirements - The Council has formally adopted CIPFA's Code of Practice on Treasury Management and complies with the requirements of the Codes as detailed below:

a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
b. Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.
c. Receipt by the full Council and/or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
d. 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. The details of delegations and responsibilities are summarised in Appendix 3.
e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the Council this role is undertaken by Audit Committee.

4.5. **Training -** The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed as part of the Learning and Development programme. The officers attend various seminars and conferences throughout the year. As part of developing financial management training programme Members will be provided training as and when required.

4.6. **Treasury management consultants**

a. Link Asset Services (The Link Group has acquired Capita Asset Services formerly part of Capita plc) are Wycombe District Council's external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

4.7. Markets in Financial Instruments Directive (MiFID II)

c. The Markets in Financial Instruments Directive, or MiFID II, is an EU regulation designed to offer greater protection for investors and inject more transparency into all asset classes: from equities to fixed income, exchange traded funds and foreign exchange.

d. The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. The Directive will result in the automatic reclassification of local authorities as retail clients unless they choose to elect to professional client status. The Council is electing to professional client status in order to preserve the range of financial instruments, advice and services that it currently accesses.

4.8. Treasury Management Strategy covers three main areas summarised below:

i. Capital Strategy (Section 5)
   a) Capital expenditure plans;
   b) Capital Financing Requirement (CFR);
   c) Affordability – Ratio of Financing cost;
   d) Affordability – Incremental impact of capital investment decisions on Council Tax; and
   e) The Minimum Revenue Provision (MRP) policy (Appendix 2).

ii. Borrowing strategy (Section 6);
   a) Current borrowing position;
   b) Indicators : Limits on External Borrowing;
   c) Borrowing Strategy; and
   d) Policy on borrowing in advance of need.

iii. Treasury Management (Section 7)
   a) Current treasury position;
   b) Core funds and expected investment balances;

c) Expected return on investments and benchmarking; and
d) Investment Limits

4.9. The Annual Investment Strategy (AIS) at Appendix 1 provides more detail on how the Council will manage its risks and liquidity in 2018/19.

Treasury Management Strategy Statement

5. Capital Strategy

Capital Spending and funding plans

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

5.2. Table 1 summarises the Council's capital expenditure plans, both in terms of those agreed previously, and those forming part of the current budget cycle. The table also sets out the Council's current expectations of how these plans are to be financed.

2016/17 Actual £m	Table 1	2017/18 Forecast £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	Total £m
14.017	**Expenditure General Fund**	**19.109**	**36.967**	**19.185**	**14.363**	**10.568**	**100.192**
	Funding						
-2.214	Grants & Contributions	-2.784	-8.967	-9.636	-10.389	-10.070	**-41.846**
-4.899	Capital Receipts	-16.325	-17.825	-9.549	-3.974	-0.468	**-48.141**
-6.904	Revenue Financing	0.000	-8.175	0.000	0.000	0.000	**-8.175**
0.000	Borrowing	0.000	0.000	0.000	0.000	0.000	**0.000**
-14.017	**Total**	**-19.109**	**-34.967**	**-19.185**	**-14.363**	**-10.538**	**-98.162**

5.3. The Department for Communities and Local Government (DCLG) have consulted on the proposed changes to the prudential framework of capital finance. The proposals are for Local Authorities Investment Code and Minimum Revenue Provision Guidance. The outcome of the consultation is still awaited, however the proposed changes are incorporated within the strategy as detailed in paragraphs 5.4 to 5.8.

5.4. The prudential code on capital finance requires Council's to ensure that the capital investment plans are prudent, sustainable and affordable in the long term. In considering the capital programme, in addition to the initial investments, the financing, ongoing repairs and maintenance costs should be considered to ensure these are sustainable and affordable in the medium to long term.

5.5. As well as investing in assets owned by the Council and used in the delivery of services, the Council also invests, where appropriate, in commercial properties which generates revenue to support the delivery of service to the local community within the district.

5.6. Over the years the Council has organically grown its commercial portfolio and invested in traditional asset classes of offices, retail and industrial/logistics, which meet the Council requirements of sustainable economic growth within the district and the income to be secure and reliable and the investments low risk.

5.7. The current capital strategy includes proposals for strategic land acquisition and housing development to deliver Local Plan. These are long-term prudent proposals which will deliver the Council ambition of economic development for the district by investing in assets in such a way that not only delivers regeneration and growth in a sustainable way, but also generates annual revenue to support our services for the local residents.

5.8. As part of the due diligence process and risk assessment, consideration is given to the inherent nature of risks around valuations, volatility of property markets, sustainability of rental income and Council's dependence on this income stream to deliver services.

Capital Financing Requirement (CFR)

5.9. The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure, which has not immediately been financed or paid for, will increase the CFR.

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

5.11. The CFR includes other long-term liabilities such as embedded lease included within the Chiltern Waste contract. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of contracts include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these leases.

5.12. The Council's Capital Financing Requirement position at 31 March 2017, with forward projections are summarised on the following page in Table 2.

2016/17	Table 2	2017/18	2018/19	2019/20	2020/21	2021/22
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
3.206	Gross Projected Debt	2.406	1.606	0.800	0.000	0.000
6.908	CFR 31st March	5.901	4.894	3.887	2.975	2.874
3.702	**Under borrowing**	**3.495**	**3.288**	**3.087**	**2.975**	**2.874**

5.13. The above projections confirms that the Council's gross debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for current year and the following two financial years. This allows some flexibility for limited early borrowing for future years if required, but ensures that borrowing is not undertaken for revenue purposes.

5.14. The Head of Finance and Commercial reports that the Council complied with this indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing programme and the proposals in the budget report.

Affordability

5.15. The objective of the affordability indicators is to ensure that the level of investment in capital assets proposed remains within sustainable limits, and in particular, the impact on the Council's "bottom line" as reflected in the impact on council tax. Table 3 below sets out the expected ratio of capital financing costs to income for General Fund. There is a significant increase in this ratio for 2018/19 resulting mainly form revenue reserves being used to fund the Capital Programme.

5.16. The Council's financial strategy is based on the premise that the capital programme is fully funded from various sources and does not require borrowing. Which means that the new programme does not have any incremental impact on council tax levels.

2016/17	Table 3	2017/18	2018/19	2019/20	2020/21	2021/22
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
47%	Ratio of financing cost	-2%	58%	-4%	-6%	-8%

6. Borrowing

6.1. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the day to day requirement for service delivery and also capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

Borrowing Limits

6.2. The Code requires the Council to set two limits on its total external debt, as set out in Table 4 below. The limits are:

a. **Authorised Limit for External Debt** – This is the limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term.

b. **Operational Boundary** – This is the limit which external debt is not normally expected to exceed. The boundary is based on current debt plus anticipated net financing need for future years.

2016/17	Table 4	2017/18	2018/19	2019/20	2020/21	2021/22
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
	Authorised Limit for external debt					
3	Borrowing and other long term liabilities	11	10	9	8	8
	Operational Boundary for external debt					
0	Borrowing	3	3	3	3	3
3	Other long term liabilities	2	2	1	0	0
3	**Total**	6	5	4	3	3

Prospects for Interest Rates

6.3. The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Further Economic Background is provided at Appendix 4. The following table gives the advisor's central view.

	Now	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

6.4. Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in borrowing rates during the current financial year.

6.5. After a decade, Bank Rate was increased from 0.25% to 0.50% in November 2017. As detailed in the table above the current forecast is a gradual increase in base rates over time with the next increase of 0.25% is expected in the last quarter of 2018.

Borrowing strategy

6.6. The Council is currently maintaining an under-borrowed position due to healthy cash balance and this seems likely to continue for the next two or three years at least. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

6.7. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure.

6.8. If borrowing is undertaken in this environment there will be a net cost of holding this money until it is used, sometimes called the "cost of carry". As borrowing is often for longer dated periods (anything up to 60 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Council's wider financial position.

6.9. The Council will adopt a flexible approach to any future long-term borrowing in consultation with, Link Asset Services. Affordability and interest rate risk will be considered prior to undertaking any external borrowing.

Policy on Borrowing in Advance of Need

6.10. The Council has the power to borrow in advance of need in line with its future borrowing requirements under the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended.

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

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

7. Treasury Management

Current cash position

7.1. Table 5 below shows the cash balance position as at December 2017.

	As at 31 March 2017		As at 31 December 2017	
	Principal	Average Rate	Principal	Average Rate
	£m	%	£m	%
Investments				
Specified	63.6		80.7	
Non - specified	11.0		13.0	
Total Investments	**74.6**	**0.67%**	**93.7**	**0.65%**

Core Funds and expected Cash Flow

7.2. The application of resources to either finance capital expenditure or revenue budget will have an ongoing impact on investments. Detailed below are estimates of the year end balances for each resource.

2016/17 Actual	Year End Resources	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
£m		£m	£m	£m	£m	£m	£m
- 9.739	General Reserves	- 9.739	- 9.739	- 9.739	- 9.739	- 9.739	- 9.739
- 35.360	Earmarked Reserves	- 35.768	- 18.474	- 17.688	- 17.370	- 17.024	- 16.374
- 18.329	Capital receipts	- 6.325	- 6.000	- 12.251	- 18.077	- 22.609	- 30.609
- 12.227	Capital Grants & Contributions	- 14.243	- 12.085	- 10.174	- 8.585	- 5.685	- 8.685
- 3.261	Provisions	- 3.261	- 3.261	- 3.261	- 3.261	- 3.261	- 3.261
- 78.916	**Total core funds**	**- 69.336**	**- 49.559**	**- 53.113**	**- 57.032**	**- 58.318**	**- 68.668**
- 0.457	Working capital*	5.000	5.000	5.000	5.000	5.000	5.000
3.702	Under Borrowing	-	-	-	-	-	-
75.401	Expected investments	64.336	44.559	48.113	52.032	53.318	63.668

*Working capital balances shown are estimated year end; these may be higher at certain points during the year

7.3. The medium-term cash flow shows that the Council has a substantial positive cash-flow position with an average cash position of more than £60m for the medium-term.

7.4. Council policy is to set aside £5m to provide working capital and cover day to day contingencies. Therefore an average of £40m is available to be invested over the longer-term without impacting on the Council's need for liquidity.

Background Papers

Treasury Management Strategy Statement 2017/18 (Approved by Council February 2017)

1. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended

2. DCLG Guidance on Minimum Revenue Provision 2012
3. DCLG Guidance on Local Government Investments – March 2010
4. CIPFA Prudential Code for Capital Finance in Local Authorities, 2011
5. CIPFA Treasury Management Code of Practice, 2011

Appendix 1

Annual Investment Strategy

1. The Council holds significant surplus funds, representing income received in advance of expenditure, plus balances and reserves. Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and in order of importance to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

2. Council will also consider long term investments to secure better yield. This will be subject to cash-flow requirements and will ensure that it is prudent and sustainable.

3. In accordance with the above guidance and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which will provide security of investments, enable diversification and minimise risk. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. The Treasury Management Adviser monitors counterparty ratings on a real time basis with knowledge of any changes advised electronically as the agencies notify modifications.

4. Further, the officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its adviser to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

5. The aim of the strategy is to generate a list of highly creditworthy counterparties which will provide security of investments, enable diversification and minimise risk.

Creditworthiness policy

6. The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

   a. It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

   b. It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. .

7. The Head of Finance and Commercial will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

8. **Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

9. Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria listed in the table below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

Specified and Non-specified investments

10. The DCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on Local authorities around the use of specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:

    a. The investment and any associated cash flows are denominated in sterling;
    b. The investment has a maximum maturity of one year;
    c. The investment is not defined as capital expenditure; and
    d. The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

11. A non-specified investment is any investment that does not meet all the conditions above. For any such investments, specific proposals will be considered by the by the s151 Officer after taking into account:

    a. cash flow requirements
    b. investment period
    c. expected return
    d. the general outlook for short to medium term interest rate
    e. creditworthiness of the proposed investment counterparty
    f. other investment risks.

12. The value of non-specified investments will not exceed their Investment allocation. The Council must now formulate a strategy that allocates it's cash in the most effective manner to short, medium and long term non-specified investments.

Country limits

13. Due care will be taken to consider the country, group and sector exposure of the Council's investments. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA* from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in the table below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

Investment Strategy

14. After a decade, Bank Rate was increased from 0.25% to 0.50% in November 2017. It is forecast there will be a further increase of 0.25% in the last quarter of 2018. Bank Rate forecasts for financial year ends (March) are:

2017/18	0.50%
2018/19	0.75%
2019/20	1.00%
2020/21	1.25%

15. Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 3 months during each financial year are as follows

2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	.1.50%
2022/23	1.75%

16. As the interest rates are expected to remain low during 2018/19, strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. However, caution will be taken into account to ensure that the Council is not disadvantaged by locking for too longer period to take advantage of the future rates rises.

17. In order to diversify a portfolio largely invested in cash, investments will be placed with a number of approved counterparties over a range of maturity periods which meets the credit criteria set out in the schedule below. Money market funds (MMFs) will be utilised to provide good diversification, better yield and liquidity.

18. The investment returns will be benchmarked against the 3 months LIBOR (London Interbank Offered Rate) rate.

Investment time limits

19. In view of the limited investment returns currently being experienced on short term cash-based investments and the substantial positive cash-flow position over the medium term (see paragraph 7.2 in the main report), it is suggested that for 2018/19 and future years the Council considers increasing its limit on longer term investments to £40m for the next five years. This limit also has regard to the Council's liquidity requirements and to reduce the need for early sale of an investment.

Schedule of Credit Criteria for investments

20. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments is:

Investments	Minimum Credit Rating Required (S&P/Moody's/Fitch)	Maximum Counterparty Limit (£m)	Maximum Tenor
Debt Management Office (DMO) and Gilts	Government Backed	Unlimited	25 years
Supra-nationals and Multilateral development Banks & European Agencies	Government Backed	£6m each £3m each	1 year 2 years
UK Local Authorities	N/A	£7.5m each	3 years
Money Market Funds (MMF) & Enhanced Money Funds	LT:AAA/Aaa/AAA	£7.5m per fund £40m in aggregate	Up to 7 day notice
Pooled Property Funds	Internal and External due diligence	£7.5m per single fund	Up to 5 years
UK Banks and Building Societies	LT:A+/A1/A+ & above LT:A-/A3/A- & above	£3m each £6m each	>1 Year to 5 Years Up to 1 Year
Nationalised and Part Nationalised Banks		£4m each	1 Year
Non-UK Bank Maximum of £10m per country	LT:A+/A1/A+ & above SR:AAA LT:A/A2/A & above SR:AA	£3m each £6m each	>1 Year to 5 Years Up to 1 Year
Direct Property Investments – Councils decision of 9 October 2017	Internal and External due diligence	£7.5m	Up to 5 years
Sovereign approved list: Australia,Belgium,Canada,Denmark,Finland,France,Germany,Netherlands,Qatar,Singapore,Sweden,United Arab Emirates, Switzerland, United States			

Appendix 2

Minimum Revenue Provision (MRP) Policy

1. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.

2. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument (SI) 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

3. The Council is recommended to approve the following MRP Statement:

   a. For capital expenditure incurred before 1 April 2008, MRP will be calculated using Option 1 (the 'Regulatory Method') of the CLG Guidance on MRP. Under this option MRP will be 4% of the closing non-HRA CFR for the preceding financial year.

   b. For all capital expenditure incurred after 1 April 2008 financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon the asset life method under Option 3 of the DCLG Guidance.

   c. In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset's estimated useful life.

   d. A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.

   e. Estimated life periods and amortisation methodologies will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

   f. Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.

g. As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

h. Repayments included in annual PFI or finance leases are applied as MRP.

i. Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.

j. Under Treasury Management best practice the Council may decide to defer borrowing up to the capital financing requirement (CFR) and use internal resources instead. Where internal borrowing has been used, the amount chargeable as MRP may be adjusted to reflect the deferral of actual borrowing.

Appendix 3

Treasury Management Delegations and Responsibilities

The respective roles of the Council, Cabinet, Audit Committee and Section 151 officer are summarised below. Further details are set out in the Treasury Management Practices.

Council

Council will approve the annual treasury strategy, including borrowing and investment strategies. In doing so Council will establish and communicate their appetite for risk within treasury management having regard to the Prudential Code

Cabinet

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual report on treasury activities.

Audit Committee

This committee is responsible for ensuring effective scrutiny of the Treasury strategy and policies.

Head of Finance and Commercial (Section 151 Officer)

Council has delegated responsibility for the implementation and monitoring of treasury management decisions to the Section 151 Officer to act in accordance with approved policy and practices. The s151 Officer is responsible for the following activities:

- (i) Investment management arrangements and strategy;
- (ii) Borrowing and debt strategy;
- (iii) Approves changes to treasury management practices and procedures; and
- (iv) Chairs the Treasury Management Group (TMG).

Treasury Management Group (TMG)

Monitors the treasury activity against approved strategy, policy, practices and market conditions.

Reviews the performance of the treasury management function and of the appointed treasury advisor and recommends any necessary actions.

Ensures the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

Monitors the adequacy of internal audit reviews and the implementation of audit recommendations.

Chief Accountant (Deputy S151 Officer)

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

Treasury Team

Undertakes day to day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures.

Appendix 4

Economic Background

GLOBAL OUTLOOK.

World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the

Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.3%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

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 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.

Wycombe District Council

DRAFT AUDIT COMMITTEE WORKPLAN

Work Programme – May 2018 – January 2019

Title & Subject Matter	Contact Officer	Training
31 May 2018		
Internal Audit Plan A report setting out the proposed Internal Audit coverage for 2018/19.	Business Assurance Manager	
Regulation of Investigatory Powers Act Annual Report Update on the use of these powers by the Council in performing its enforcement activities.	Principal Solicitor	
Health and Safety Annual Report 2017/18 & Work Programme 2018/19 Report providing an update on health and safety issues and key health and safety statistics for 2017/18 and the proposed work programme for 2018/19.	Shared Services Support Manager	
Annual Review of the Anti-Fraud and Anti-Corruption Policy Review of the Anti-Fraud and Corruption Policy for 2018.	Business Assurance Manager	
Draft Annual Governance Statement To consider the draft Annual Governance Statement for 2018/19	Business Assurance Manager	
Audit Committee Terms of Reference – Self-Assessment of Good Practice Report considering the annual review of the terms of reference in accordance with CIPFA	Business Assurance Manager	
2017/18 Q4 and End of Year Services Performance Report (Information Sheet) Report providing information on specific performance indications from January to March 2018.	Corporate Policy Officer	
26 July 18		
Approval of 2017/18 Statement of Accounts Report to approve to 2017/18 Statement of Accounts	Chief Accountant	
External Auditor's ISA 260 Audit Result Report To consider Ernst & Young's Audit Results	Chief Accountant	

Title & Subject Matter	Contact Officer	Training
Report and findings from the 2017/18 audit.		
Higginson Park Trust Annual Report and Accounts for 2017/18 To consider the Higginson Park accounts for recommendation to Council.	Chief Accountant	
Business Assurance Manager's Annual Report Report providing an update on the work of the Internal Audit Services for 2017/18	Business Assurance Manager	
2018/19 Q1 Service Performance Report (Information Sheet) Report providing Report providing information on specific performance indications from April to June 2018.	Policy Officer	
25 October 18		
Treasury Management Annual Report 2017/18 & Prudential Indicators Report setting out the treasury management activities for the first six months of 2018/19, including prudential indicators, investment and borrowing.	Chief Accountant	
Implementation of agreed Internal Audit Recommendations Report providing an update on the progress of the implementation of recommendations that had arisen from the final reports issued during 2017/18.	Business Assurance Manager	
2018/19 Q2 Service Performance Report (Information Sheet) Report providing Report providing information on specific performance indications from July to Sept 2018.	Policy Officer	
10 January 2019		
Draft Audit Committee Annual Report Proposed Annual Report of the work of the Audit Committee which is published on the Council's website.	Business Assurance Manager	
Annual Review of the Risk Management Policy Review of the Council's Risk Management Policy and proposed changes	Business Assurance Manager	

Title & Subject Matter	Contact Officer	Training
Treasury Management Strategy 2019/20 Proposed Annual Treasury Management Strategy for 2019/20.	Chief Accountant	
Ernst & Young Annual Audit Plan & Annual Fee Letter The Council's external auditors work plan for 2018/19 including their work on the Statement of Accounts, Value for Money opinion and grant claims. Also the proposed audit fees for 2017/18.	Chief Accountant	
Certification of Grants and Claims Annual Report Report from the Council's External Auditors on the results of their work of the 2017/18 Housing Benefit Subsidy Claim	Revenues and Benefits Manager	
Strategic Risk Register – Quarter 3 Monitoring Report Review the updated Strategic Risk Register - Quarter 3 monitoring report.	Business Assurance Manager	
2017/18 Q3 Services Performance Report (Information Sheet) Report providing information on specific performance indicators from October to December.	Corporate Policy Officer	

Notification for Press and Public

Notification of Items expected to be taken in exempt session, as required by access to information requirements.

The meeting will be asked to resolve that the Press and Public be excluded from the meeting during consideration of the following items as they contain exempt information as defined in Regulation 4(2)(b) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, more particularly as follows:-

Item 12 Q3 Strategic Risk Register

Information relating to the financial or business affairs of any particular person (including the authority holding that information) (Paragraph 3, Part 1 of Schedule 12A, Local Government Act 1972)

[The need to maintain the exemption outweighs the public interest in disclosure because disclosure could prejudice the Council's position in any future tender process or negotiations].

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 12

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 12

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