

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 25th September 2012 at 6.00 pm in the Scrutiny Meeting Room, Civic Offices, Telford

PRESENT: Councillors S A W Reynolds (Acting Chair for the meeting), R Evans, I T W Fletcher, A Meredith, W L Tomlinson and C R Turley.

Officers: J Eatough (Assistant Director: Law, Democracy and Public Protection and Monitoring Officer), J Marriott (Audit & Assurance Manager), B Morris (Finance Manager), P Harris (Finance Manager), David Sidaway (Assistant Director: Development, Business & Housing), Alan Fox (Service Delivery Manager Estates and Investments), K Perry (Assistant Director: Children's Safeguarding) Clive Jones (Assistant Director: Family & Cohesion Services) and J Clarke (Democratic Services Officer).

KPMG: A Cardoza and A Bunting

Roy Williams, Budget & Finance Scrutiny Committee

AUC-15 ELECTION OF CHAIR

Due to the absence of the Chair nominations were taken for an acting Chair for the meeting.

RESOLVED – that Cllr Shirley Reynolds would Chair the meeting.

AUC-16 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 26th June 2012 be confirmed and signed by the Chairman.

AUC-17 APOLOGIES FOR ABSENCE

Cllr R Sloan (Chair)

AUC-18 DECLARATIONS OF INTEREST

None

AUC-19 ANNUAL GOVERNANCE REPORT 2011/12

Andrew Cardoza from KPMG gave a brief overview on the Annual Governance Report 2011/12 and the Accounts Audit for the financial year end 31st March 2012.

There were two parts to the Audit but the substantive part took place from July to August 2012, and had now been completed. As part of this there had also been a Value for Money assessment. It was anticipated that an Unqualified Opinion would be issued by the end of September 2012. Five adjustments had been identified which had meant a decrease on the surplus on provision of services for the year by £3.4m and a decrease in the net worth of the Authority by the same amount. Corrections had been made relating to casting and presentational issues. It was highlighted that the recommendation, in relation to ensuring the correct accounting treatment, is applied when a school obtains academy status. The main critical accounting matters which arose during the year related to fixed asset accounting, specifically Heritage Assets, Component Accounting and Capital Accounting Thresholds. No

issues had arisen around these areas. There had been a general improvement of working papers which, together with a SharePoint site which had been set up for collating and sharing working papers, had made the audit of the accounts a much smoother process. The majority of recommendations from the ISA 260 Report 2010/11 had now been implemented with the only recommendation remaining outstanding being in respect to the draft financial statements.

The audit was now substantially complete. A signed management representation letter would be given to the external Auditors following the meeting of the Audit Committee on 25th September 2012. The external auditors had a duty of care to review its objectivity and independence in relation to the Audit in line with ISA 260 Report and confirmed that there were no issues. The external Auditors concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness of its resources within the Value for Money risk areas which it had outlined in the Interim Audit Report 2011/12.

Due to errors found within cash flow, the external auditors were proposing an over-run fee due to the extra time spent in this area. A breakdown of this fee had been given to the Chief Financial Officer and discussions were ongoing with regard to this.

The Chair thanked the external Auditors together with internal Staff for their hard work.

RESOLVED – that the report be accepted.

AUC-20 EXTERNAL AUDIT FEE 12/13

Adam Bunting from KPMG gave a brief overview of the External Audit Fee 12/13.

The proposed fee for 2012/13 was £155,088 (plus VAT) which was a 40% reduction on the fee for the previous. The fee was based on a number of assumptions. If these assumptions were not met or more work was needed then the fee may be subject to change and extra costs incurred. Any changes would be discussed with the Chief Financial Officer. Due to historic time differences, the fee for the Value for Money audit work was slightly out of line with the audit fee and it was intended to re-align these fees with those of the financial statements. A one-off amount of £25,800 would need to be charged in order for this alignment to take place. Discussions with regard to the Value for Money fee would be ongoing.

A discussion took place including:

- 40% reduction of fees
- Billing separately for compliance issues

RESOLVED – that the External Audit Fee 12/13 be accepted.

AUC-21 ANNUAL STATEMENT OF ACCOUNTS 2011/12

The Finance Manager presented a report on the 2011/12 Annual Statement of Accounts.

This was the second year that the Statements had been produced following the IFRS Regulations. The draft Accounts had now been made available to the Public and were circulated to Members of the Audit Committee. KPMG, the Council's external Auditors had now completed their work and were in the process of issuing an unqualified opinion. The outturn position of £1.843m under-spend was unchanged from the report taken to Cabinet on

28th June 2012. Once the Statement of Accounts had been approved it would be published on the Council's website.

Delegated authority was sought for the Assistant Director: Finance, Audit and Information Governance to make any final changes required to the Statement of Accounts prior to publication, although it was not envisaged that any changes would be needed.

A discussion took place including:

- Publication of draft Accounts
- Heritage Assets
- That Committee members would be informed of any changes to the accounts

RESOLVED – that

- a) Members approve the 2011/12 Statement of Accounts;**
- b) Delegated authority be granted to the Assistant Director: Finance, Audit and Information Governance, in consultation with the Chair of Audit Committee, to make any final changes required to the Statement of Accounts prior to publication.**

AUC-22 UPDATE ON CHILDREN'S PLACEMENT COSTS

The Interim Assistant Director: Children's Safeguarding presented an update on the children's placement costs.

The costs of residential care drove the budget and it was important to try and reduce the number of residential placements in order to reduce costs. A regional framework agreement was in place that enabled the Council to access high quality providers at reduced costs. Children were only placed with external foster carers if absolutely necessary because there were no suitable internal foster carers available. There was currently an advertising campaign to try and attract new foster carers into Telford and Wrekin. Although the Council was improving on recruitment there needed to be an emphasis on more careful targeting to capture the attention of those most likely to be interested. There had recently been some positive enquiries made from local childminders.

A discussion took place around the graphs and charts contained in the report including:

- The deteriorating economic climate and the effect it had on children in care
- Internal and external foster care placements
- Historical figures on placements
- Fostering Recruitment Campaign including successful activity at Culturefest Event
- Pressures on social care following highly publicised cases nationally eg baby P

AUC-23 AUDIT COMMITTEE ANNUAL REPORT 2011/12

The Audit and Information Governance Manager presented the annual report of the operations of the Audit Committee during 2011/12.

The meetings had been reduced to 5 during the 2011/12 year but this had not affected the effectiveness of the committee. Some of the key areas of work covered in this time had

included risk management, governance, treasury management, statement of accounts, fraud and corruption and complaints. The Committee had a busy Agenda through 2011/12 which would continue into 2012/13 due to the changes occurring across the Council and the continued financial constraints. The Terms of Reference of the Committee had been amended by the Committee to reflect changes required in respect to Information Governance and would now go to the Council Constitution Committee and to Council to be approved.

RESOLVED – that the report be noted.

AUC-24 INTERNAL AUDIT AND INFORMATION GOVERNANCE UPDATE REPORT

The Audit and Information Governance Manager presented an update report on the work of Internal Audit during Quarter 1 2012/13 and an update on Information Governance April to August 2012.

A new Internal Audit Team Leader had begun working within the Team in April and there had been a familiarisation and induction into the Council during the quarter. The Audit and Assurance Team's Phase 2 restructure had launched in April and was implemented on 17th September 2012. The team was renamed as Audit and Information Governance as this better reflected the work being undertaken. The restructure had not had an impact on the Audit side of the Team, but following one team member leaving the Authority, a post within the team had been advertised, with increased hours from 18.5 hours to 25 hours and recruitment was currently taking place.

Nine final reports had been issued in quarter 1; these included two amber reports, Market and Cash Collection and Purchase Ledger. A follow up of the implementation of the recommendations had been completed and as a result this had now been upgraded to yellow. Any outstanding issues around Markets and Cash Collection were in the process of being followed up and would be reported back to a future meeting. Further improvements were still required on Abacus, the Adult Social Care financial system, and this remained an amber report. Further follow up work would be undertaken in this area and a report would be brought back to a future meeting.

The Information Governance work programme was making good progress although it had slowed a little due to the accommodation moves. Some 216 Freedom of Information requests had been received during the period 1 April 2012 to 31 August 2012 and 85% of these requests had been responded to within the statutory period, which was 5% above the Information Commissioner's benchmark of 80%. During the same period 24 subject access reports had been received with a 68% performance rate. The team had been re-organised and new procedures put in place to improve this level of performance. A total of 5 internal appeal requests had been received and revised responses/additional information sent and no further action was required. There had been 25 confirmed data breaches with 92% of these breaches being in respect of accidentally sending information to the wrong person. There were 2 cases of lost/stolen information. In order to prevent these happening in the future investigations were undertaken and changes to procedures implemented and, if necessary, disciplinary action was taken. On 28th May 2012 the Information Commissioner had fined the Council £72,000 in respect of 2 data breaches that had been voluntarily reported by the Council.

A discussion took place including:

- ICO fine

RESOLVED – that the report be noted.

AUC-25 EXCLUSION OF PRESS AND PUBLIC

RESOLVED – that the press and public be excluded from the meeting for the following item of business on the grounds that it may involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

AUC-26 CAPITAL RECEIPTS UPDATE

The Assistant Director: Development Business and Housing gave a verbal update on the capital receipts.

The disposals of assets were at different stages:

- Sold and funds received
- Completion
- Sold Subject to Contract
- Currently being advertised for sale
- Seeking Planning Permission

Some of the assets were proving a little more difficult than others due to lack of interest in the open market. A schedule for disposal of assets had been drawn up covering 2012/13, 2013/14 and 2014/15 but this would be subject to change in response to market trends. The budget was currently on target for 2012/13 capital receipts and this was being monitored closely.

A discussion took place including:

- Shortfalls
- Security of empty properties
- Maintenance costs of vacant sites

RESOLVED – that the information be noted.

The meeting ended at 7.11 p.m.

Chairman:

Date:

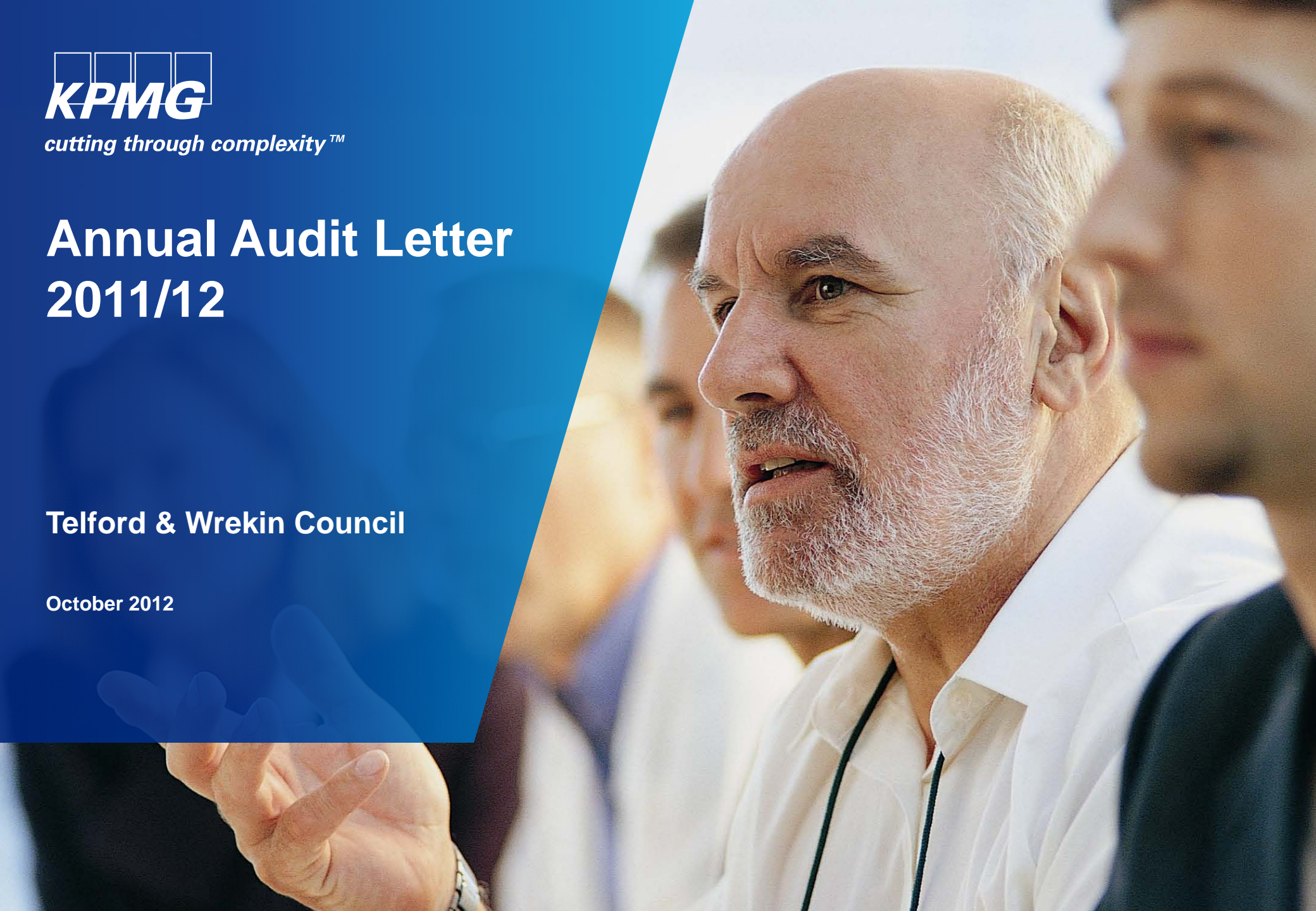


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Annual Audit Letter 2011/12

Telford & Wrekin Council

October 2012



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- Headlines

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Appendices

1. Summary of reports issued

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2. Audit fees

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This report summarises the key findings from our 2011/12 audit of Telford & Wrekin Council (the “Authority”).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority’s 2011/12 financial statements and the 2011/12 VFM conclusion.

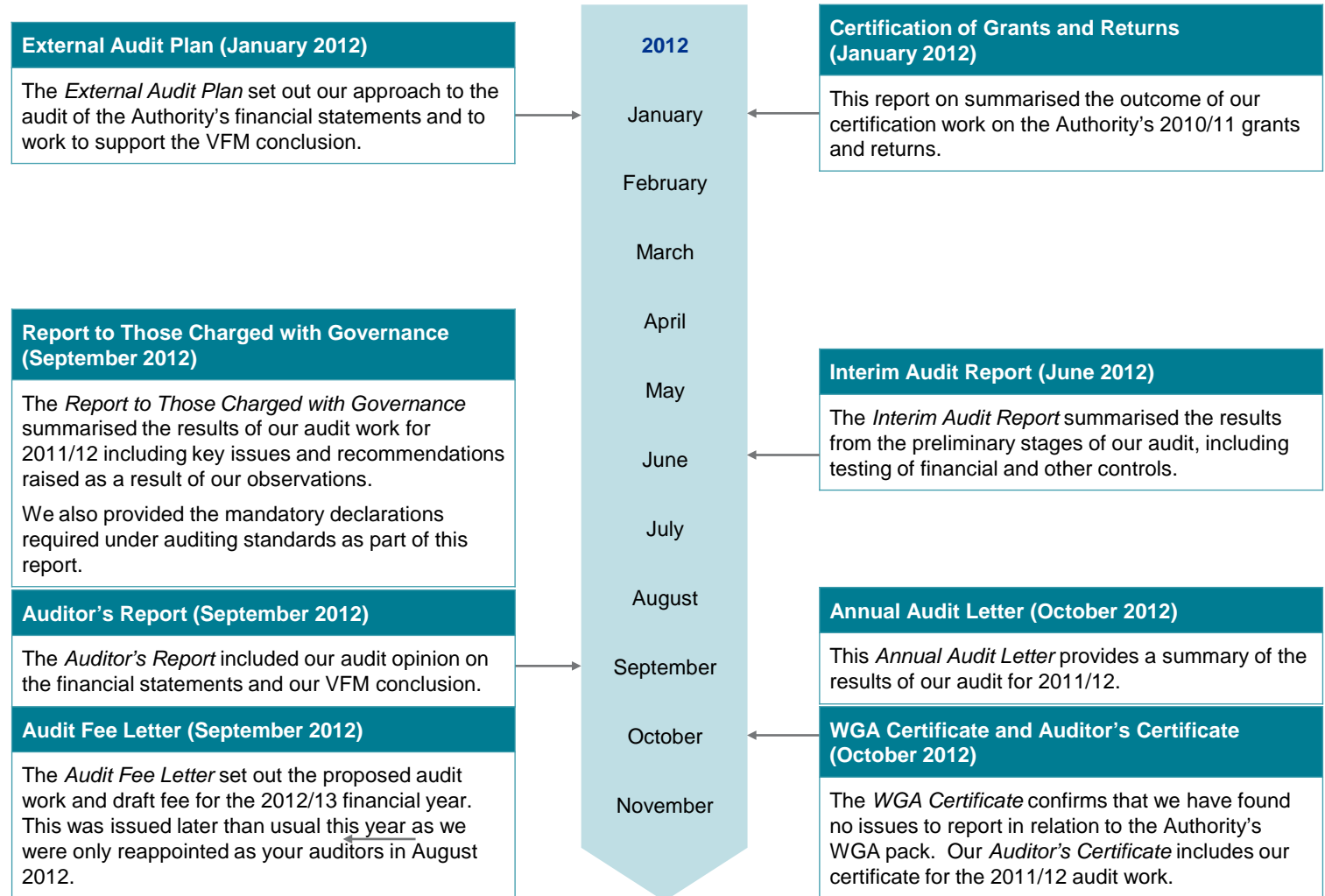
<p>VFM conclusion</p>	<p>We issued an unqualified value for money (‘VFM’) conclusion for 2011/12 on 27 September 2012.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
<p>VFM risk areas</p>	<p>We identified a number of significant risks to our VFM conclusion and considered the arrangements you have put in place to mitigate these.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ The Authority has continued to make progress in relation to its savings plans and managed to achieve an underspend against budget for 2011/12. This has enabled the Authority to contribute to useable reserves for use in 2012/13 to support the budget strategy. ■ As at July 2012, the Authority was forecasting that the 2012/13 outturn would be in line with budget. This included as predicted £2.6m use of budgeted contingency. ■ The Authority’s restructuring programme has continued and is on schedule. There continues to be a robust process in relation to challenging the assumptions made in relation to savings plans.
<p>Audit opinion</p>	<p>We issued an unqualified opinion on your financial statements on 27 September 2012. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
<p>Financial statements audit</p>	<p><i>Our work in relation to the financial statements resulted in the following significant findings:</i></p> <ul style="list-style-type: none"> ■ A total of five audit adjustments with an overall gross value of £17.9m. These adjustments impacted upon the surplus on provision of services and also upon the Authority’s net worth. There was no impact upon the General Fund balance. ■ The Authority had incorrectly accounted for the disposal of property resulting from a school achieving academy status during the year. A similar accounting error had been identified and corrected during the audit of the 2010/11 financial statements. As a result of this we raised a recommendation in our <i>ISA 260 Report 2011/12</i>. ■ There were also a number of errors identified in relation to the draft cash flow statement. In addition, the Authority identified a number of corrections required to the financial statements during our audit visit. Both of these errors resulted in additional audit work having to be undertaken in order to resolve and correct them. ■ There were a number of presentational errors in the draft financial statements.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

Annual Governance Statement	We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding of the Authority.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts (“WGA”) by HM Treasury. We reported that the Authority’s WGA pack was consistent with the audited financial statements.
High priority recommendations	We raised no high priority recommendations as a result of our 2011/12 work. One recommendation relating to the accounting treatment of asset disposals was included in our <i>ISA 160 Report 2011/12</i> which was issued in September 2012 and included agreed management responses.
Certificate	We issued our certificate on 1 October 2012. The certificate confirms that we have concluded the audit for 2011/12 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission’s <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2011/12 was £269,780 excluding VAT. This includes an additional charge of £11,300 in relation to the finalisation of elector objections from prior years. In addition we have negotiated an additional fee of £4,000 with the Authority in respect to additional audit work required in relation to the 2011/12 financial statements. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2011/12.

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the outturn against the 2011/12 planned external audit fee.

External audit

Our final fee for the 2011/12 audit of the Authority was £269,780 This is an overall reduction of 19 percent on the comparative total fee for 2010/11 of £328,340.

The final fee compares to a planned fee of £258,480. The variance is the result of additional work, which was not allowed for in our initial plan, with a value of £11,300. This related to the finalisation of an elector objection raised during the 2009/10 audit.

In addition to the above stated fee, we have negotiated an additional fee of £4,000 with the Authority in relation to additional audit work required as a result of errors identified in the 2011/12 financial statements. These related to issues identified by the Authority during our audit and corrections to the cash flow statement.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2011/12* which we are due to issue in January 2013.

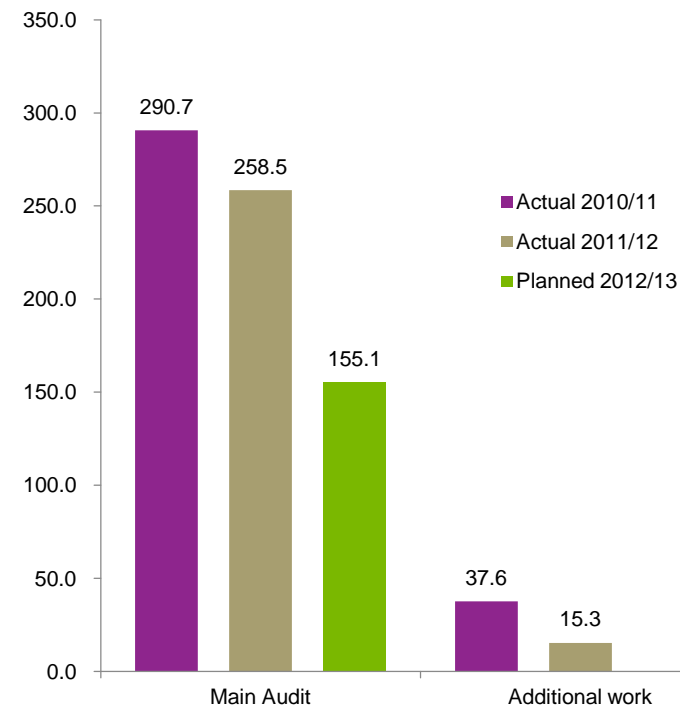
Other services

We have not undertaken any other services not related to our responsibilities under Audit Commission's *Code of Audit Practice*.

2012/13 Fee

In September 2012 we issued our fee letter for the 2012/13 audit of the Authority. This set out a fee of £155,088 which represents a 40 percent decrease compared to the planned 2011/12 fee set out above.

External audit fees 2011/12 (£'000)





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Certification of grants and returns 2011/12

Telford & Wrekin Council

January 2013



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<p>Introduction and background</p>	<p>This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2011/12 we certified: <ul style="list-style-type: none"> – One grant with a value of £80.3m; and – Two returns with a total value of £71.3m. 	<p>-</p>
<p>Certification results</p>	<p>We issued unqualified certificates for all grants and returns.</p> <ul style="list-style-type: none"> ■ These results show an improvement from the results for 2010/11 where we issued one qualified certificate which was in relation to the Housing & Council Tax Benefit Subsidy claim and arose due the identification of one case of underpaid benefit entitlement. In accordance with the certification instructions a qualification had been mandated as a result of identifying an error of that nature. 	<p>Page 3</p>
<p>Audit adjustments</p>	<p>Adjustments were necessary to one of the Council's grants and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ There were a number of very minor adjustments required to one of the returns certified during 2011/12. As a result of these errors the value claimed in relation to that return was amended by a non-significant amount. ■ In 2010/11 four grants required amendment. Two of these required certification during 2011/12. As a result, the amendment of only one claim during 2011/12 shows an overall improvement in the quality of the grants and returns. 	<p>Page 3</p>
<p>The Council's arrangements</p>	<p>The Council has good arrangements for preparing its grants and returns and supporting our certification work.</p> <ul style="list-style-type: none"> ■ Grants and returns were submitted on a timely basis and had been correctly identified as requiring certification in line with the Certification Instruction Index issues by the Audit Commission; and ■ The records kept in relation to grants and returns were accurate and sufficient. Improvements were identified from the prior year in relation to the availability of records relating to the one of the returns requiring certification during 2011/12. 	<p>Page 4</p>
<p>Fees</p>	<p>Our overall fee for the certification of grants and returns has been contained within the original estimate of £35k.</p> <ul style="list-style-type: none"> ■ The overall fee for the certification of grants and returns is consistent with that charged for 2010/11 although there have been changes in relation to the level of fees relating to individual grants and returns. Details are provided on Page 5. 	<p>Page 4</p>

Overall, we certified three grants and returns:

- Two were unqualified with no amendment;
- One was unqualified but required some amendment to the final figures; and
- none required a qualification to our audit certificate.

Detailed comments are provided.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2011/12 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

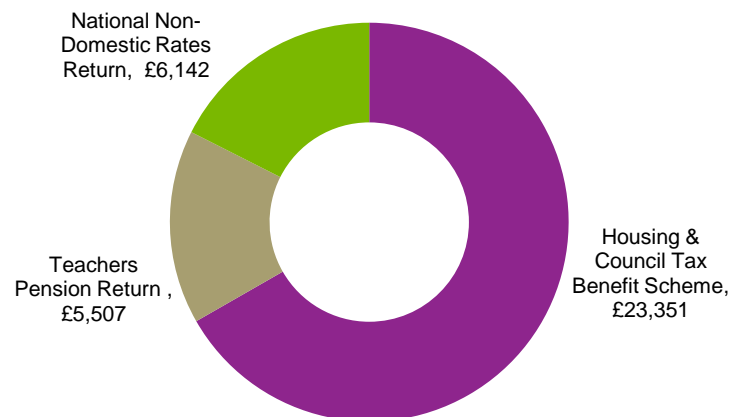
A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate. However, no qualifications were required for the Council's grants and returns during 2011/12.

	Comments below	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing & Council Tax Benefit Scheme					
Teachers Pension Return	1				
National Non-Domestic Rates Return					
		0	0	4	3

Ref	Summary observations
1	A total of four very minor adjustments were required in relation to the Teachers Pension Return. The total impact of these amendments was increase the balance owed to the Council by £3.60.

Our overall fee for the certification of grants and returns has been contained within the original estimate.

Breakdown of certification fees 2010/11



Breakdown of fee by grant/return

	2011/12 (£)	2010/11 (£)
Housing & Council Tax Benefit Scheme	23,351	18,280
Teachers Pension Return	5,507	4,570
National Non-Domestic Rates Return	6,142	5,430
Disabled Facilities Grant	-	3,270
Sure Start, Early Years and Childcare Grant and Aiming High for Disabled Children Grant	-	3,700
Total fee	35,000	35,250

Our initial estimated fees for certifying 2011/12 grants and returns was £35,000. The actual fee charged was in line with that estimate. The fees charged in relation to individual grants and returns has increased from 2010/11 due to:

- additional work being required to address errors identified during prior years in relation to the Housing & Council Tax Benefit Scheme in order to comply with the approach mandated by the Audit Commission; and
- a reassessment of the level of work required in relation to the Teachers Pension Return and the National Non-Domestic Rates Return, including early selection of audit samples so as to ensure that supporting records could be obtained in advance of our audit commencing.

The total value of grants and returns certified during 2011/12 was £151.6m. Despite there being a decrease in the number of claims and returns requiring certification, the total value is generally in line with the value certified during 2010/11 which was £156.6m.

We have made no recommendations to the Council as a result of our certification work for 2011/12.

As a result of our work during 2010/11 we raised a recommendation that the Council review the process for maintaining records in relation to grants and returns in order to ensure that they are readily available for audit. We can confirm that as a result of our audit work for 2011/12 we have noticed improvements in relation to the availability of evidence to support grant claims and returns.



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Our ref TWC/1213/FeeLetter

15 January 2013

Dear Richard

Annual audit fee 2012/13

I am writing to confirm the audit work and fee that we propose for the 2012/13 financial year at Telford & Wrekin Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

This letter replaces the previous document which we issued on 14 September 2012 and presented to the Audit Committee on 25 September 2012.

The proposed indicative fee for the audit for 2012/13 is £155,088 (plus VAT). This compares to the planned fee of £258,480 for 2011/12.

The proposed audit fee represents a 40% reduction compared to the previous audit year and is in line with the scale fee recommended by the Audit Commission.

The indicative fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. My assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2011/12.

We will issue a separate plan for the audit of the 2012/13 financial statements later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with Richard Partington – Managing Director, and Ken Clarke - the Assistant Director: Finance, Audit & Information Governance and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.



From 2012/13, the Audit Commission is replacing the previous schedule of hourly fee rates with a composite indicative fee for certification work for each body. The Commission has calculated an indicative fee which is based on actual certification fees for 2010/11, adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating the general reduction to its fee scales. Based on these changes, I estimate that the fee for the certification of 2012/13 grants and returns will be £16,850 (plus VAT). This is based on the Council continuing to require the following schemes to be certified: housing and council tax benefits scheme; national non-domestic rates return; and teachers' pension return.

The indicative certification fee is further based on the expectation that you are able to provide us with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

In summary, the indicative fees set out in this letter are:

Audit area	Planned fee 2012/13	Planned fee 2011/12
Audit fee	£155,088	£258,480
Certification fee	£16,850	£35,000
Total	£171,938	£293,480

Due to the delay in confirming auditor appointments by the Audit Commission, the first payment was due in September 2012 for the first half of the year. This was invoiced in September and we confirm that payment has been received.

The proposed fee excludes any additional work we may agree to undertake at the request of Telford & Wrekin Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

In addition to myself, the key members of our audit team for the 2012/13 audit are:

Name	Role	Contact details
Heather Garrett	Senior Manager	heather.garrett@kpmg.co.uk +44 (0) 161 246 4294 +44 (0) 777 191 2816
Adam Bunting	Assistant Manager	adam.bunting@kpmg.co.uk +44 (0) 121 232 3253 +44 (0) 784 713 7589
Sophie Whelan	Assistant Manager	sophie.whelan@kpmg.co.uk +44 (0) 121 232 3694 +44 (0) 791 789 4110



KPMG LLP
Annual audit fee 2012/13
15 January 2013

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely

Michael McDonagh
Partner, KPMG LLP

cc: Ken Clarke (Assistant Director: Finance, Audit & Information Governance)
Paul Clifford (Corporate Director)

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2012/13 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and materially accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes;
- the grant claims and returns requiring certification are as listed above; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be revisited when we issue the financial statements audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.



Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Financial Statements audit plan	March 2013
Interim audit report	June 2013
Report to those charged with governance (ISA260 report)	September 2013
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2013
Opinion on Whole of Government Accounts return	September 2013
Annual audit letter	December 2013
Certification of grant claims and returns	April 2014

TELFORD & WREKIN COUNCIL

**AUDIT COMMITTEE – 29 JANUARY 2013
CABINET – 28 FEBRUARY 2013
COUNCIL – 7 MARCH 2013**

2013/14 TREASURY STRATEGY AND TREASURY UPDATE REPORT

**REPORT OF THE ASSISTANT DIRECTOR: FINANCE, AUDIT & INFORMATION
GOVERNANCE (CHIEF FINANCE OFFICER)**

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

The report updates members on Treasury Management activities during 2012/13 and details the Treasury Strategy recommended to be adopted for 2013/14

2012/13 Treasury Management Update

The treasury portfolio at the end of December showed overall net indebtedness of £79.8m (borrowing: £126.2m less investments: £46.4m). Base rates have remained at 0.5% all year with the next move expected to be upwards but not for some time, perhaps until 2015/16.

The borrowing strategy for 2012/13 is to use maturing investments to reduce borrowing where possible. To date, one PWLB loan has matured and no new loans have been taken out. Short term borrowing has been used to fund short term cash flow requirements.

The investment strategy for 2012/13 is to gain maximum benefit with security of capital being the primary consideration. The weighted average return on internal investments at the end of December 2012 was 3.9% compared to a benchmark return for the period of 0.51%. This is an outstanding over-achievement against benchmark and reflects decisions taken some years ago to place investment funds in longer-term fixed rate investments when interest rates were considerably higher than they are today. A schedule of investments is shown at Appendix F.

TREASURY STRATEGY

The Council's Treasury Management Strategy is set within the parameters of the relevant statute, guidance and accounting standards which include the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code.

The Council is expected to be required to borrow up to £3.4m in 2013/14 and will adopt a flexible approach to borrowing. In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing debt, interest rate and refinancing risk as well as borrowing source.

Where possible, maturing investments will be used to reduce the level of additional borrowing which will reduce investment exposure going forward. The strategy for any new investments will be to lengthen investment periods,

where cash flow permits, to achieve higher interest rates within acceptable risk parameters. Maximum investment levels with counterparties will be set to ensure prudent diversification is achieved.

The report also includes the Council's Minimum Revenue Provision Statement, which is unchanged from 2012/13 and sets the Prudential Indicators associated with Treasury for 2013/14.

2. **RECOMMENDATIONS**

Members are asked to note the treasury management activities for the first half year, note the Treasury Management Policy Statement (Appendix A) and approve the Treasury Strategy, including the Annual Investment Strategy for 2013/14 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement.

3. **SUMMARY IMPACT ASSESSMENT**

COMMUNITY IMPACT Do these proposals contribute to specific priority plan objectives?

Yes/No Maximisation of investment income whilst managing risks and minimising borrowing costs whilst also managing risks helps to support the council's overall financial position and therefore the delivery of all policy objectives.

Will the proposals impact on specific groups of people?

Yes/No

TARGET COMPLETION / DELIVERY DATE

Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.

FINANCIAL/VALUE FOR MONEY IMPACT

Yes/No Where appropriate these are detailed in the body of the report.

LEGAL ISSUES

Yes/No The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and Appendices A and C of the strategy itself (Attached).

The Assistant Director: Finance , Audit & Information Governance (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Assistant Director: Finance, Audit & Information Governance is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and

propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee.”

**OTHER IMPACTS,
RISKS AND
OPPORTUNITIES**

Yes/No

The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

**IMPACT ON
SPECIFIC WARDS**

Yes/No

PART B – ADDITIONAL INFORMATION

4. 12/13 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

	31 March 12	31 Dec 12
	Principal £m	Principal £m
Fixed Rate Borrowing - PWLB	56.523	51.022
Fixed Rate Borrowing - LOBO	60.000	60.000
Variable Rate Borrowing - LOBO/market	<u>31.146</u>	<u>15.200</u>
Total Debt	147.669	126.222
Investments - in-house	<u>53.027</u>	<u>46.422</u>
Total Investments	53.027	46.422
Net Indebtedness	94.642	79.800

4.2 INTEREST RATES

Base rates began the year at 0.5% and have remained unchanged all year. The Bank of England extended its Quantative Easing programme in July by £50bn to £375bn. The next move in the base rate is expected to be upwards, but not for some time, perhaps until 2015/16 and will be strongly linked to the recovery of the economy.

4.3 BORROWING & RESCHEDULING

The borrowing strategy for the current year has been to use maturing investments to reduce borrowing where possible.

Rescheduling

During 2012/13 no rescheduling has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

New Borrowing

During the year 1 PWLB loan matured in May for £5m.

Between the period 1 June 2012 (previous Member update) and 31 December 2012, £17.2m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.26% to 0.29% - interest rates have remained fairly low during this time. £15.2m of this temporary borrowing was outstanding at 31 December 2012.

4.4 INVESTMENTS

The strategy for the current year is: To gain maximum benefit, subject to risk control parameters, whilst achieving as a minimum target the 7 day deposit

rate.

4.4.1 In-House Investments

The majority of the Council's investments are internally managed - a mix of both temporary investments for cash flow purposes and longer term investments are undertaken internally. The target return is to achieve at least the 7 day deposit rate.

Temporary Investments

A proportion of funds are invested by the Council's own officers in order to maximise returns from day to day cash flows

In total £1,052m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.35% to 0.80% and periods ranged from overnight deposits to 4 days. £21.422m in house temporary investments were held at 31 December 2012.

Longer Term Investments

A number of internally managed deposits have been made previously. This has not been added to during 2012/13 and a number of investments have matured during the year totalling £25.0m. A full list of longer term investments is shown below.

		£m	%
Fixed Deposit	02/10/08 – 02/10/13	5.0	6.80
Fixed Deposit	03/08/09 – 01/08/14	5.0	6.32
Fixed Deposit	06/03/09 – 06/03/14	5.0	6.31
Fixed Deposit	31/03/09 – 31/03/14	5.0	6.37
Fixed Deposit	22/04/09 – 22/04/14	5.0	6.35
Total		25.0	

It should be noted that under the current guidance from our Treasury Advisors our investment policy would mean that new investments should not be placed for longer than 12 months. However the majority of these investments were placed before the start of the financial crisis which resulted in recommended periods for maximum duration being shortened considerably. The council is benefiting from very attractive rates of interest that are no longer available as a result of the decisions to place these investments for longer term periods when interest rates were considerably higher.

Overall the weighted average return on all internal investments for the year to date was 3.90% compared to a benchmark return for the period of 0.51%.

4.4.2 Overall Position and Exposure

A full analysis of all Council investments at the end of December is shown in Appendix F.

Our current counterparty limit and maximum exposure is £20.0m with any one counterparty, which was agreed when we had 3 fund managers, Counterparty limits will be reviewed when our long term investments mature in 2014. At the end of December the greatest exposure with a single counterparty was £20.0m with Barclays (43% of the total portfolio).

No investments in Supranational Bonds were held at the end of December.

The Council is guided by its Treasury advisers, Arlingclose, in assessing investments.

4.5 LEASING

Each year the Council arranges operating and finance leases for assets such as vehicles, computers and equipment. This helps to spread the cost over a number of years.

No lease drawdowns have been made so far this year, however one is anticipated in March.

5.	<u>PREVIOUS MINUTES</u>
	Audit Committee 31 January 12 Council 1 March 12 Audit Committee 26 June 12

6. TREASURY STRATEGY FOR 2013/14 to 2015/16

6.1 BACKGROUND

6.1.1 The CIPFA Treasury Management Code of Practice

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Annual Investment Strategy as required under the CLG's Investment Guidance.

The purpose of this TMSS is, therefore, to approve the:

- Treasury Management Strategy for 2013/14
- Annual Investment Strategy for 2013/14
- Prudential Indicators for 2013/14, 2014/15, 2015/16 and 2016/17
- MRP Statement.

Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.

As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at a meeting of Full Council on 4 March 2010.

All treasury activity will comply with relevant statute, guidance and accounting standards.

The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Appendix B), the Prudential Indicators (Appendix C) and the outlook for interest rates (Appendix D).

6.1.2 Context

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.

The Authority's current level of debt and investments is set out at Appendix B.

The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2016/17. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

6.1.3 Balance Sheet and Treasury Position

The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/13 Estimate £m	31/03/14 Estimate £m	31/03/15 Estimate £m	31/03/16 Estimate £m	31/03/17 Estimate £m
Capital Financing Requirement	241.734	237.879	242.081	239.262	215.771

6.1.4 Interest Rate Forecast

The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix D. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

6.1.5 Borrowing Strategy

Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Appendix D indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

The Authority has a gross and net borrowing requirement and will be required to borrow up to £3.4m in 2013/14. The Authority will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

6.1.6 Sources of Borrowing and Portfolio implications

In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Authority will keep under review the following borrowing sources:

- PWLB
- Local authorities
- Commercial banks

- European Investment Bank
- Money markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

The Authority has £60m exposure to LOBO loans (Lender's Option Borrower's Option) of which £45m of these can be "called" within 2013/14. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan, at which point the Borrower (i.e. the Council) can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion.

Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

6.1.7 Debt Rescheduling

The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertaken meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

Borrowing and rescheduling activity will be reported to the Audit Committee in the Annual Treasury Management Report and the regular treasury management reports presented to the Audit Committee.

6.2 Annual Investment Strategy

In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments are important but are secondary considerations.

Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.

Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	x
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	x
Commercial Paper	✓	x
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	x
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	x

Registered Providers have been included within specified and non-specified investments for 2013/14. These investments will be analysed on an individual basis and discussed with Arlingclose prior to investing.

In September the Council changed its counterparty policy to rely on the list produced and monitored by Arlingclose. Their current criteria for counterparties is as follows. The minimum credit rating for non-UK sovereigns is AA+ (or

equivalent). For specified investments the minimum long term rating for UK counterparties is A- (or equivalent). As detailed in non-specified investments in Appendix E, the Chief Finance Officer will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

Arlingclose provide the authority with a list of approved counterparties on a weekly basis, counterparties are always checked before making an investment to ensure they are still on the list of approved counterparties directly with Arlingclose. This list details both the approved counterparties and the maximum duration for any investment.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that currently meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in Appendix E.

In the current financial climate the policy adopted will be that as investments mature they will not be reinvested, but be used to minimise borrowing.

Authority's Banker – The Authority banks with HSBC. At the current time, it does meet the minimum credit criteria. Even if the credit rating falls below the Authority's minimum criteria HSBC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

6.3 Investment Strategy

With short term interest rates low for even longer, an investment 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. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

Money market funds (MMFs) can be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will

also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. We currently have no funds with MMF's, however this will be reviewed when our longer term investments have matured.

6.4 Ethical Investment

The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations suitably credit assessed.

The Council's lending activity will be subject to (in order of rank)

- The assessment of meeting the minimum lending criteria as specified in the current Treasury Management Strategy and the minimum credit ratings as outlined in the Strategy;
- Meeting the Security, Liquidity & Yield criteria as set out in the current Treasury Management Strategy and Compliance with the Treasury Management Practice Statements;
- And investments are not contrary to the values outlined in the Ethical Investment Framework.

6.5 The Use of Financial Instruments for the Management of Risks

Currently, Local Authorities' legal power to use derivative instruments remains unclear. Consequently, the authority does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy would require full Council approval.

6.6 Balanced Budget Requirement

The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

6.7 2013/14 MRP Statement

6.7.1 The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 08 (SI 08/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

6.7.2 The four MRP options available are:

Option 1: Regulatory Method

Option 2: CFR Method

Option 3: Asset Life Method

Option 4: Depreciation Method

NB This does not preclude other prudent methods.

6.7.3 MRP in 2013/14: Options 1 and 2 may be used only for supported expenditure.

Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

- 6.7.4** The MRP Statement will be submitted to Council before the start of the 2013/14 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.
- 6.7.5** The Council will apply Option 1 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.

And

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

6.8 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

The Assistant Director: Finance, Audit & Information Governance will report to the Audit Committee on treasury management activity / performance and Performance Indicators as follows:

- half yearly against the strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- Audit Committee will be responsible for the scrutiny of treasury management activity and practices rather than the Budget and Finance Scrutiny Committee.

7 Other Items

7.1 Training

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Reviewing and addressing training needs: The authority regularly reviews the training needs of its staff involved with treasury management and ensures that staff are appropriately trained.

7.2 Investment Consultants/Treasury Advisors

The Council uses Arlingclose as its external treasury management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times.

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 to ensure the quality of any such service is controlled.

8. BACKGROUND PAPERS

CIPFA Code of Practice for Treasury Management in Local Authorities
Temporary Borrowing Records
PWLB records
Investment records
Draft Treasury Strategy provided by Arlingclose
Local Government Act 2003
CLG Guidance on Local Authority Investments
Audit Commission – Risk and Return

Report prepared by
Bernie Morris, Finance Manager (01952) 383702
Ken Clarke, Assistant Director: Finance, Audit & Information Governance
(01952) 383100.

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to Assistant Director: Finance, Audit & Information Governance, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

“The management of the Council'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.”

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council

transparency and control over its debt. The Council will look to minimise borrowing through the use of maturing investments to fund capital expenditure rather than reinvestment.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations. Generally as investments mature they will not be reinvested but be used to minimise borrowing.

APPENDIX B

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31/3/13 Estimate £m	31/3/14 Estimate £m	31/3/15 Estimate £m	31/3/16 Estimate £m	31/3/17 Estimate £m
External Borrowing:							
Fixed Rate – PWLB	51.0	27	50.5	39.5	28.5	27.5	26.5
Fixed Rate – Market	60.0	32	60.0	60.0	60.0	60.0	60.0
Variable Rate – PWLB	0.0	0	0.0	0.0	0.0	0.0	0.0
Variable Rate – Market	15.2	8	11.2	10.8	23.2	28.2	12.4
Total External Borrowing	126.2	67	121.7	110.3	111.7	115.7	98.9
IFRS Long Term Liabilities:							
PFI	62.4	33	62.4	61.0	59.7	58.0	56.9
Finance Leases	0.7	0	0.7	0.7	0.7	0.7	0.7
Total Gross External Debt	189.3	100	184.8	172.0	172.1	174.4	156.5
Investments: <i>Managed in-house</i>							
Short-term monies (Deposits/ monies on call /MMFs)	21.4	46	15.0	10.0	0.0	0.0	0.0
Long-term investments (maturities over 12 months)	25.0	54	10.0	0.0	0.0	0.0	0.0
Total Investments	46.4	100	25.0	10.0	0.0	0.0	0.0
(Net Borrowing Position)/ Net Investment position	(142.9)		(159.8)	(162.0)	(172.1)	(174.4)	(156.5)

Appendix C
Prudential Indicators 2013/14 – 2016/17

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA’s Prudential Code for Capital Finance in Local Authorities (the “CIPFA Prudential Code”) when setting and reviewing their Prudential Indicators.

2. Gross debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Assistant Director: Finance, Audit & Information Governance reports that the authority had no difficulty meeting this requirement in 2012/13, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	12/13 Approved £m	12/13 Revised £m	13/14 Estimate £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m
Total	95.919	79.670	108.199	76.018	22.518	1.901

**if applicable*

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	12/13 Approved £m	12/13 Revised £m	13/14 Estimate £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m
Capital receipts	34.203	33.138	40.127	11.813	12.350	16.345
Government Grants	47.158	46.514	64.087	50.983	6.198	2.258
Revenue / External contributions	0.212	1.019	0.349	1.858	0.000	0.000
Total Financing	81.573	80.671	104.563	64.654	18.548	18.603
Supported borrowing	0.138	2.055	0.257	0.000	0.000	0.000
Unsupported borrowing	14.208	-3.057	3.379	11.364	3.970	-16.702
Total Funding	14.346	-1.002	3.636	11.364	3.970	-16.702
Total Financing and Funding	95.919	79.670	108.199	76.018	22.518	1.901

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	12/13 Approved %	12/13 Revised %	13/14 Estimate %	14/15 Estimate %	15/16 Estimate %	16/17 Estimate %
Total	3.15	2.87	3.11	3.40	3.00	2.70

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	12/13 Approved £m	12/13 Revised £m	13/14 Estimate £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m
Total CFR	256.922	241.734	237.879	242.081	239.262	215.771

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/12	£m
Borrowing	147.669
Other Long-term Liabilities	63.408
Total	211.077

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	12/13 Approved £	13/14 Estimate £	14/15 Estimate £	15/16 Estimate £	16/17 Estimate £m
Increase in Band B Council Tax	-0.53	-3.71	10.31	26.53	25.83

7.2 The increase in Band B council tax reflects the increases in the provision for Capital Financing Charges of £0.987m by 2019/20 to undertake additional borrowing of £14.149m arising from the proposed capital programme. In the short term there are savings due to the rephasing of existing planned borrowing and medium term there is spending ahead of anticipated capital receipts, but once complete the overall increase in Band B is £17.76.

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing,

overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	12/13 Approved £m	12/13 Revised £m	13/14 Estimate £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m
Borrowing	169	169	145	146	150	135
Other Long-term Liabilities	67	67	65	64	63	62
Total	236	236	210	210	213	197

8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Assistant Director: Finance, Audit & Information Governance has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Audit Committee.

Operational Boundary for External Debt	12/13 Approved £m	12/13 Revised £m	13/14 Estimate £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m
Borrowing	149	149	125	126	130	115
Other Long-term Liabilities	65	65	63	62	61	60
Total	214	214	188	188	191	175

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 4 March 10.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Gross Debt and the Capital Finance Requirement

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need. If these figures exceed CFR (which they don't) they would indicate we are borrowing in advance of need.

Gross and Net Debt	12/13 Estimated £m	13/14 Authorised £m	14/15 Authorised £m	15/16 Authorised £m	16/17 Authorised £m
Outstanding Borrowing (at nominal value)	123.833	110.303	111.667	115.637	98.935
Other Long-term Liabilities (at nominal value)	63.100	61.742	60.432	58.756	57.605
Gross Debt	187.433	172.045	172.099	174.393	156.540

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / total debt net of total investments)

11.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

Guidance note on quantum of acceptable volatility...

	Existing level (or Benchmark level) at 31/03/12 %	12/13 Approved %	12/13 Revised %	13/14 Estimate %	14/15 Estimate %	15/16 Estimate %	16/17 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	25	25	30	30	30	30	30
Local Indicator – Upper limit for net variable rate exposure. (Net principal re gross variable rate borrowing and investments divided by gross borrowing plus investments)	80	80	80	60	60	60	60

11.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

12. Maturity Structure of Fixed Rate borrowing:

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to

protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

12.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level (level at 31/03/12) %	Lower Limit for 13/14 %	Upper Limit for 13/14 %
under 12 months	12 (25)	0	40
12 months and within 24 months	9 (7)	0	25
24 months and within 5 years	10 (9)	0	50
5 years and within 10 years	3 (2)	0	75
10 years and within years	0 (0)	0	75
years and within 30 years	0 (0)	0	75
30 years and within 40 years	4 (3)	0	100
40 years and within 50 years	22 (19)	10	100
50 years and above	40 (34)	15	100

13. Credit Risk:

13.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

13.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

13.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

13.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

14. Upper Limit for total principal sums invested over 364 days:

14.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	12/13 Approved £m	12/13 Revised £m	13/14 Estimate £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m
	95	95	95	95	95	95

Appendix D – Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.90	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Underlying Assumptions:

- Consumer Price Inflation is 2.7% having fallen from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- Strong Q3 growth data has provided encouragement with the larger than expected 1% rise in GDP. Consumers are yet to loosen purse strings and businesses are still reticent to make long-term investments. The momentum in growth is unlikely to be sustained whilst uncertainty over the economic outlook persists.
- In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.
- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.
- A last minute agreement on 1st January between the US President and Congressional Republicans to increase taxes on higher earning Americans partly averted the fiscal cliff (which would have meant automatic tax hikes and spending cuts). However the issues of spending cuts, cutting the budget deficit and raising the country's debt ceiling remained unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.

- The Eurozone is making slow headway (the European Stability Mechanism is now operational, announcements on the OMT programme, slow progress towards banking union) which has placated markets and curtailed some of the immediate risks although peripheral countries continue to struggle. Full-fledged banking and fiscal union is still some years away.

Appendix E – Recommended Sovereign and Counterparty List (Section 8)

- **Group Limits** - For institutions within a banking group, the authority executes a limit at the highest of any of the single banks within that group.
- **Sovereign Limit** – The Council will only invest a maximum of 20% of the portfolio with non UK sovereigns.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Council Holding At 31/12/12 £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	20	20	7
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	20	20	0
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	20	20	0
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	20	20	20
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	20	20	7.4
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	20	20	0
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	20	20	0
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	20	20	12
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	20	20	0
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	20	20	0

Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	20	20	0
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	20	20	0
Term Deposits / CDs / Call Accounts	Finland	Pohjola	20	20	0
Term Deposits / CDs / Call Accounts	France	BNP Paribas	20	20	0
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	20	20	0
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	20	20	0
Term Deposits / CDs / Call Accounts	France	Societe General	20	20	0
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	20	20	0
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	20	20	0
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	20	20	0
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	20	20	0
Term Deposits / CDs / Call Accounts	Singapore	DBS Bank Ltd	20	20	0
Term Deposits / CDs / Call Accounts	Singapore	Oversea-Chinese Banking Corporation (OCBC)	20	20	0
Term Deposits / CDs / Call Accounts	Singapore	United Overseas bank (UOB)	20	20	0
Term Deposits / CDs / Call	Sweden	Svenska Handelsbanken	20	20	0

Accounts					
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	20	20	0
Term Deposits / CDs / Call Accounts	US	JP Morgan	20	20	0

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened. The counterparty list was correct as at 9 January 2013.*

TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 12

	CREDIT RATING			TOTAL £000
<u>Fixed Deposits</u>				
Barclays	UK AAA	F1+AA-	B 1	20,000
HSBC	UK AAA	F1+AA	B 1	7,422
Royal Bank of Scotland	UK AAA	F1+AA-	C/D 1	12,000
Santander	UK AAA	F1+AA-	B 1	7,000
TOTAL- FIXED TERM AND CASH DEPOSITS				46,422

<u>SUMMARY BY SOVEREIGN RATING</u>	<u>£000</u>	<u>%</u>
UK AAA	46,422	100
Total	46,422	100

Credit Ratings – A Guide.

Long-term credit ratings and Sovereign Ratings

Fitch Rating's long-term credit ratings are set up along a scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by Standard & Poors (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB- etc.).

Investment grade

- **AAA** : the best quality, reliable and stable
- **AA** : good quality, a bit higher risk than AAA
- **A** : economic situation can affect finance
- **BBB** : medium class counterparties, which are satisfactory at the moment

Non-investment grade

- **BB** : more prone to changes in the economy
- **B** : financial situation varies noticeably
- **CCC** : currently vulnerable and dependent on favourable economic conditions to meet its commitments
- **CC** : highly vulnerable, very speculative bonds
- **C** : highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
- **D** : has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
- **NR** : not publicly rated

Short-term credit ratings

Fitch's short-term ratings indicate the potential level of default within a 12-month period.

- **F1+** : best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1** : best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2** : good quality grade with satisfactory capacity of obligor to meet its financial commitment
- **F3** : fair quality grade with adequate capacity of obligor to meet its financial commitment but near term adverse conditions could impact the obligor's commitments
- **B** : of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions
- **C** : possibility of default is high and the financial commitment of the obligor are dependent upon sustained, favourable business and economic conditions
- **D** : the obligor is in default as it has failed on its financial commitments.

Bank Individual Ratings

Individual Ratings are assigned to banks that are legal entities. The term "banks" here includes bank holding companies and bank assurance holding companies, bank assurance companies operating as single legal entities, investment banks and private banks. These ratings may also be assigned to leasing companies, instalment credit companies, credit card companies, brokerage houses, investment management companies and securities dealing companies, as circumstances demand. These ratings, which are internationally comparable, attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank's exposure to, appetite for, and management of risk, and thus represent the agency's view on the likelihood that it would run into significant financial difficulties such that it would require support.

- A:** A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
- B:** A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.
- C:** An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
- D:** A bank that has weaknesses of internal and/or external origin. There are concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
- E:** A bank with very serious problems, which either requires or is likely to require external support.
- F:** A bank that has either defaulted or, in Fitch Ratings' opinion, would have defaulted if it had not received external support. Examples of such support include state or local government support, (deposit) insurance funds, acquisition by some other corporate entity or an injection of new funds from its shareholders or equivalent.

Notes: Gradations may be used among the ratings A to E: i.e. A/B, B/C, C/D, and D/E. No gradations apply to the F rating.

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings

Support Ratings are Fitch Ratings' assessment of a potential supporter's propensity to support a bank and of its ability to support it. Its propensity to support is a judgment made by Fitch Ratings. Its ability to support is set by the potential supporter's own Issuer Default Ratings, both in foreign currency and, where appropriate, in local currency. Support Ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

Timeliness and Effectiveness Requirements

Fitch Ratings' Support Rating definitions are predicated on the assumption that any necessary "support" is provided on a timely basis. The definitions are also predicated on the

assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

Obligations and Financial Instruments Covered

In terms of these definitions, unless otherwise specified, "support" is deemed to be in terms of foreign currency. It is assumed that typically the following obligations will be supported: senior debt (secured and unsecured), including insured and uninsured deposits (retail, wholesale and interbank); obligations arising from derivatives transactions and from legally enforceable guarantees and indemnities, letters of credit, and acceptances; trade receivables and obligations arising from court judgments.

Likewise, the agency does not assume that the following capital instruments will be supported when sovereign support is involved: preference/preferred shares or stock; hybrid capital (tier 1 and upper tier 2), including reserve capital instruments (RCIs) and variations upon RCIs; and common/ordinary equity capital. It is also assumed that there will be no support for any moral obligation on securitizations. The sovereign support status of subordinated debt is difficult to categorize in advance; it is assessed on a case by case basis, distinguishing among different jurisdictions.

Definitions:

- 1:** A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.
- 2:** A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.
- 3:** A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.
- 4:** A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.
- 5:** A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

GLOSSARY

Term	Meaning
Affordable Borrowing Limit	The amount the authority would normally borrow at any point of time in the year. This boundary might be exceeded temporarily but only in exceptional circumstances. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Authorised Borrowing Limit	The maximum amount the authority can borrow at any point of time in the year. This limit should never be exceeded. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Capital Financing Requirement (CFR)	This represents the underlying need for the authority to borrow and represents the assets of the authority less the long term capital liabilities.
Credit Default Swaps (CDS)	CDS are bought by investors to insure against defaults (i.e. the counterparty not being able to repay). The higher the cost/premium then the higher the risk – CDS therefore given a market view of the credit worthiness of an organisation.
Credit Ratings	Rating on the ability of an organisation to meet its obligations; ratings are assigned by independent, specialist companies, such as Fitch and Moodys using market intelligence they gather.
Credit Risk	The risk that the debtor will default on their obligations
Counterparty	The organisation that you are conducting your business with.
Debt Management Account Deposit Facility	Provided by the Debt Management Office , users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.
Derivative Instruments	A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. For example, a stock option is a derivative because it derives its value from the value

	of a stock. An interest rate swap is a derivative because it derives its value from one or more interest rate indices.
Discounts	These relate to Public Works Loans Board loans. If rates have increased since the borrowing was undertaken then part of the benefit that PWLB will achieve from being able to loan out at that higher rate are passed back to an authority if they repay the loan early.
Fund Managers	Independent investment managers who work to a specific mandate and invest funds on behalf of the Council
Inflation	The rise in prices of goods and services over a period of time.
Interest Rate Risk	The risk that the value of an investment will change due to changes to the interest rate.
Internal Borrowing	This is where the amount of an authority's borrowing is less than its CFR or underlying need to borrow and represents the use of internal balances rather than borrowing from the market.
LIBID	London inter-bank bid rate. Interest rate at which prime banks will borrow money in the London inter-bank market.
LIBOR	London inter-bank offer rate. Interest rate at which prime banks will lend money in the London inter-bank market. Fixed every day by the British Bankers Association to five decimal places.
Liquidity Risk	The risk of not being able to trade an investment quickly to release cash.
Minimum Revenue Provision (MRP)	This is the amount charged against the Income and Expenditure Account for the year in relation to the repayment of debt on borrowing in order to fund capital expenditure.
Obligor	An individual or company that owes debt to another individual or company (the creditor), as a result of borrowing or issuing bonds.
Premia	This is the penalty applied to the early redemption of PWLB loans where rates have fallen since the loan was undertaken.
Prudential Code	A professional code of practice which provides regulatory framework to local authorities on capital expenditure, investments and borrowing activities.
Prudential Indicators	A set of indicators developed within the Prudential Code which define thresholds for investment and borrowing within a local authority.

PWLB	Public Works Loans Board – a Government agency providing long and short term loans to local authorities. Interest rates are generally lower than the private sector and slightly higher than the rates at which the Government themselves may borrow.
Re-scheduling	This relates to repaying existing borrowing early and replacing it with borrowing for a different period usually, but not necessarily, at lower rates
Return	The gain from holding an investment over a given period
Security	An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organisation which offers evidence of debt or equity.
Sovereign Exposure	Risk of exposure to one particular country.
Supranational Bonds	These are bonds (similar to gilts) issued by multi government development organisations and are supported by all of the governments who form part of the organisation. E.g. European Investment Bank and are usually very secure.
Quantative Easing	This is where the government buy back there own gilt issuance to effectively pump money into the financial markets of the economy.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 29th JANUARY 2013

INTERNAL AUDIT UPDATE REPORT – QUARTERS TWO & THREE 2012/13

REPORT OF THE AUDIT & INFORMATION GOVERNANCE MANAGER

1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarters two and three – July – December 2012.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the information in this Internal Audit update report.

3 SUMMARY

- 3.1 The Audit Committee receives a regular update of the work of Internal Audit. This report provides the update report for quarters two and three – July – December 2012.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 26th June 2012 – Internal Audit Quarter 4 Update report
Audit Committee 25th September 2012 – Internal Audit and IG Update Report

5 INTERNAL AUDIT QUARTERS TWO & THREE UPDATE (JULY - DECEMBER 2012)

- 5.1 The report provides information on the work of Internal Audit from 1st July – 31st December 2012 and provides an update on the progress of previous audit reports issued (January 2010 to June 2012).
- 5.2 The team has continued with the work in the quarter 2 and quarter 3 plans including the follow ups of the purchase ledger, general ledger and sales ledger audits to provide additional assurance to the Council's External Auditors for the final accounts audit. The part-time Auditor (18.5 hours) left at the end of August and the budget was reviewed resulting in the hours being increased to 25 hours. Following a recruitment process a new Auditor commenced at the end of October 2012. The Audit & IG SDM has continued to support the transfer of the Public Health function to the local authority.
- 5.3 The following internal audit update report appendices are attached:
- i) **Appendix A** – List of final reports issued in quarters two and three one with our grading – red, amber, yellow or green. This report also includes budgeted time, actual time and percentage variance.
 - ii) **Appendix B** – List of all work undertaken for quarters two and three for a period of 1 day or more.
 - iii) **Appendix C** - Previous graded reports from January 2010 to June 2012 with their current status. (Members should note that once reports have reached a green status and have been reported to members that are excluded from future reports).
 - iv) **Appendix D** – Summary of the amber report issued quarters 2 and 3.

5.4 Appendix A shows 31 reports were issued in quarters 2 and 3 including 6 follow up reports. For the final reports issued the areas shown in this table below varied from the allocated time by more than +/- 10% for the reasons highlighted.

Area	Variance (> +/- 10%)	Reason
Town Park Visitors Centre	+52.5	Revised location so new systems and procedures to be reviewed.
Telford Tennis Centre contract	+465	Originally just a contract review but extended to look at systems and procedures when issues with contract monitoring and management were identified.
Bank contract review	+12.5	Further work required due to issues with new contract
Supported lodgings	+36.2	New area and under estimate for budget
Foster Carer Recruitment Campaign	+48.6	A number of issues identified and additional time due to a lack of response from the auditee
Contract Changes & Waivers	+33.1	New area and diversity of areas meant that the estimate was too low
Young People in Transition & Enablement	+21.4	New area which was more complex than anticipated. Also additional time due to a lack of response from the auditee
St Peters, Edgmond	+44.9	Budget reduced but probably by too much for this school due to increased income at the schools due to pre and afterschool clubs. Also additional safe check and analysis of the use of Agresso.
Teagues Bridge Primary School	+49.4	Budget reduced but probably by too much for this school due to increased income at the schools due to pre and afterschool clubs. Also additional safe check and analysis of the use of Agresso.
Wrekin View Primary School	+42.7	Budget reduced but probably by too much for this school due to increased income at the schools due to pre and afterschool clubs. Also additional safe check and analysis of the use of Agresso.
St Peters & St Pauls	-16.4	School well prepared and no additional income to review.
St Lawrence	-39.4	School well prepared and no additional income to review.
Jacobs replacement contract	-32	Reduced scope due to stage of the procurement process.
Carbon Reduction Commitment	-60	Previous budget was used but as now more familiar with the area and the service area were well prepared significantly less time was required.
Insurance	-34	No major issues identified that required further analysis
Teenage Pregnancy Governance structures	-21.6	New area so unsure on time required. Service area well prepared.
Church Aston School	-14.3	School well prepared and no additional income to review.
Council Tax	-14.1	Well prepared files and working papers plus knowledge of the system produced a time saving.
NNDR	-14.1	Well prepared files and working papers plus knowledge of the system produced a time saving.
Procurement contract monitoring	-18.1	Scope changed so all budget was not required

The reasons for the positive and negative variances are as explained above. Time allocations for 2013/14 will be reviewed based on this information. The allocation for schools will be increased to 7 days (was 8.25 and reduced to 5-6 days).

5.5 Areas of more 10 days or more in Appendix B are explained below by each quarter:

Audit Area	Qtr 2	Qtr 3	Explanation
Advice & Consultancy	24	24	Due to restructures, reductions in budgets and the implementation of revised governance, systems and procedures service areas are continuing to seek advice and support.
Council Tax/NNDR	32		Fundamental audit
Sales Ledger	12	28	Fundamental audit
Treasury Management	14.5		Fundamental audit
Abraham Darby Leisure Centre		13	New leisure centre so increased work required compared to existing centres
Arthog		10	Due to the current reduced use of Agresso (finance system) additional testing was required.
Cash Collection – general		14	Fundamental audit
Integrated benefits system		13	Fundamental audit

5.6 From Appendix C there are currently 2 original amber reports that remains amber – the Abacus review and Markets & cash collection. Some progress was identified when the follow up was undertaken but insufficient to change the grade. Further reviews will be undertaken in quarter 4 and the results of this will be reported to members.

5.7 There were four amber reports issued during quarters 2 and 3 – Town Park Visitors Centre, St Peter and Paul’s School, Telford Tennis Centre and a Bank Contract Review. Summary information is provided in Appendix D. Management actions to implement recommendations have been agreed and Internal Audit has follow up work planned or in progress. Internal Audit is confident that management will implement the remaining recommendations to provide appropriate assurance.

5.8 All other areas reported on in this update report but not highlighted are either improving or the follow ups are in progress or planned. Internal Audit is confident and has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of Audit & Information Governance have attended equal opportunities/ diversity training. If any such issues arose during an audit or risk review they would be notified to the appropriate manager.
Environmental Impact	All members of Audit & Information Governance are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	The Accounts and Audit (England) Regulations 2011 state that the Council must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to

	<p>internal control. There is also a requirement to comply with CIPFA's Code of Practice for Internal Audit in Local Government.</p> <p>In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council's Legal Services Team for further advice and assistance.</p>
Links with Corporate Priorities	The audit plan is linked to corporate priorities through the service planning process. Where high risks are identified then Audit Services undertakes work on a more regular basis.
Risks and Opportunities	The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (mitigating risks) and therefore the delivery of services and achievement of objectives.
Financial Implications	Where recommendations are made by Audit Services, if possible, cost/savings implications are identified.
Ward Implications	Internal Audit is responsible for the internal audit of all the Council's activities and at all Council locations and therefore operates within all Council Wards.

7 BACKGROUND PAPERS

Annual Audit Plan 2012/13 and strategy

Report by Jenny Marriott, Audit & Information Governance Manager 383101

FINAL REPORTS ISSUED QUARTERS TWO & THREE¹ – JULY TO DECEMBER 2012

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance %
Town Park Visitors Centre	Amber	December 2012	8.0 days	12.2 days	- 52.5
SS Peter and Paul	Amber	December 2012	8.25 days	6.9 days	-16.4
St Lawrence	Yellow	October 2012	8.25 days	5.0 days	-39.4
Jacobs replacement contract	Yellow	October 2012	2.5 days	1.7 days	-32
Carbon Reduction Commitment	Yellow	Annual review	4 days	1.6 days	-60
Telford Tennis Centre	Amber	November 2012	2 days	11.3 days	+465
Insurance	Yellow	January 2012	10 days	6.6 days	-34
Bank Contract Review	Amber	November 2012	4 days	4.5 days	+12.5
HR Allowances	Yellow	January 2013	10.25 days	9.3 days	-9.3
Network Infrastructure Report	Various – see below+	March 2013	*	*	*
Agresso – Post Implementation Review	Yellow	During Annual General Ledger audit	*	*	*
Purchase Ledger – Follow Up	Amber	Will next be followed up as part of the fundamental audit in Q3	n/a	n/a	n/a
General Ledger – Follow Up	Yellow	Will next be followed up as part of the fundamental audit in Q3	n/a	n/a	n/a
Abacus – Follow Up	Amber	1 st follow up August 2012 – 2 nd follow up due January 2013	n/a	n/a	n/a
Supported Lodgings	Yellow	December 2012	5 days	6.81 days	+36.2
Teenage Pregnancy Governance Structures	Yellow	March 2013	5 days	3.92 days	-21.6
GIS Application	Yellow	January 2013	3.5 days	3.55 days	+1.4
ICT Procurement – Follow Up	Yellow	January 2013	n/a	n/a	n/a
Foster Carer Recruitment Campaign	Green	N/a	3.25 days	4.83 days	+48.6

¹ This includes significant follow up reports

APPENDIX A (continued)

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance %
Contract Changes & Waivers	Yellow	March 2013	8.25 days	10.98 days	+33.1
Purchase ledger Follow Up	Yellow	N/a – will be followed up as part of the annual audit (due Q3)	n/a	n/a	n/a
Markets & Cash Collection follow up	Amber	January 2013	n/a	n/a	n/a
Young People In Transition & Enablement	Yellow	March 2013	9.25 days	11.23 days	+21.4
Treasury Management	Green	N/a	15 days	15.32 days	+2.13
Church Aston Infants School	Yellow	April 2013	6 days	5.14 days	-14.3
Council Tax	Yellow	2013-14 Annual Audit	20 days	17.17 days	-14.1
NNDR	Yellow	2013-14 Annual Audit	20 days	17.17 days	-14.1
St Peters, Edgmond	Green	April 2013	5.5 days	7.97 days	+44.9
Procurement – Contract Monitoring	Yellow	April 2013	8 days	6.55 days	-18.1
Teagues Bridge Primary School	Green	April 2013	5 days	7.47 days	+49.4
Wrekin View Primary School	Green	Not applicable	5.5 days	7.85 days	+42.7

+ = Various assurances split between the areas of work - Network Infrastructure – **Limited**; Virus Protection – **Reasonable**; Data Centre – **Reasonable**; Wireless Network - **Good**

* - undertaken by Deloitte under specialist IT audit contract

QUARTER TWO - AREAS WHERE WORK UNDERTAKEN HAS BEEN FOR ONE DAY OR MORE

Audit Area - Quarter 2	Days
16+ Commissioning	4
Abacus system review	4
Advice/Consultancy + organisational change	24
Arthog	5
Benefits - Workbook sample test	3.5
Car Parking Enforcement	2.5
Children's Placements	7
Church Aston	3
Continuing healthcare	2
Contract changes & waivers of SOs	2
Council Tax / NNDR	32
CRC Reduction	1.5
Email & Internet Filtering	2
Follow ups	6
Foster carers recruitment campaign	5
Fraud & Compliance Checks	1
Geographical Information System	3.5
HR Allowances	2
Insurance contract	1
Oakengates Tennis contract	1
Procurement	5
Property & Design Helpdesk	4
Purchase Ledger	2
Recruitment	5
Sales Ledger	12
St Peters Edgmond	6
Supportive Lodgings	7
Teagues Bridge	6
Teenage pregnancy Governance	4
Treasury Management	14.5
Wellington Office & Leisure	4
Office Organisation	2
Public Health Transfer	6
Ombudsman Complaints	4

QUARTER THREE - AREAS WHERE WORK UNDERTAKEN HAS BEEN FOR ONE DAY OR MORE

Audit Area - Quarter 3	Days
Abraham Darby Leisure Centre	13
Arthog	10
Car Parking Enforcement	2
Cash Collection - general	14
Children's Placements	6
Church Aston	2
Continuing healthcare	2
Council Tax / NNDR	3
Electronic Client Records	3
Email & Internet Filtering	1
Follow ups	2
Fraud & Compliance Checks	2
HR/Payroll	6
ICT Governance of projects	1
Integrated Benefits System	13
Lilleshall Primary	7
National Fraud Initiative	2
Newport Infants	7
Procurement	1
Property & Design Helpdesk	6
Pupil Tracking	2
Purchase Ledger	2
Sales Ledger	28
Shortwood School	4
St Peters Edgmond	2
Teagues Bridge	1
Term Contract / Service Contracts	4
Transparency Agenda	1
Wellington Office & Leisure	2
Wrekin View	7
Homelessness Thresholds	1
Advice/Consultancy + organisational change	24
Early Intervention imprest check	3
Foster Carers Form F review	4
Office Organisation	6
Public Health Transfer	9
Ombudsman Complaints	1

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.12
Safer Stronger Communities Partnership (SSCP)	Yellow	Yellow	Various follow up's have been undertaken due to changes with the team / working practices and the team have also recently had a restructure so again some actions have been delayed while this has taken place. Next follow up due January 2013	Update will be provided to next appropriate Audit Committee
ICT Release Management	Yellow	Yellow	Previous follow ups have been undertaken but there has been insufficient progress made to change the audit opinion.	Due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013. Update will be provided to the next appropriate Audit Committee.
Confirm System	Amber	Yellow	Previous follow up reviews have been undertaken and we have seen some implementation of recommendations however there are still outstanding recommendations to be addressed.	Due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013. Update will be provided to the next appropriate Audit Committee.
ICT Governance	Amber	Yellow	Previous follow up reviews have been undertaken and we have seen some implementation of recommendations however there are still outstanding recommendations to be addressed.	Due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013. Update will be provided to the next appropriate Audit Committee.
Protocol System Review	Amber	Yellow	Previous follow up reviews have been undertaken and we have seen some implementation of recommendations however there are still outstanding recommendations to be addressed.	Due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013. Update will be provided to the next appropriate Audit Committee.

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.12
ICT Change management	Amber	Yellow	Previous follow up reviews have been undertaken and we have seen some implementation of recommendations however there are still outstanding recommendations to be addressed.	Due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013. Update will be provided to the next appropriate Audit Committee.
Community Centres	Yellow		Follow up delayed due to service review and a scrutiny review. To be undertaken towards the end of January 2013	Update will be provided to next appropriate Audit Committee.
Putting People First – Mainstreaming & Developing Personalisation	Yellow		Due to changes arising from the service restructure revised implementation dates were agreed with Management and the follow up is due to take place in January 2013.	Update will be provided to next appropriate Audit Committee.
Taxi Licensing compliance review 2011	Yellow	Green	Follow up completed December 2012 and satisfactory	No further action required
Software Licensing	Yellow		Follow up in progress	Due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013. Update will be provided to the next appropriate Audit Committee.
ICT Back up and Recovery	Amber	Yellow	Previous follow up reviews have been undertaken and we have seen some implementation of recommendations however there are still outstanding recommendations to be addressed.	Due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013. Update will be provided to the next appropriate Audit Committee.

STATUS ON FINAL REPORTS ISSUED JANUARY 2010 TO JUNE 2012

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.12
Server Virtualisation	Yellow		Follow up due April 2012 however delays due to office moves and restructures.	Due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013. Update will be provided to the next appropriate Audit Committee
P2 Net	Yellow	Yellow	Follow up completed in April 2012. Insufficient progress made to changed audit opinion. 3rd follow up in progress.	Update will be provided to the next appropriate Audit Committee.
Abacus system	Amber	Amber	Follow up completed in August 2012. Some progress has been achieved but insufficient to change the grading. 2nd follow up currently being undertaken	Update will be provided to the next appropriate Audit Committee
Lightmoor Primary School	Yellow	Green	Satisfactory follow up completed in December 2012.	No further action required.
ICT Procurement	Yellow	Yellow	Follow Up completed but no change to grade because although good progress there are still some recommendations outstanding.	A further review will be undertaken in quarter 4. Update will be provided to the next appropriate Audit Committee.
Wombridge Primary school	Yellow	Green	Second follow up undertaken October 2012 and now satisfactory.	No further action required.
Sales Ledger	Amber	Yellow	Follow up completed September 2012 and improvements made which have moved the grade to yellow.	Annual audit will take place during Q3/Q4 and will be reported to members as appropriate.
General Ledger	Yellow	Yellow	Follow undertaken June 2012. remains Yellow as some recommendations were not due to be implemented until later in year	Further follow up will be undertaken as part of 12/13 annual audit (this will be completed in Q4,

STATUS ON FINAL REPORTS ISSUED JANUARY 2010 TO JUNE 2012

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.12
Supplier Query Review	Yellow		Follow up included in the Property & Design Helpdesk audit currently being undertaken.	Update will be provided to the next appropriate Audit Committee.
ICT Infrastructure Contract & Project review	Yellow		Follow up in to commence January 2013	Update will be provided to the next appropriate Audit Committee.
Newport pool review	Yellow	Green	Satisfactory follow up completed.	No further action required.
Hospital Discharge Review	Yellow		Follow up due to commence quarter 4	Update will be provided to the next appropriate Audit Committee.
Purchase Ledger	Amber	Yellow	Follow ups undertaken June and September 2012 when moved to yellow grade.	Follow up of outstanding issues incorporated into annual PL Audit due to be undertaken in quarter 4
Email Arrangements	Yellow		Follow up due August 2012 but due to resource pressures within ICT it was agreed that all follow ups would be postponed to January 2013	Update will be provided to the next appropriate Audit Committee.
Markets & cash collection	Amber	Amber	Follow up completed but no change to grade. 2nd follow up to be undertaken January 2013.	Update will be provided to the next appropriate Audit Committee
Planning Application Fees	Yellow		Follow up in progress	Update will be provided to the next appropriate Audit Committee.
Building Control Fees	Yellow		Follow up in progress	Update will be provided to the next appropriate Audit Committee.
Town Park Visitor Centre	Amber		Follow up in progress	Update will be provided to the next appropriate Audit Committee.

TELFORD TOWN PARK VISITOR CENTRE

1. Introduction and Scope

- 1.1 An audit review was undertaken during May 2012, to provide an opinion on the control environment and a level of assurance for Telford Town Park Visitor Centre.
- 1.2 The scope of the audit was agreed by the Telford Town Park Manager and Parks and Open Spaces Manager.

2. Management Summary and Overall Opinion

- 2.1 Out of the 46 controls reviewed during this audit, 28 (61%) were found to be satisfactory. On the basis of the work carried out it is our opinion that the level of assurance provided by controls for this audit area is Limited. The grading of this report was discussed and agreed with the Town Park Manager as **amber** during the discussions of the draft report.
- 2.2 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below.

Recommendation Category & timescale	Number	Percentage	Rec's implemented as at 27/06/12
Legal Requirement – immediate implementation	4	25%	-
Financial Regulation – immediate implementation	2	13%	-
Policy/Procedure – implementation within a month of agreement to the report.	7	44%	1
Best Practice – implementation at a mutually agreed date	3	18%	1
Total	16	100%	2

- 2.3 The implementation of the recommendations made in this report will further strengthen the controls and processes in your area.

SS PETER & PAUL CATHOLIC PRIMARY SCHOOL

1. Introduction and Scope

1.1 An audit review was undertaken on 12 June 2012, to provide an opinion on the control environment and a level of assurance for SS Peter & Paul Catholic Primary School. We would like to thank the Head Teacher and the Administrator for their help during the audit.

2. Good Practice Areas

2.1 During the audit a number of good practice areas within SS Peter & Paul Catholic Primary School were identified. These included:

- ⌘ A manual requisition is completed and maintained for all purchase orders
- ⌘ Good record keeping for imprest account. All payments are accompanied by receipts, reimbursement request / authorisation and documentation is neatly filed, easily traceable and in chronological order.
- ⌘ Regular finance committee meetings ensuring Governors are kept up to date with financial matters.

3. Management Summary and Overall Opinion

3.1 Out of the 27 controls reviewed during this audit, 15 (56%) were found to be satisfactory. On the basis of the work carried out it is our opinion that the level of assurance provided by controls for this audit area is limited. The grading of this report was discussed and agreed with Carol Morgan, Head teacher as **amber** during the discussions of the draft report.

3.2 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below.

Recommendation Category & timescale	Number	Percentage	Rec's implemented as at 10/07/12
Legal Requirement – immediate implementation	1	8%	-
Financial Regulation – immediate implementation	6	46%	1
Policy/Procedure – implementation within a month of agreement to the report.	5	38%	1
Best Practice – implementation at a mutually agreed date	1	8%	-
Total	13	100%	2

- 3.3 As part of the audit we have also followed up the implementation of recommendations made in the previous audit. The table below shows the action taken since that audit:

Recommendation Category	Implemented	Re-iterated	Not Implemented	Agreed future Implementation
Legal Requirement	1	-	-	-
Financial Regulation	6	-	-	-
Policy/Procedure	3	-	-	-
Best Practice	2		-	-
DCSF	1	1	1	-
Total	13	1	1	0

- 3.4 The implementation of the recommendations made in this report and those outstanding from the previous review will further strengthen the controls and processes in your area.
- 3.5 Recent internal audit reviews have identified that schools are no longer completing the Financial Control Checklist or the Statement of Internal Control following guidance received from Finance. Whilst we agree that there is no longer a statutory requirement to produce these items we feel that it is still a good practice to complete them. These documents provide a health check for the school and enable governors to be assured that appropriate controls are in place and operational.

TELFORD TENNIS CENTRE

1. Introduction and Scope

- 1.1 An audit review was undertaken in March / April 2012 to provide an opinion on the control environment and a level of assurance for Telford Tennis Centre. The scope of the audit was agreed by the Group Operations Manager, the Leisure Service Delivery Manager and the Operations Team Leader - North.

2. Management Summary and Overall Opinion

- 2.1 Out of the 16 controls reviewed during this audit, 1 (6%) was found to be satisfactory. On the basis of the work carried out it is our opinion that the level of assurance provided by controls for this audit area is Limited - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls. The grading of this report was discussed and agreed with the Group Operations Manager, the Leisure Service Delivery Manager and the Operations Team Leader - North as amber during the discussions of the draft report.
- 2.2 From the work undertaken in this audit it appears that the contract has been poorly constructed. Furthermore the contract in place does not appear to be well managed or monitored. Recommendations have been made in this report to try to improve processes and to reduce these risks.
- 2.3 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below.

Recommendation Category & timescale	Number	Percentage	Rec's implemented as at 16/7/12
Legal Requirement – immediate implementation	1	5%	-
Financial Regulation – immediate Implementation	9	47%	2
Policy/Procedure – implementation within a month of agreement to the report.	7	37%	1
Best Practice – implementation at a mutually agreed date	2	11%	1
Total	19	100%	21%

- 2.4 The implementation of the recommendations made in this report will further strengthen the controls and processes in your area.

BANK CONTRACT REVIEW

1. Introduction and Scope

- 1.1 An audit review was undertaken during May 2012 to provide an opinion on the control environment and a level of assurance for the Council's Bank Contract. The scope of the audit was agreed by the Finance Team Leader

2 Management Summary and Overall Opinion

- 2.1 Throughout this review there was a lack of sufficient evidence to enable Internal Audit to verify that expected controls were being adhered to. It is of particular concern that the original signed contract document cannot be located to enable effective contract monitoring to be undertaken.
- 2.2 Out of the 13 controls reviewed during this audit, 1 (8%) was found to be satisfactory. On the basis of the work carried out it is our opinion that the level of assurance provided by controls for this audit area is Amber - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls. The grading of this report was discussed and agreed with the Finance Manager as amber during the discussions of the draft report.
- 2.3 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	1	14%
Financial Regulation – immediate implementation	4	58%
Policy/Procedure – implementation within a month of agreement to the report.	1	14%
Best Practice – implementation at a mutually agreed date	1	14%
Total	7	100%

- 2.4 The implementation of the recommendations made in this report and those outstanding from the previous review will further strengthen the controls and processes in your area.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 29th JANUARY 2013

UPDATE ON THE ANNUAL GOVERNANCE STATEMENT 2011/12 ACTION PLAN

JOINT REPORT OF THE ASSISTANT DIRECTOR FINANCE, AUDIT & IG & THE MONITORING OFFICER

1 SUMMARY OF MAIN PROPOSALS

1.1 For the Audit Committee to note the progress on the actions contained in the 2011/12 Annual Governance Statement (AGS) action plan for implementation during 2012/13.

2 RECOMMENDATION

2.1 That Members of the Audit Committee note the progress made against the actions in the AGS Action Plan in Appendix A.

3 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	<i>The Governance Framework encompasses the whole Council and therefore all of the Council's priorities.</i>
	Will the proposals impact on specific groups of people?	
	No	
TARGET COMPLETION/ DELIVERY DATE	<i>Progress on actions as at 30/11/12 from the 2011/12 AGS. Final position will be reported in the 2012/13 AGS which should be agreed by 30th June 2013.</i>	
FINANCIAL/VALUE FOR MONEY IMPACT	No	<i>Good governance processes support value for money in ensuring economy, efficiency and effectiveness in the Council's decision making processes.</i>
LEGAL ISSUES	Yes	<i>The requirement for an Annual Governance Statement is included in the Accounts and Audit (England) Regulations 2011.</i>
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	<i>Good governance supports the identification and management of risks and robust control arrangements.</i>
IMPACT ON SPECIFIC WARDS	Yes	<i>Borough-wide impact</i>

4 INFORMATION

4.1 Under the Accounts and Audit (England) Regulations 2011 the Council is required to produce an Annual Governance Statement and it is best practice that the statement should include an action plan for further improvement. This report sets out the progress made to the end of November 2012 against the actions agreed in this action plan in June 2012.

5 PREVIOUS MINUTES

5.1 Cabinet 31st May 2012
Audit Committee 26th June 2012

6 BACKGROUND PAPERS

Local Code of Corporate Governance May 2008

Application Note to Delivering Good Governance in Local Government: a Framework March 2010

Report by Jenny Marriott, Audit & Information Governance Manager 383101

PROGRESS ON ANNUAL GOVERNANCE STATEMENT 11/12 ACTION PLAN FOR IMPLEMENTATION 2012/13

No	Action	Lead Officer	Original Comments	Original Date	Progress & Comments as at 30/11/12
1.	Strategic management of continued organisational change in respect to the co-operative council and continued development and implementation of revised governance framework (encompassing the corporate governance structure incorporating information, information technology, partnership and project governance).	Managing Director and SMT	Agreeing the revised governance requirements and incorporating into any changes to the Constitution, strategies and policies. Endorsing an awareness programme for officers and members.	Ongoing 31/03/13	Ongoing No date change Will look to e-learning to develop awareness and training programme.
2.	Managing Decision making: a) Implementation of the revised officer governance arrangements; b) Clarifying officer/member roles & responsibilities including delegations c) Other constitution changes to reflect the revised organisational structures & ways of working d) Preparations for the revised external audit arrangements.	Assistant Director Law, Democracy & Public Protection and Assistant Director Finance, Audit & IG	This action develops further the implementation of previous actions in respect to the Constitution and revised external audit arrangements.	(a), (b) and (c) by 31/03/13 (d) – will need to respond to consultations on the proposed future changes during 12/13.	Changes required in respect to (a), (b) and (c) – some have been implemented through the delegation to the Assistant Director Law, Democracy & Public Protection. Other scheduled as part of full review for implementation for the new municipal year 13/14. (d) – ongoing as implementation not due until 2016/17.
3.	<ul style="list-style-type: none"> • Review of our Workforce Development priorities and delivery • Continue to review and update the management competencies and skills required in the revised organisation. Review of HR policies and processes to support the organisational changes. 	Assistant Director Customer and People Services	A restructure in these areas is planned for May/June 2012 with implementation Autumn 2012. Review work will then continue to reflect the needs of the organisation.	31/03/13 and on going	People Services restructure due to be fully implemented by January 2013. Completion of the review of workforce development priorities & delivery by 31/03/13. Other activities ongoing to support the Co-operative Council & new ways of working.

No	Action	Lead Officer	Original Comments	Original Date	Progress & Comments as at 30/11/12
4.	Information governance: (a) continuation of the training and awareness programme; and (b) the implementation of any actions arising from directions from the ICO	Assistant Director Finance, Audit & IG Director Children's Services/SMT		On-going 31/07/12	Ongoing with further use of e-learning to be implemented in Spring 2013. Still some outstanding internal actions from cases referred to the ICO. Revised deadline 31/03/13
5.	Implementation of improvements to the Financial management system	Assistant Director Finance, Audit & IG	To implement the improvements identified during the annual audit review overseen by the Steering Board	31/10/12	Complete. Further developments and associated training scheduled.
6.	Develop the governance arrangements for the Health & Well Being Board and transfer of Public Health	Assistant Director Social Care Specialist	Shadow Board 12/13 and prepare for transfer of Public Health April 2013 and associated governance arrangements.	31/01/13	Action Plan in place to ensure governance ready and appropriate for 01/04/13. Training being provided to members of the Health & Well Being Board. Revised date 31/03/13

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 29th JANUARY 2013

RESULTS OF THE CIPFA BENCHMARKING EXERCISE FOR INTERNAL AUDIT 2012

REPORT OF THE AUDIT & INFORMATION GOVERNANCE MANAGER

1 PURPOSE

- 1.1 To provide the Committee with the results of the CIPFA Benchmarking exercise for Internal Audit 2012.

2 RECOMMENDATIONS

- 2.1 That Members of the Audit Committee note the benchmarking results 2012 contained in this report and the decision to discontinue being members of the benchmarking club (paragraph 6.4).

3 SUMMARY

- 3.1 The Internal Audit team strives to ensure that it provides value for money to the Council and the community whilst also providing a high quality service. The team regularly compares itself with other local authorities and shares good practice to ensure that it is adhering to the CIPFA Code of Practice for Internal Audit in Local Government 2006 and other recognised best practice. This occurs through membership of regional and national networking groups¹, membership of the CIPFA benchmarking club for Internal Audit and continued professional development.
- 3.2 This report sets out the results of the benchmarking exercise for 2012 and compares them to the last 3 years (2009 – 2011) figures previously reported to this committee.
- 3.3 The results demonstrate that T&W Internal Audit compares well with other unitary authorities but that variations in the results are useful to examine to inform future planning and strategies.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 3rd November 2009
Audit Committee 2nd November 2010
Audit Committee 1st November 2011

5 BENCHMARKING RESULTS 2012

- 5.1 The summary results have been attached to this report as Appendix A. If Members wish to receive more detailed information then this is available on request from the Audit & Information Governance Manager.

¹ National - CIPFA Audit Panel; Regional - West Midlands Chief Auditors Group, Contracts Audit Group, Fraud Group and FMSiS Working Group.

5.2 The results are provided for costs, audit coverage and staffing.

5.3 Information is provided as estimates for 2009/10, 2010/11, 2011/12 and 2012/13. For the cost analysis there are also some actual comparisons available.

5.4 Cost Analysis

5.4.1 The cost analysis in Appendix A shows that for **2011/12 actual costs** T&W Internal Audit compares well to unitary averages except for overhead costs. Key points for 2011/12 are:

- a) Audit cost per £m turnover = T&W £653 compared to £759 for all unitary authorities.
- b) Cost per chargeable day = T&W - £273 compared to £313 for all unitary authorities.
- c) Days per £m = T&W 2.4 compared to 2.5 for all unitary authorities.
- d) Chargeable days per auditor = T&W 207 compared to 171 for all unitary authorities
- e) Available days per auditor = T&W 221 compared to 207 for all unitary authorities.
- f) Cost per auditor (in house) = £54,898 compared to £55,053. (NB – this cost represents total costs of the internal audit service i.e. all staff costs, overheads and other costs excluding bought in audit service divided by staff numbers).
- g) Pay (£) – including pay, NI, pension and taxable benefits = T&W £40,612 compared to £44,026 for all unitary authorities.
- h) Overheads (£) – includes all other costs = T&W £14,286 compared to £11,198 for all unitary authorities.

5.4.2 During 2011/12 there have been no changes to the structure but it was the first full year of the revised structure following restructure. The estimates for 2012/13 show that staff costs continue to be below the unitary average – T&W cost per auditor in house = £42,449 compared to Unitary average of £45,326.

5.5 Audit Coverage

5.5.1 For audit coverage (i.e. audit plans) only estimated information is available.

5.5.2 In Appendix A our estimates for 2009/10, 2010/11, 2011/12 and 2013/14 show differences when compared to all unitary authorities. These figures are influenced by how the plans are structured and the requirements of authorities Audit Committees, External Auditors, section 151 officer and other risks being experienced by these organisations. Following agreement of the annual plan it is kept under review during the year.

5.6 Staffing

5.6.1 The staffing information is analysed over salary bands and qualifications based on fte² figures as at 31st March 2009 - 8.6, 2010 - 7.3, 2011 - 5.6 and 2012 – 4.9.

5.6.2 Due to the appointments at the bottom of the scale and increases due to increments the profile for salaries has changed slightly from 31st March 2011 to 31st March 2012.

5.6.3 The qualification information shows that the Council's and Internal Audit's aim to have appropriately qualified staff has currently been achieved. We have no unqualified staff or any undertaking professional training. We support continued professional and personal development. Compared to other unitary authorities we have qualified rather than unqualified staff and this supports our structure, ensures efficient and effective service delivery and reduced training costs.

² Fte = Full time equivalent

6 CONCLUSIONS

- 6.1 Benchmarking is a useful exercise to compare Internal Audit with other unitary audit teams. However we are all unique in our organisation and cultures and must ensure that we are providing the appropriate assurances to our Council's while demonstrating value for money. This can be affected by many things but the team strives to use this information to identify areas for improvement and where we need to make efficiencies.
- 6.2 T&W is a relatively small unitary authority and the Internal Audit team generally compares well with other unitary authorities. It does provide a high quality Internal Audit service as verified by external review and the External Auditors reliance on our work for the final accounts audit. This reliance on internal resources reduces the cost of external audit.
- 6.3 The benchmarking figures do overall reflect the contraction of internal audit resources generally across unitary authorities.
- 6.4 Due to the current pressures on budgets the decision has been taken to discontinue the membership of the CIPFA Internal Audit benchmarking club at a saving of £550 to the Internal Audit budget from 2013 onwards. Comparisons will continue through the networking groups that we continue to be members of and the connections with the CIPFA Audit Panel.

7 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of Audit Services have attended equal opportunities/diversity training. If any such issues arose during an audit they would be notified to the appropriate manager.
Environmental Impact	Such issues would be notified to the appropriate manager during or immediately following the audit.
Legal Implications	Section 6 of the Accounts and Audit (England) Regulations 2011 state that the Council "must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". Further it states that the Council "must, at least once in each year, conduct a review of the effectiveness of its internal audit" Whilst the benchmarking review does not constitute a full review of the internal audit system it is helpful as it provides comparative data which will inform the internal audit review process.
Links with Corporate Priorities	Audit Services contributes to the governance and assurance framework required by a modern effective Council.
Risks and Opportunities	The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (reducing risks) and therefore the delivery of services and achievement of objectives. An adequate Internal Audit function will assist the Council in managing the risk of increasing external audit fees as the external auditor will be able to depend on their work rather than having to do it themselves.
Financial Implications	There are no direct financial implications arising from this report. The annual costs of £550 for taking part in the CIPFA benchmarking exercise for 2012 was financed from the existing 12/13 budget but as the activity will cease for 2013 then there will be a saving in 13/14.

Ward Implications	Internal Audit is responsible for the internal audit of all the Council's activities and at all Council locations. They therefore operate within all Council Wards.

8 BACKGROUND PAPERS

CIPFA Benchmarking results 2009, 2010, 2011 and 2012.

Report by Jenny Marriott, Audit & Information Governance Manager 383101

SUMMARY RESULTS CIPFA BENCHMARKING EXERCISE 2012 compared to 2009, 2010 and 2011

KEY:

Red highlight – T&W negative benchmarking result

1. COST ANALYSIS

Description of Benchmarking Information	Actual 2009/10 All Unitaries	Actual 2009/10 Telford	Actual 2010/11 All Unitaries	Actual 2010/11 Telford	Actual 2011/12 All Unitaries	Actual 2011/12 Telford	Estimate 2012/13 All Unitaries	Estimate 2012/13 Telford
Audit Cost per £m Turnover (£)*	891	1,224	890	1088	759	653	751	655
Cost per chargeable day (£)	307	299	302	311	313	273	319	276
Days per £m (Days)*	2.9	4.1	3.0	3.5	2.5	2.4	2.5	2.4
Chargeable days per Auditor (Days)	157	181	166	178	171	207	175	207
Available days per Auditor (Days)	202	208	205	216	207	221	207	219
Cost per Auditor (in house) (£)	53,741	55,698	54,635	65,616	55,053	54,898	55,569	55,510
Pay (£k) – including pay, NI, pension & taxable benefits.	42,541	46,301	44,726	47,077	44,026	40,612	45,326	42,449
Overheads (£k) – includes all other costs – travel, training, recruitment, accommodation, equipment, IT, central and establishment charges.	13,028	10,959	10,718	13,231	11,198	14,286	11,242	13,061

* - Larger authorities are not necessarily more complex to audit as all unitary authorities will deliver a broadly similar pattern of services.

2. AUDIT COVERAGE

Description of Benchmarking Information	Estimate 2009/10 All Unitaries	Estimate 2009/10 Telford	Estimate 2010/11 All Unitaries	Estimate 2010/11 Telford	Estimate 2011/12 All Unitaries	Estimate 2011/12 Telford	Estimate 2012/13 All Unitaries	Estimate 2012/13 Telford	12/13 % difference All v Telford
Fundamental Financial systems (Days per £m)	0.51	0.80	0.48	0.64	0.41	0.76	0.39	0.68	+74%
Strategic & Operational Risks (Days per £m)	1.70	2.29	1.49	1.20	1.25	0.94	0.75	0.59	-21%
Corporate Governance (Days per £m)	0.21	0.45	0.18	0.29	0.13	0.20	0.13	0.13	NIL
Audit of IT Systems (Days per £m)	0.21	0.45	0.18	0.40	0.16	0.32	0.14	0.21	+50%
Fraud (Days per £m)	0.35	0.12	0.30	0.12	0.27	0.09	0.24	0.09	-63%
Consultancy & Advice (Days per £m)	0.16	0.23	0.16	0.10	0.14	0.12	0.13	0.09	-31%
Grant certification (Days per £m)	0.05	0.01	0.04	0.00	0.03	0.01	0.04	0	-100%
Other (Days per £m)	0.16	0.00	0.17	0.14	0.18	0.08	0.14	0.05	-64%
Contingency (Percent)	6.0	9.8	6.1	9.4	6.4	8.5	6.5	4.8	-26%

3. STAFFING

Description of Benchmarking Information	Based on 31/03/09 All Unitaries	Based on 31/03/09 Telford	Based on 31/03/10 All Unitaries	Based on 31/03/10 Telford	Based on 31/03/11 All Unitaries	Based on 31/03/11 Telford	Based on 31/03/12 All Unitaries	Based on 31/03/12 Telford
Salary banding under £20	10%	23%	8%	0%	6%	0%	6%	0%
Salary banding under £20 - 25k	13%	0%	13%	8%	12%	0%	12%	0%
Salary banding under £25 - 30k	20%	30%	17%	26%	21%	47%	21%	43%
Salary banding under £30 - 40k	35%	12%	39%	27%	36%	21%	36%	27%
Salary banding over £40k	22%	35%	23%	39%	25%	32%	25%	30%

Qualifications – CCAB/MIIA	31%	49%	34%	60%	38%	68%	39%	61%
Qualifications – CIPFA DPA/PIIA	10%	33%	10%	37%	11%	18%	11%	20%
Qualifications – AAT	29%	17%	27%	3%	28%	14%	27%	19%
Other Specialists	7%	0%	7%	0%	7%	0%	6%	0%
Part qualified/Trainees	9%	0%	8%	0%	6%	0%	7%	0%
Non Qualified	14%	0%	14%	0%	10%	0%	10%	0%

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 29th JANUARY 2013

REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE 2012/13

REPORT OF THE AUDIT & INFORMATION GOVERNANCE MANAGER

1 PURPOSE

1.1 For members of the Audit Committee to:

- a) agree the survey to measure the effectiveness of the Audit Committee; and
- b) agree that the results of the survey will be reported to the Audit Committee on 26th March 2013.

2 RECOMMENDATIONS

2.1 That Members agree the survey attached as Appendix A and to issue it to those outlined in paragraph 5.2 to measure the effectiveness of the Audit Committee; and

2.2 That Members agree that the results of the effectiveness survey will be presented to the March 2013 Audit Committee.

3 SUMMARY

3.1 The last survey was undertaken in February 2012 to review the effectiveness of the Audit Committee. No survey was undertaken in 2011 due to the impending Borough Elections.

3.2 It is good practice for the Council and helps it to demonstrate good governance by measuring and reporting on the effectiveness of the Audit Committee.

4 PREVIOUS MINUTES

4.1 Audit Committees 2nd February 2010, 1st February 2011 and 31st January 2012

5 BACKGROUND

5.1 It is proposed to use the same survey as was used in February 2012 to review the effectiveness of the Audit Committee for 2012/13. This will enable comparisons with previous years to be made. The proposed survey is attached as Appendix A.

5.2 It is proposed that the survey should be issued to and completed by the end of February 2013 by the following officers and Members:

- a) Members of the Audit Committee;
- b) The Leader, Cllrs Richard Overton and Bill McClements – relevant Cabinet Members;
- c) Managing Director, Chief Financial Officer (Assistant Director – Finance, Audit & IG), Monitoring Officer (Assistant Director – Law, Democracy & Public Protection) and the Audit & IG Manager;
- d) Assistant Directors/other officers who have attended the Committee in the last 12 months; and
- e) the External Auditor (KPMG).

5.3 The analysis of the effectiveness survey will assist the Committee in discussions about any weaknesses and areas for development/training.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	The review and skills audit should ensure Equality of Opportunity for all those completing them.
Environmental Impact	None
Legal Implications	(i) The Council are a relevant body within the meaning of the Accounts and Audit (England) Regulations 2011 and therefore must comply with the requirements set out in the Regulations. This includes, at Regulation 4 (2), a requirement for an annual review of the effectiveness of its system of internal control. The effectiveness of the Audit Committee survey within recommendation 2.1 will contribute towards meeting this requirement as the Audit Committee is part of the Council's system of internal control. The findings of the effectiveness review must come back to this Committee following which the Council must approve its annual governance statement. This will be undertaken by the Committee in accordance with its powers, functions and responsibilities as set out in Section 4, part 10 of the Council's Constitution. (ii) Regulation 6 (3) sets out an annual requirement for a review of the effectiveness of the Council's internal audit. The method of compliance with both these requirements is not specified and therefore is a matter for the Council to determine.
Links with Corporate Priorities	An effective Audit Committee supports the Council's good governance arrangements encompassing the internal control and internal audit arrangements.
Opportunities and Risks	Reviewing the effectiveness of the Audit Committee supports the effective management of risks and opportunities across the Council. The Audit Committee challenges and seeks assurances that the risk management processes are working effectively.
Financial Implications	Any costs associated with the distribution and analysis of the survey will be met from within existing budgets. Any additional costs arising from development/training will also have to be met from within existing cash limited budgets.
Ward Implications	None.

7 BACKGROUND PAPERS

The Accounts and Audit (England) Regulations 2011
Previous surveys audit reports to Audit Committee

Report by Jenny Marriott, Audit & Information Governance Manager 383101

Effectiveness of the Audit Committee 2012/13 - Survey

Assessment scores:

N/A = not applicable	1 = hardly ever/ poor	2 = occasionally/ inadequate
	3 = most of the time/ satisfactory	4 = all of the time/ good

	N/A	1	2	3	4
Processes					
1 Composition of Members					
The Committee members have an appropriate mix of skills and experience.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Clear terms of reference					
There are clear, up to date terms of reference for the Audit Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Clear as to governance and risk management responsibilities					
The Committee is clear about its role in relation to governance and risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Sufficient number of meetings and access to resources					
The number and length of meetings and access to resources is sufficient to allow the Committee to be fully discharged	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Concise, relevant and timely information					
Committee papers are concise, relevant and timely.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Reports are received sufficiently far in advance if required to allow referral to Council meetings					
Committee meetings receiving relevant reports are held sufficiently far in advance of Council meetings to permit resolution of the issues raised	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Attendance and contribution to meetings					
All Committee members attend and actively contribute at meetings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Sufficient time and commitment to undertake responsibilities					
All Committee members have sufficient time and commitment to fulfil their responsibilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 On-going personal development					
Committee members have access to on-going development activities to update their skills and knowledge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Role in relation to Anti-Fraud and Speak Up Policies					
The Committee is responsible for and is kept informed of the Anti-Fraud and Speak Up policy and procedures in place within the Authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Assessment scores:

N/A = not applicable	1 = hardly ever/ poor	2 = occasionally/ inadequate
	3 = most of the time/ satisfactory	4 = all of the time/ good

	N/A	1	2	3	4
Activities					
11 Understanding the Authority's business					
All Committee members have a good understanding of the different risks inherent in the Authority's business activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 Focus on appropriate areas					
The Committee focuses on the right questions and is effective in avoiding minutia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 Quality of interaction with external auditors					
The Committee actively engages with the external auditors regarding the scope of their work and audit findings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 Quality of interaction with internal audit					
The Committee demonstrates an appropriate degree of involvement in the work of internal audit and its findings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15 Understanding of key financial issues					
The Committee has a good understanding of the key financial issues, key accounting policies and Treasury Management.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16 Understanding of how assurance is gained					
The Committee understands the interaction between the various sources of assurance available to it in addition to Internal Audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17 Rigour of debate					
Committee meetings encourage a high quality of debate with robust and probing discussions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18 Quality of chairmanship					
The Chair promotes effective and efficient meetings, with an appropriate level of involvement outside the formal meetings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19 Frank, open working relationship with senior officers					
Committee members have a frank and open relationship with senior officers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20 Open channels of communication					
The Committee has open channels of communication with officers and other members to keep it aware of topical/ regulatory issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21 Perceived positive balance of roles					
There is an appropriate balance between the monitoring role and the Committee acting as an "influencer for good"	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22 Perceived to have a positive impact					
The Committee is effective in achieving its terms of reference and adding value to the corporate governance of the Authority.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Are there any other comments or observations you wish to make about the effectiveness of the Audit Committee or its operation?

Name:.....

Officer/Member/Other:.....

(We would prefer that you complete this information but if you do not wish to put your name to it please just indicate if you are an officer/member/other)

Thank you for completing this questionnaire. Please return the completed form to:
Jenny Marriott – Audit & IG Manager, Finance, Audit & IG, 1st Floor, Whitechapel House.

by Thursday 28th February 2012. Thank you