

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 27th March 2012 at 6.00 pm in the Reception Suite, Civic Offices, Telford

PRESENT: Councillors R K Austin (Vice-Chair in the Chair), I T W Fletcher, R J Sloan, W L Tomlinson and C R Turley.

Officers: J Marriott (Audit & Assurance Manager) and J Clarke (Democratic Services Officer).

AUC-42 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 27th March 2012 be confirmed and signed by the Chairman.

AUC-43 APOLOGIES FOR ABSENCE

Councillor D Davies

AUC-44 DECLARATIONS OF INTEREST

None

AUC-45 INTERNAL AUDIT PLAN 2012/13 AND STRATEGY AND INFORMATION GOVERNANCE WORK PROGRAMME 2012/13

The Audit and Assurance Manager presented a report on the Internal Audit Plan 2012/13 and Strategy and the Information Governance Work Programme 2012/13.

The report was set out in three parts:

Internal Audit Plan – The draft Plan set out the internal resource and the proposed work of the IT Audit Specialists for the year 2012/13. The plan also included a 10% contingency, due to the continued re-structure and ongoing changes within the organisation, in order to cover the key risk areas.

Internal Audit Strategy - The internal audit team's objectives were to support the whole Council as it became a Co-operative Council and to deliver an economic, efficient and effective internal audit service in order to support the achievement of the Council's priorities and objectives.

Information Governance Work Programme 2012/13 – The Information Governance Team's work programme was presented. This sets out the work required to support the Council's information governance framework and the administration of the Council's responses to FOI, EIR and DPA requests. The Report gave a summary of the ongoing work and completion times.

A discussion took place including:

- Reduction in hours and skill levels
- Internal Audit opportunities to offer training services to other Local Authorities
- The Auditing of Abraham Darby Leisure Centre
- IG Training and Awareness Programme

- Transfer of Public Health to the Council

RESOLVED –

- a) that the Internal Audit Plan and Strategy for 2012/13 be approved; and
- b) that the Information Governance Work Programme 2012/13 be noted.

AUC-46 RESULTS OF THE SURVEYS ON THE EFFECTIVENESS OF THE AUDIT COMMITTEE AND THE SKILLS OF AUDIT COMMITTEE MEMBERS

The Audit and Assurance Manager presented a report on the results of the surveys completed to review the effectiveness of the Audit Committee and the skills of the Audit Committee Members.

There had been lower responses in 2012 compared to previous years. Only 6 of the 17 surveys that were sent out had been received. Officers had responded to say that they had only attended one meeting and they did not have enough knowledge to contribute to the survey. In some areas scores were lower than previous years but in four of the areas the scoring was well over 3. Members were asked to put forward suggestions as to how these scores could be improved.

With regard to the skills survey of Members the results were that the Members felt competent or developing their skill levels. Training was given on the final accounts in September 2011 and it was hoped in the near future to give training on IG Work Programme.

A discussion took place including:

- The recipients of the Effectiveness of the Audit Committee Survey
- Training for any new Members of the Audit Committee

RESOLVED –

- a) that the results of the effectiveness survey be noted; and
- b) that the results of the skills survey be noted.

Members were asked to note the dates of the future meetings.

The meeting ended at 6.18 p.m.

Chairman:

Date:

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JUNE 2012

REVIEW OF THE AUDIT COMMITTEE TERMS OF REFERENCE

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

1 SUMMARY OF MAIN PROPOSALS

- 1.1 For the Audit Committee to recommend to the Council's Constitution Committee changes to the Audit Committee's terms of reference for adoption by the Council.

2 RECOMMENDATION

- 2.1 That members of the Audit Committee agree the changes to the terms of reference attached as Appendix A and recommend them to the Council's Constitution Committee for adoption by the Council in September 2012.

3 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	<i>The Audit Committee is part of the Council's Governance Framework encompassing 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>Approval by Council at their September 2012 meeting.</i>	
FINANCIAL/VALUE FOR MONEY IMPACT	No	<i>Good governance processes support value for money in ensuring economy, efficient and effectiveness in the Council's decision making and processes.</i>
LEGAL ISSUES	Yes	<i>The requirement for Terms of Reference for Council Committees is part of the Constitution.</i>
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	<i>The Audit Committee provides assurance on good governance and that there is the proper identification and management of risks and robust control arrangements.</i>
IMPACT ON SPECIFIC WARDS	Yes	<i>Borough-wide impact</i>

4 INFORMATION

- 4.1 There is a requirement in the Constitution for all Committees to annually review their terms of reference at their first meeting following Annual Council.
- 4.2 The changes to the Audit Committee terms of reference reflect:
- The changes to the Council's governance arrangements
 - The desire to overtly include the information security framework in the terms of reference
 - Changes required as a result of the Accounts and Audit Regulations 2011.

5 IMPACT ASSESSMENT – ADDITIONAL INFORMATION

N/A

6 PREVIOUS MINUTES

6.1 Audit Committee 27th June 2011

7 BACKGROUND PAPERS

Constitution

The Accounts & Audit Regulations 2011

Report by Jenny Marriott, Audit & Assurance Manager 383101

AUDIT COMMITTEE**Terms of Reference**

The Committee has the responsibility on behalf of the Council for the overseeing of the Council's ~~audit, financial processes, governance (including risk management) and financial audit processes and risk management.~~

Delegated matters (i.e. Matters which can be decided (resolved))**Internal Audit**

1. The approval (but not direction) of, and monitoring of progress against, the internal audit strategy and plan.
2. Review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.
3. To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee – governance (including information governance), internal audit, risk management, statement of accounts and external audit.
4. The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the Council.

External Audit

5. Review and agree the External Auditors annual plan, including the annual audit fee and receive regular update reports on progress.
6. To consider the reports of external auditor.
7. Meet privately with the external auditor once a year, if required.
8. Ensure that there are effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.

Risk Management

~~Recognising that Risk Management is a Cabinet function, the Committee should:-~~

- ~~9. Seek assurances that the authority's risk management arrangements are effective and operating within Council policy and review the Annual Risk Management report to Council.~~
- ~~10. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.~~

Governance

944. Consider the effectiveness of the Council's governance processes and their compliance with legislation and best practice including:
 - a) the Council's Code of Corporate Governance;
 - b) the Council's information security framework;
 - c) the management of opportunities and risks; and
 - d) other corporate governance arrangements.
10. Be responsible for the review and approval of the authority's Annual Governance Statement ensuring that it properly reflects the governance, control and risk environment and any

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actions required to improve it. Following approval, it should ~~accompany~~ ~~recommend its inclusion in~~ the Accounts.

- ~~12.~~ ~~Consider the effectiveness of the control environment including reviewing the Council's Code of Corporate Governance and other corporate governance arrangements to ensure compliance with best practice.~~

Treasury Management

113. To review and monitor the Council's Treasury Management arrangements including Treasury policies, procedures and the management of the associated risks and make recommendations to the Cabinet as appropriate.

Statement of Accounts

124. Review and approve the Statement of Accounts, external auditor's opinion and reports on them to members and monitor management action in response to the issues raised by external audit.

Fraud & Corruption

136. To approve the Anti-Fraud and Corruption Policy ~~and to recommend its for~~ adoption by the Council, and to monitor its operation. The policy will be reviewed it at least once every two years.
146. To approve the Speak Up Policy ('*whistle blowing*') ~~and to recommend its for~~ adoption by the Council, and to monitor its operation. This policy will be reviewed at least once every two years.

Complaints

Recognising that Complaints/Compliments are a Cabinet function, the Committee should:-

157. Review the Annual Complaints Report and seek assurances that the Council is improving in response to complaints raised.

General

168. The meetings will follow the principles of scrutiny, i.e. no party whip will be applied and a constructive, evidence based approach will be used.
179. To ensure that adequate training is received by the members of the committee on the areas covered by the ~~se~~ terms of reference ~~_1-16 above~~.
1820. To ensure that any sensitive or confidential information obtained as a result of membership of the Committee is treated as confidential.
1924. Annually review their effectiveness and their terms of reference.



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Interim Audit Report 2011/12

Telford & Wrekin Council

June 2012



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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 document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2011/12 financial statements and the 2011/12 VFM conclusion.

Scope of this report

This report summarises the key findings arising from our interim audit work at Telford & Wrekin Council (the Authority) in relation to the 2011/12 financial statements.

We also set out the work we have carried out up to April 2012 and summarise the work that we plan to perform in relation to Value for Money (VFM) during the coming months. This work is designed to provide the assurance necessary for us to issue our VFM opinion by the end of September 2012.

Financial statements

Our *External Audit Plan 2011/12*, presented to you in January 2012, set out the four stages of our financial statements audit process.



During February to April 2012 we completed our planning and control evaluation work. This covered our:

- review of the Authority's general control environment, including the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems with the help of Internal Audit;
- assessment of the Internal Audit function; and
- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

In relation to the above, our work around the Authority's IT systems is ongoing due to power outages encountered by the Authority during our on site visit. As a result our work will be completed prior to our substantive testing being undertaken in July 2012.

Value for Money

Our *External Audit Plan 2011/12* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our assessment of the Authority's arrangements to secure VFM in order to identify the specific matters requiring work to be undertaken in order to provide the assurance necessary for our VFM conclusion.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2011/12 financial statements.
- Section 4 outlines our work carried out on the VFM conclusion to date.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing previous recommendations made by us. The findings in relation to these recommendations are detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises our headline messages arising out of our audit work to date. The remainder of this report provides further details on each area.

Organisational and IT control environment	<p>We consider the Authority's organisational control environment to be effective overall.</p> <p>Our work in relation the Authority's IT systems is still ongoing due to power outages encountered by the Authority during our on site visit, which resulted in our contact for the Payroll system being unavailable. Based upon our work to date we consider the Authority's IT control environment to be generally sound in relation to those systems tested. However, we have made recommendations in relation to controls over the IT environment where minor weaknesses regarding application access and change have been identified. In addition, Internal Audit raised concerns over the level of resourcing and training provided to the IT team responsible for supporting the new financial ledger system.</p>
Controls over key financial systems	<p>We have used the work of Internal Audit to document the effectiveness of the controls in relation to all the Authority's key financial systems, with the exception of those controls which are year end related. From this we have concluded that the controls over the majority of the key financial systems are generally sound, however, Internal Audit have identified weaknesses in relation to:</p> <ul style="list-style-type: none"> ■ financial reporting; ■ sundry income; and ■ non-pay expenditure. <p>All of the issues identified have already been reported to management by Internal Audit. As a result of this, no further recommendations are being raised by us in this report.</p> <p>In addition, as a result of the above weaknesses we will need to undertake additional substantive testing during our final accounts audit visit in relation to the affected areas. Such work will include, but is not limited to, a thorough review of suspense account balances and more extensive testing in relation to year end debtors and creditors.</p>
Review of Internal Audit	<p>We have noted continued improvements in our review of Internal Audit's files this year and are satisfied that they are compliant with the <i>Code of Practice for Internal Audit in Local Government</i>. We were able to place reliance on their work on the key financial systems.</p>
Accounts production and specific risk areas	<p>We consider the overall process for the preparation of the Authority's financial statements to be adequate. Whilst the Authority is still in the process of implementing the recommendations raised as a result of our work in 2010/11, we note that significant progress has been made in relation to the issues highlighted.</p>
Value for Money	<p>We have completed our assessment of the specific matters relevant to undertaking the audit work required in order for us to conclude on the Authority's arrangements to deliver value for money. As a result we have determined that specific work will be required in relation to the Authority's ongoing financial standing as a result of its implementation of savings plans and staff restructuring.</p> <p>In February 2012 we met with the Authority's Executive Directors in order to offer a constructive challenge to the Authority's Medium Term Financial Plan (MTFP) development and monitoring processes as part of our assessment of financial resilience. We will report the outcomes of all our work in our <i>ISA 260 Report 2011/12</i>.</p>

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall.

Aspect	Assessment
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Related parties	3
Risk assessment process	3
Internal communications	3
External communications	3
Monitoring process	3
Monitoring information	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

Your IT control environment relating to those systems we have tested is effective overall.

We are still to complete our testing in relation to the Payroll System.

Work completed

The Authority relies on information technology (IT) to support both its financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

In completing this work we undertook testing of the key controls and processes operating in relation to the Authority's IT network and core IT systems relevant to our financial statements audit.

During 2011/12 the Authority implemented a new financial ledger system (Agresso). We undertook specific testing in relation to the migration of data from the legacy system (OLAS) to its replacement.

Key findings

We found your IT control environment relating to those system we have tested is effective overall but we noted some areas for further improvement, including:

- No clear audit trail is being maintained in relation to the testing and authorisation of upgrades to the Cash Receipting system. We note, however, that the System Administrator was involved in such testing and has confirmed that she is satisfied with the ongoing functionality of the system; and
- Our testing over the development of new systems and applications confirmed that the key controls had operated effectively in relation to the implementation of the Authority's new financial ledger system. Despite this we are aware that there were a number of technical difficulties encountered in relation to this implementation.

Recommendations are included in Appendix 1.

These weaknesses expose the Authority to additional risk with regards to its overall control framework. By making the recommended improvements, such as completing formal periodic review of user access rights, these risks would be mitigated and the Authority's overall control environment would be improved.

Due to power outages impacting upon the Authority we experienced reduced availability of specific members of the Authority's IT Department. As a result of this we were unable to complete all of our testing in relation to the Payroll System (PSE). We will complete this testing prior to the completion of our substantive work in July 2012.

Aspect	Assessment
Access to systems and data	2
System changes and maintenance	2
Development of new systems and applications	3
Computer operations, incl. Processing, Backup and End-User Computing	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

The controls over the majority of the key financial systems are generally sound.

There are weaknesses in respect of:

- Financial reporting (in relation to suspense accounts);
- Sundry income; and
- Non-pay expenditure.

We will need to complete additional substantive work in these areas during our year-end audit work.

Work completed

We work with your Internal Auditors to update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthrough reviews for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the Internal Auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over the majority of the Authority's key financial systems are generally sound but we noted some weaknesses in respect of individual financial systems, namely:

- Suspense Accounts: Our review of suspense accounts indicated that transactions within these accounts were not being cleared on a periodic and timely basis.
- Debt Chasing: We identified that payments received were not being matched appropriately to the invoices that the payment related to. As a result, the Authority has not been chasing debts as thoroughly as in prior years due to the risk that the wrong debtor may be chased.
- Write-Offs: It was identified that the finance system writes-off all invoices at 20% VAT. As a result of this, where the original invoice was for a lower VAT rate the total value of the write-off will exceed the original value of the invoice and a credit balance.
- Reconciliation Processes: Our review of the design of controls

indicated that insufficient training has been provided to those undertaking reconciliations in relation to the sales ledger. As a result discrepancies identified through these reconciliations are not appropriately investigated by the Sales Ledger Team.

- Non-Pay Expenditure: We note that there is no process for validating the completeness of invoices imported into the purchase ledger. As a result there is an increased risk of invoices not being paid and open orders being inaccurately identified at year end.

System	Assessment
Financial reporting	2
Grant income	See page 7
Council tax income	3
Business rates income	3
Sundry income	2
Payroll expenditure	3
Non-pay expenditure	2
Benefits expenditure	3
Cash	3
Treasury management	3
Capital expenditure	3
Asset valuations	See page 7

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

Controls over key financial systems (cont..)

The controls over the majority of the key financial systems are generally sound.

There are weaknesses in respect of:

- **Financial reporting (in relation to suspense accounts);**
- **Sundry income; and**
- **Non-pay expenditure.**

We will need to complete additional substantive work in these areas during our year-end audit work.

Key findings (cont...)

Internal Audit gave reasonable/ limited assurance for these systems and included recommendations in their reports as appropriate.

We have not yet assessed the controls over grant income and asset valuations. Many of the key controls in respect of these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

The weaknesses identified mean that we will need to complete additional substantive work at year-end. We will discuss the need to undertake additional work with the Assistant Director: Finance, Audit and Information Governance, the Finance Manager and the Finance Team Leader during May 2012.

Internal Audit fully complies with the *Code of Practice for Internal Audit in Local Government*.

We were able to place full reliance on Internal Audit's work on the key financial systems.

Work completed

We work with your Internal Auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on Internal Audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the Internal Audit function and to evaluate and test aspects of their work.

The Code of Practice for Internal Audit in Local Government (the Code) defines the way in which the Internal Audit service should undertake its functions. We assessed Internal Audit against the eleven standards set out in the Code.

We reviewed Internal Audit's work on the key financial systems and re-performed a sample of tests completed by them.

Key findings

Internal Audit completed a self-assessment against the Code in March 2012. We reviewed their self-assessment and supporting evidence and used this as the basis for completing a full assessment of Internal Audit this year.

Based on our assessment, Internal Audit fully complies with the Code.

We did not identify any significant issues with Internal Audit's work and are pleased to report that we are again able to place full reliance on Internal Audit's work on the key financial systems.

Through our review of the work undertaken by Internal Audit we noted that there had been improvements in relation to their working papers and particularly the way in which supporting evidence was referenced and retained.

Aspect	Assessment
Scope of Internal Audit	3
Independence	3
Ethics for Internal Auditors	3
Audit Committee	3
Relationships with management, other auditors and other review bodies	3
Staffing, training and development	3
Audit strategy and planning	3
Undertaking audit work	3
Audit strategy and planning	3
Due professional care	3
Reporting	3

Key:

- 1 Non-compliance with the standard.
- 2 Areas for improvement.
- 3 Full compliance with the standard.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Work completed

We issued our Accounts Audit Protocol to the Finance Team Leader in March 2012. This document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. We discussed our requirements in detail in a meeting on 26 March 2012.

We continue to liaise with the Assistant Director: Finance, Audit and Information Governance, the Finance Manager and the Finance Team Leader on a regular basis to support them during the financial year end closedown and accounts preparation.

As part of our interim work we specifically reviewed the Authority's progress in addressing the recommendations in our *ISA 260 Report 2010/11*.

Key findings

The Authority has incorporated a number of measures into its accounts closedown plan to further improve the project management of this complex process. This includes the creation of a SharePoint site where all working papers will be stored for access by members of our external audit team.

We consider that the overall process for the preparation of your financial statements is adequate. We will review the working papers immediately prior to the final audit visit and will highlight any deficiencies so that these can be rectified prior to our audit.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements in line with the timescales of the action plan. Where recommendations have not been implemented this is generally due to the recommendation relating to closedown activities. The table below sets out the Authority's progress against high priority recommendations.

2010/11 Issue	Progress
<p>A substantial number of the audit differences identified during the audit of the 2010/11 financial statements arose due to the failure to fully understand the changes arising due to the move from UK GAAP to IFRS as implemented by the Code.</p> <p>The Authority should undertake a thorough review of the Code and IFRS on an annual basis to ensure that any changes are identified, understood and actioned in the preparation of the financial statements.</p>	<p>In Progress</p> <p>The 2010/11 financial year was the first year of applying IFRS in local government. As a result of this there were a larger than normal number of changes to accounting treatments.</p> <p>The Authority has increased the resources applied to the production of the financial statements for 2011/12. As a result of this a more thorough review of the Code is possible.</p> <p>In addition, the review process around the production of the financial statements has been made more rigorous, including presenting a draft copy of the financial statements to the Audit Committee prior to the commencement of our substantive testing.</p> <p>We will review the impact of these measures as part of our work in July 2012 and report any issues identified in our <i>ISA 260 Report 2011/12</i>.</p>

Specific risk areas

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our *External Audit Plan 2011/12*, presented to you in January 2012, we identified the key risks affecting the Authority's 2011/12 financial statements.


Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with the Assistant Director: Finance, Audit and Information Governance, the Finance Manager and the Finance Team Leader as part of our regular meetings. In addition, we reviewed relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

You have taken these issues seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
	<p>As at December 2011, the Authority was forecasting that it would deliver its 2011/12 budget in overall terms. This included a savings programme totalling £13.2 million.</p> <p>The Authority estimated that another £19.1 million in savings will need to be achieved during 2012/13 rising to a total of around £33 million by 2014/15 as part of the General Fund strategy to address the reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability, whilst not affecting standards of service delivery.</p> <p>If there are any related liabilities at year end, e.g. through severance packages, these will need to be accounted for in the 2011/12 financial statements as appropriate.</p>	<p>The Authority continues to progress its savings plans and reports to the Cabinet on progress made as part of its regular reporting processes. No significant delays in achieving savings have been identified to date through these monitoring processes.</p> <p>On 27 February 2012 we met with the Executive Directors to facilitate a challenge of their Medium Term Financial Planning (MTFP) processes. This meeting included reviewing the achievability of the Authority's savings plans and measures taken where slippages had occurred against these plans. No issues were identified as a result of this meeting</p>

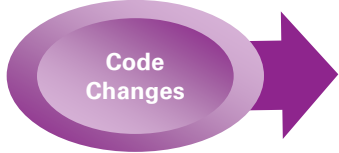
The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Key audit risk	Issue	Progress
	<p>We reported in our 2010/11 <i>Annual Audit Letter</i> that the Authority had implemented a policy in relation to the IFRS requirements for component accounting. This policy was based upon the application of a series of thresholds relating to the asset's value and useful economic life. The policy was designed to ensure that componentisation was applied so as to account for all material asset components.</p> <p>The application of this policy to additions and revalued assets in 2010/11 resulted in no componentisation being undertaken in relation to the 2010/11 Financial Statements.</p>	<p>The Authority will be preparing the 2011/12 financial statements using the same componentisation policy as that applied for 2010/11.</p> <p>In the event that no componentisation results from the application of this policy in 2011/12 the Authority has agreed to prepare an analysis of the potential impact of amending the policy to use lower thresholds. This analysis will then be reviewed as part of our substantive work in order to identify whether the impact would be material.</p>
	<p>In our 2010/11 <i>Annual Audit Letter</i> we reported that the Authority had historically operated two deminimis thresholds in relation to Capital Accounting resulting in capital expenditure between £1k and £50k being capitalized but then immediately impaired to nil net book value.</p> <p>The Authority has proposed a revised policy which will be implemented in relation to the 2011/12 Financial Statements. This policy makes use of a single threshold of £10k in all except a limited number of exceptions such as where the aggregate value of a purchase programme exceeds the deminimis levels.</p> <p>The previous policy resulted in £9m of asset additions being recognised in the 2010/11 Financial Statements which were then fully impaired as a result of the policy rather than as the result of a specific impairment issue.</p>	<p>We have reviewed the revised policy and currently in discussions with the Authority's officers in relation to the proposed exceptions to the policy.</p> <p>The Authority has provided an initial analysis of the impact of this policy and we have asked additional questions in order to clarify the position and the proposed accounting.</p> <p>Management is now in the process of providing an updated analysis in order to respond to our queries. Once this analysis is complete we will review it in order to confirm that it fully resolves the issue identified in 2010/11.</p>

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Key audit risk	Issue	Progress
	<p>The 2011/12 <i>Code</i> includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage Assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 <i>Code</i> also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 <i>Code</i>.</p> <p>In addition, 2011/12 sees the move from preparing financial statements under the Best Value Accounting Code of Practice (BVACOP) to the Service Reporting Code of Practice (SeRCOP).</p> <p>The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.</p>	<p>In relation to Heritage Assets the Authority is in the process of identifying any assets which could potentially fall under the new requirements and assessing whether they should be accounted for as Heritage Assets. The Authority is also assessing the costs that would be incurred in relation to the valuation of the identified assets. This will be assessed against the benefit of reporting the information in the financial statements.</p> <p>In previous years the Authority has opted to increase the level of disclosure beyond that required by the BVACOP. As a result of this the differences between the format used in previous years and that required by the SeRCOP is significantly reduced.</p> <p>We will continue to meet with the relevant officers in order to monitor the progress made in relation to heritage assets, and other Code Changes, in the lead up to our audit work in July 2012.</p>

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Our External Audit Plan 2011/12 describes in more detail how the VFM audit approach operates.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



To date we have identified one specific matter relevant to our VFM conclusion.

We will meet with the Authority's senior officers and Members in May 2012 in order to discuss the Authority's arrangements to secure value for money.

As part of our discussions we will assess progress made in relation to

- Restructuring;
- Single Status; and
- Co-operative Council

Work completed


In line with the risk-based approach set out on the previous page, we have assessed the Authority's key business developments which are relevant to our assessment of the Authority's arrangements to secure value for money.

During February 2012 we met with the Authority's Executive Directors in order to offer a constructive challenge to the Authority's MTFP development and monitoring processes, the results of which are summarised in the table below.

Key findings

Based on our work to date we have identified one specific matter affecting financial resilience and economy, efficiency and effectiveness which we deem to be of significance for our VFM conclusion. In May 2012 we will meet with senior officers and Members to discuss the processes in place, and measures taken, in relation to this matter and any other subsequently identified.

Below we set out our assessment of the specific matter relevant to our VFM conclusion and the approach our work will take.

Key VFM Matter	Matter arising and link to VFM conclusion	Focus of Work
	<p>There continues to be significant pressures on all Local Authorities due to ongoing funding cuts from Central Government and other funding bodies as a result of the Comprehensive Spending Review. In addition, the continued economic downturn has resulted in increased levels of demand for services provided by the Authority.</p> <p>Starting in November 2010, the Authority embarked on a systematic restructuring programme for each Service Delivery Unit to cut costs and align resources to priorities. During 2011/12 a further restructuring was commenced in relation to the Authority's senior management. This restructuring programme saw additional reductions in the number of senior managers and a realignment of responsibilities.</p> <p>At the same time, the Authority is moving to a Co-operative Council model and having to progress the implementation of Single Status.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of our VFM conclusion.</p>	<p>In February 2012 we met with the Executive Directors in order to discuss the Authority's MTFP processes and the progress made in relation to the delivery of the Authority's savings plans. As part of this discussion we offered a constructive challenge of the processes in place. This meeting included reviewing the achievability of the Authority's savings plans and measures taken where slippages had occurred against these plans. No significant weaknesses were identified as a result of this meeting.</p> <p>Based upon the outcomes of this meeting we will continue to monitor the progress made in delivering the required savings packages throughout the Authority. Specifically we will review the processes in place to monitor this delivery and assess whether timely and appropriate action is taken where slippage occurs.</p> <p>We will review the Council's restructuring programme and assess the robustness of proposals for delivering savings necessary to meet funding reductions. We will also review the assessed impact on service delivery standards.</p> <p>We will meet key officers and Members to discuss the above issues during May 2012.</p>

We have given each of our recommendations a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing these specific risks and implementing our recommendations.

We will formally follow up these recommendations as part of next year's interim audit work

Priority rating for recommendations			
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>	
No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	2	<p>We undertook testing in relation to the processes for authorising and testing upgrades to the Authority's Cash Receipting System (ICON). The System Administrator confirmed that testing had been successfully undertaken prior to the implementation of the upgrade.</p> <p>However, there is no clear audit trail to indicate that the upgrade had been formally authorised, or that the testing had been formally signed off as satisfactorily completed.</p> <p>The Authority should ensure that any upgrades to its core IT systems are formally authorised and tested. Such authorisation and testing should be documented in a manner which maintains a clear audit trail. Such a process could be as simple as ensuring that internal emails relating to authorisation and testing sign-off are securely retained for future reference.</p>	<p>Confirmation that files had been successfully processed was obtained by e-mail for the different elements of the new FMS implementation. This included e-mails between Income Management, the FMS Support Team, ICT, Revenues & Benefits and Sales Ledger which evidence sign off. A more formal process will be put in place for future changes to the Income Management System.</p> <p>Finance Manager – 31/08/12</p>
2	2	<p>The Authority implemented a new financial ledger system (Agresso) commencing in July 2011. It encountered a number of technical difficulties during the implementation.</p> <p>Moving forward, the Authority should undertake a post implementation review in order to identify learning points which can be used to improve any future core IT system implementations.</p>	<p>The Project Team held post-implementation lessons learned session and a Lessons Learned Report was produced following the project closure. Further, a post-implementation audit is currently being finalised by internal audit, as part of their work-programme.</p> <p>Finance Manager – complete and in progress (due to be completed by 30/06/12)</p>

Follow-up of prior year recommendations

The Authority has implemented all of the recommendations in our *Interim Audit Report 2010/11*.

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2010/11* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	3
Currently remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2012
1	2	<p>The preparation for the implementation of the Authority's new financial ledger system (Agresso) has created significant time pressures on those officers involved in the process. As a result of this, the periodic review of user accounts for the Cash Receipting system has not been undertaken since November 2010 despite this being designed as a quarterly control. This results in an increased risk that the access rights granted to the system are not appropriate.</p> <p>The Authority should ensure that the review is undertaken on a quarterly basis and that this review is documented so as to evidence the actions taken.</p>	<p>The Authority will ensure that quarterly reviews are undertaken following the implementation of the new financial management system.</p> <p>Corporate Finance & Customer Services Manager After 4th July 2011</p>	<p>Implemented</p> <p>We confirmed that a full review of user accounts was undertaken during March 2012 and that this is intended to be repeated periodically.</p>

Follow-up of prior year recommendations (Cont...)

The Authority has implemented all of the recommendations in our *Interim Audit Report 2010/11*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2012
2	2	<p>The removal of user accounts for leavers is not being routinely completed in relation to the Cash Receipting System.</p> <p>The Authority should implement controls to ensure that all leavers are identified on a timely basis and that access to the systems is removed.</p>	<p>This was included in a revised leavers process/checklist implemented in April 2011.</p> <p>The Corporate Finance & Customer Services Manager. July 2011</p>	<p>Implemented</p> <p>We have tested the removal of leavers as part of our work in March 2012. As a result of this work we have confirmed that the removal of leavers is now being undertaken effectively.</p>
3	3	<p>We selected a sample of IT Network user accounts for testing so as to ensure that the creation of the accounts had been appropriately authorised. As a result of this testing we identified that for five of the accounts, from a total of 14 being tested, the forms authorising access to the IT Network had not been retained as audit evidence.</p> <p>The Authority should ensure that all the authorisation forms approving access to the IT Network are retained in a manner which enables them to be retrieved when needed.</p>	<p>All IT network access authorisation forms will be retained in future.</p> <p>ICT Service Delivery Manager June 2011</p>	<p>Implemented</p> <p>We identified no issues in relation to the retention of authorisation forms as a result of our audit work in March 2012.</p>



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TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE – 26 JUNE 2012

TREASURY MANAGEMENT - 2011/12 ANNUAL REPORT AND 2012/13 UPDATE

REPORT OF THE ASSISTANT DIRECTOR: FINANCE, AUDIT AND IG (AND SECTION 151/CHIEF FINANCE OFFICER)

1. PURPOSE

- 1.1 To update members on the 2011/12 Treasury outturn and activities this year to date.

2. RECOMMENDATIONS

Audit Committee Members are asked to note:-

- 2.1 the contents of the report
2.2 the change to counterparty selection criteria in 16.5
2.3 the performance against Prudential Indicators

3. SUMMARY IMPACT ASSESSMENT

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

Yes/No Effective financial management underpins all priority 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 Section 151 Officer has responsibility for the administration of the financial affairs of the Council. In providing this report the AD: FA&IG 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

**OTHER IMPACTS,
RISKS AND
OPPORTUNITIES**

Committee.”
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. SUMMARY

The report updates members on the outcome of Treasury Management activities for 2011/12 and details the position for 2012/13 to date.

2011/12 Treasury Outturn

The treasury portfolio ended the year with net indebtedness of £94.6m (borrowing: £147.7m less investments: £53.1m). Base rate was 0.5% for the whole year and is predicted to stay at 0.5% until late 2015 – although recently Christine Lagarde of the IMF suggested that the bank of England consider a further reduction.

The borrowing strategy for 11/12 was to use maturing investments to reduce borrowing where possible. During the year, two PWLB loans matured and one was entered into to take advantage of favourable interest rates. Short term borrowing was used to fund short term cash flow requirements, also at favourable interest rates. The average debt portfolio interest rate has fallen over the course of the year from 3.6% to 3.41%.

The investment strategy for 11/12 was to gain maximum benefit with security of capital being the primary consideration. The average return on investments for the year was 3.46% against a benchmark of 0.52%; further, comparative information from our treasury advisors, Arlingclose, highlights that our rate of return is significantly higher than their other local authority clients.

During the year, a decision was taken to seek repayment of a £5m investment with Dexia, a Franco/Belgian owned bank due to concerns over their exposure to Greece. Full repayment of the principal was received with all accrued interest in November 2011.

Overall, treasury delivered a net over-achievement of £0.496m against the budget in 2011/12.

2012/13 Update

The strategy for 2012/13 remains consistent with that of the previous year. Investment opportunities will be reviewed as they arise, where possible maturing investments will be used to reduce the need to borrow, and we will seek to gain maximum benefit within the agreed risk parameters.

At the end of May, one PWLB loan had matured and no new long term borrowing had been entered into. Investments were £63.15m at 31 May 2012.

Prudential Indicators

There are no breaches of the Prudential Indicators set at Full Council on 1 March 2012 and none have been amended.

5. **PREVIOUS MINUTES**

Council 3 March 2011
Audit Committee 27 June 2011
Council 1 March 2012

6. **BACKGROUND**

Treasury Management in local government is regulated by the 2001 revision of the CIPFA Treasury Management in Public Services : Code of Practice (the Code). This Council has adopted the Code and fully complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement, which states the policies and objectives of its treasury management activities. The Treasury Strategy was approved by Full Council in March 2012.

A requirement of the Council's Treasury Management Practices is the reporting to the Council of both the expected treasury activity for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report).

7. **2011/12 ANNUAL REPORT**

The annual report is covered in paragraphs 7-15 and deals with: -

- 2011/12 - Overall Portfolio position;
- 2011/12 - Borrowing;
- 2011/12 - Investments;
- Shropshire County Council debt
- Overall outturn position
- Compliance with Treasury Limits
- Leasing

8. 2011/12 OVERALL PORTFOLIO POSITION

The Council's treasury management position at the beginning and the end of the year was as follows: -

	31 March 2012		31 March 2011	
	Principal £m	Rate %	Principal £m	Rate %
Borrowing	<u>147.670</u>	3.41	<u>130.905</u>	3.60
Total Debt	147.670	3.41	130.905	3.60
Investments	<u>53.060</u>	3.46	<u>75.678</u>	3.63
Total Investments	53.060	3.46	75.678	3.63
Net Indebtedness	<u>(94.610)</u>		<u>(55.227)</u>	

A combination of new borrowing plus funds from maturing investments were used as funding for the capital programme. This has resulted in borrowing increasing during the year and investments reducing.

The Adopted Treasury Strategy was to:-

- Monitor borrowing opportunities determined by the prevailing markets.
- To use maturing investments to reduce borrowing where possible
- Reduce the volatility of investment returns while maintaining adequate flexibility in arrangements.
- To achieve optimum return on investments commensurate with proper levels of security and liquidity.

9. COUNCILS RESPONSE TO ECONOMIC CLIMATE

- 9.1 2011/12 saw continued problems with both sovereign and individual bank credit ratings. Base rate remained at 0.5% throughout the whole of 2011/12. The UK economy has dipped back into recession. Base rate is generally predicted to stay at 0.5% until late 2015.
- 9.2 The Council has reduced both the amount and duration of its investments and as other investments mature, total investments will be reduced further. These funds were used to reduce the need to borrow, reduce investment risk and volatility.
- 9.3 We have closely followed guidance issued by our Treasury Advisors in relation to credit ratings, financial standing and duration throughout the year.

10. 2011/12 BORROWING

10.1 **Original Economic Projections**

When the budget was set for 2011/12 the "average" City view anticipated that Bank Rate would remain at 0.5% until mid 2011 before starting to rise gradually back towards more normal levels in 2012, though it would be 2015 before Bank Rate returned to around 4.5%.

10.2 Economic Context

During 2011/12 the Monetary Policy Committee (MPC) was focused on helping the economy to recover, but against a backdrop of inflation remaining above its target level.

Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year, the MPC increased the level of quantitative easing from £200bn to £325bn.

The dominant focus in 2011/12 was on quarterly GDP growth figures. Whilst there was modest growth in Quarters 2 and 3 in 2011 the economy disappointed in quarter 4 by contracting by 0.3% and that was followed up by a first estimate for Q1 2012 of contracting by 0.3% to leave the economy flat on the year and push the UK technically back into recession.

Inflation has been a major concern of the MPC as CPI increased to 5.2% in September 2011 before falling gradually to end the year at 3.5% and has remained above the 2% target level for CPI by more than 1% for the whole of 2011/12.

10.3 Borrowing and Investment Rates in 2011/12

PWLB borrowing rates at the beginning and end of the year were:

<i>Loan Period</i>	<i>31 March 2011</i>	<i>30 March 2012</i>
1 year	1.89%	1.28%
25 year	5.31%	4.32%
50 year	5.24%	4.36%

The overnight investment rate has varied little during the year (under 0.5%). The 3 month investment rate has increased gradually throughout the year to stand at 1.00% at year end.

10.4 Treasury Borrowing and Rescheduling

The borrowing strategy for the current year has been to take a pragmatic approach to the use of PWLB borrowing, spreading interest rate risk and taking advantage of rate movements when appropriate.

A summary of the transactions for the year is shown below. During the year 2 PWLB loans matured, one in May for £5m and one in November for £10m. In August we took a 3 year Maturity PWLB loan to replace the maturing loans during the year to take advantage of the attractive interest rates:

Date	Action	Amount £m	Interest Rate
09/08/11	PWLB – 3 yrs Maturity	10.000	1.92%

Short-term borrowing has also been used throughout the year to take advantage of favourable interest rates.

10.5 PWLB Repayments & Discounts

No loans were repaid early or rescheduled during the year.

10.6 LOBO Loans

The Council has £60m LOBO (Lender's Option Borrower's Option) loans within its overall debt portfolio. LOBOs give the lender the right to "call" the loan at pre-determined dates and request a change in interest rate; at this point the borrower (i.e. the Council) can accept the revised terms or reject them and repay the loan. There were no LOBO's "called" during 2011/12 although they represent a significant exposure when interest rates eventually start to increase making calls more likely.

10.7 Maturity Structure of Debt

An analysis of the maturity structure of our debt is shown below.

Analysis of Debt Maturity as at 31st March:

	2012 £'000	%	2011 £'000	%
Maturing in less than 1 year	37,148	25.2	24,382	18.6
Maturing in 1-2 years	11,001	7.4	6,001	4.6
Maturing in 2-5 years	13,002	8.8	13,002	9.9
Maturing in 5-10 years	3,505	3.5	4,505	3.5
Maturing in more than 10 years	<u>83,014</u>	56.2	<u>83,015</u>	63.4
	147,670	100.0	130,905	100.0

10.8 Debt Performance

As highlighted in section 8 the average debt portfolio rate has fallen over the course of the year from 3.60% to 3.41%. This is due to active management and the low interest rates that have prevailed throughout the year.

11. 2011/12 INVESTMENTS

11.1 Strategy

The strategy for the year was to gain maximum benefit, subject to risk control parameters, whilst achieving as a minimum the 7 day deposit rate. The authority manages all of its investments in-house and invests with the institutions complying with its counterparty limits and credit ratings. Some investments are short term related to cash flows and others include longer term investment instruments that benefited returns in 2011/12.

11.2 2011/12 Performance

Detailed below are the results of the investment strategy undertaken by the Council, based on the average investment during the year.

	Average Investment	Rate of Return (gross of fees)	Rate of Return (net of fees)	Benchmark Return *
Investments	£73.912m	3.46%	3.46%	0.52%

No institutions in which investments were made showed any difficulty in repaying investments and interest in full during the year.

At the beginning of the year the Council had an investment of £5m with Dexia Bank Plc in its investment portfolio. This banking group came under significant financial pressure due to its exposure to Greek debt and after closely monitoring the situation for sometime, premature repayment of the investment was requested in late Summer as the economic situation worsened. Repayment was agreed with no penalty and no loss of accrued interest.

12. **SHROPSHIRE COUNCIL DEBT**

The Council makes an annual contribution (£2.044m in 2011/12) towards County Council costs on pre disaggregation debt (i.e. pre unitary inception) - interest paid averaged 5.14% last year. The rate of interest paid on this is managed by Shropshire and is considerably higher than the rate payable by Telford & Wrekin Council on its borrowing.

13. **OVERALL OUTTURN FOR 2011/12**

The net overall position is summarised in the table below. The sound overall position has resulted from a mix of cash flow benefits plus proactive treasury management activities. The budget reflected the position when the budget was set. The underspend has been achieved from the impact of the reductions to the capital programme made as part of the 100 day review of the 2011/12 financial strategy (reported to Full Council in November 2011) together with active management of debt principal and the low interest rates prevailing for the year. Overall a net saving of just under £0.5m was made against budget for the year.

Summary of Outturn Position	Estimate £m	Outturn £m	Variance £m
Interest Received	(2.752)	(2.445)	0.307
Principal Repayments & Debt Management Costs	5.952	5.532	(0.420)
Interest Paid	<u>5.899</u>	<u>5.516</u>	<u>(0.383)</u>
Net Position	9.099	8.603	(0.496)

14. **COMPLIANCE WITH TREASURY LIMITS**

During the financial year the Council operated within the Treasury Limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement at all times. The outturn for the Prudential Indicators are detailed in Appendix 1 which shows that no limits were breached during the year.

15 **LEASING**

Each year the Council arranges operating leases for assets such as vehicles, computers and equipment. This helps spread the cost over a number of years in line with the anticipated life of the equipment.

The first drawdown for 2011/12 took place in October 2011 for ICT equipment and vehicles. The value of the lease was £0.564m with JCB Finance. The final drawdown for 2011/12 was completed in March

2012. This drawdown from JCB Finance totalled £0.024m and funded the purchase of Golf Course Maintenance Equipment over five years at an interest rate of 1.95%.

16. **2012/13 UPDATE**

The remainder of this report deals with the current financial year based largely on information to 31 May 2012.

16.1 **Strategy**

In the current economic climate, the strategy for the next few months is to review investment opportunities as they arise. We will review borrowing opportunities as we progress through the year and look to take advantage of the advantageous interest rates where possible. Maturing investments will also be used to reduce the need to borrow where possible.

16.2 **Interest Rates**

Base rate began the year at 0.5% and has remained there. The current expectation is that there will be no increase before June 2015.

16.3 **Prudential Regime**

This Council agreed its required indicators at Council on 1 March 2012. There have been no breaches of the indicators and none have been amended. The Council set itself an Operational limit for external debt of £210m for 2012/13 and an Authorised limit of £230m. Our total borrowing outstanding is £138m which is well within both limits.

16.4. **Borrowing**

The loan in the table below matured during 2012/13 to-date. Up to 31/5/12 no new long term borrowing has been undertaken this year to date. As at 31 May 2011 temporary borrowing stood at £26.3m.

Date	Action	Amount £m	Impact on budget
01/05/12	Matured – 3.38% loan	5	None

16.5. **Internally Managed Investments**

The strategy for the year is to gain maximum benefit at minimum risk whilst achieving as a minimum, the 7 day deposit rate. For the period to 31 May 2012 some £267m worth of investments have been made in our overnight call accounts. Rates have ranged from 0.35% to 0.80%. As at 31 May 2012 investments stood at £63.15m.

Potentially the Council can place up to £20.0m with any Counterparty. At the end of May the greatest exposure with a single counterparty was £20.0m with Barclays (31.7% of the portfolio). We currently have no investments with non UK sovereigns. A detailed breakdown is shown in Appendix 2.

Since the setting of our Counterparty Limits and lending criteria for 2012/13 in March the Rating Agencies have amended their ratings and the Individual Ratings that formed part of our lending criteria have been replaced by viability ratings. As a result we will no longer be using individual ratings when assessing counterparties. We will continue to be

guided as to which counterparties to use by Arlingclose our Treasury Advisors who take all the rating information together with other information when assessing which counterparties to use and the duration of any new investments placed.

17 **Background Papers**

CIPFA Code of Practice for Treasury Management in Local Authorities

Fund Manager Valuations

Temporary Borrowing records

PWLB records

Investment records

Report prepared by:

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PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2010/11	2011/12	2011/12
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	£m	£m	£m
	Actual Outturn	Original Estimate	Actual Outturn
Capital Expenditure			
TOTAL	74.7	105.5	71.7
Ratio of financing costs to net revenue stream			
General fund	2.18%	2.60%	2.35%
Net borrowing requirement			
brought forward 1 April	123.076	161.412	130.905
carried forward 31 March	130.905	214.583	147.670
in year borrowing requirement	7.829	53.171	16.765
Capital Financing Requirement as at 31 March *subject to final accounts			
TOTAL	228.899	284.390	248.515*
Annual change in Cap. Financing Requirement			
TOTAL	23.286	46.453	21.228
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum (not cumulative)	6.47	4.04	4.04

PRUDENTIAL INDICATOR	2010/11	2011/12	2011/12
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£m	£m	£m
	final	original	final
Authorised limit for external debt -			
borrowing	300	330	330
other long term liabilities	6	6	6
TOTAL	306	336	336
Operational boundary for external debt -			
borrowing	280	310	310
other long term liabilities	4	4	4
TOTAL	284	314	314
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	190	190	190
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments:-	80%	60%	60%
Upper limit for total principal sums invested for over 364 days (per maturity date)			
	80%	95%	95%

Maturity structure of fixed rate borrowing during 2010/11	lower limit	upper limit
under 12 months	0%	20%
12 months and within 24 months	0%	25%
24 months and within 5 years	0%	50%
5 years and within 10 years	0%	75%
10 years and above	25%	100%

Summary of Investments at 31 May 2012

	Sovereign Credit Rating	Individual Credit Rating	Total £m	%
Call Accounts				
HSBC	UK AAA	F1+ AA Support 1	4.150	
RBS	UK AAA	F1 A Support 1	4.000	
Santander	UK AAA	F1 A+ Support 1	5.000	
			13.150	21
Fixed Deposits				
Barclays	UK AAA	F1 A Support 1	20.000	
Lloyds TSB	UK AAA	F1 A Support 1	15.000	
RBS	UK AAA	F1 A Support 1	5.000	
			40.000	63
Variable Deposit				
RBS	UK AAA	F1 A Support 1	10.000	16
			10.000	16
Total			63.150	100

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JUNE 2012

INTERNAL AUDIT 2011/12 QUARTER 4 UPDATE REPORT

REPORT OF THE AUDIT & ASSURANCE MANAGER

1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarter four – January – March 2012.

2 RECOMMENDATIONS

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

3 SUMMARY

- 3.1 The Audit Committee receives a quarterly update of the work of Internal Audit. This report includes the update report for quarter four – January to March 2012.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 20th September 2011 – Quarter 1 Update report 2011/12
Audit Committee 1st November 2011 – Quarter 2 Update report 2011/12
Audit Committee 31st January 2012 – Quarter 3 Update report 2011/12

5 QUARTER FOUR UPDATE (JANUARY - MARCH 2012)

- 5.1 The report provides information on the work of Internal Audit during January to the end of March 2012 and provides an update on the progress of previous audit reports issued (April 2009 to December 2011).
- 5.2 Internal Audit activity during this period has focussed on completion of the audits set out in the Internal Audit Plan and particularly the final areas of work on the “key financial systems” for the external auditor. There has also been unplanned work completed in respect to a review at Newport Pool and a review into the ICT infrastructure project and contract (see paragraph 5.9).
- 5.3 The following update report appendices are attached:
- i) **Appendix A** – List of final reports issued in quarter four 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 quarter four of 1 day or more.
 - iii) **Appendix C** - Previous graded reports from April 2009 to December 2011 with their current status. (Members should note that green reports have now been excluded from this report).
 - iv) **Appendix D** – Summary of the amber report issued quarter 4.

- v) **Appendix E** – Agreed recommendations and action taken in respect to the review of the ICT infrastructure project and contract.

5.4 Appendix A shows 8 final reports were issued in quarter 4. This is slightly down on previous quarters because 6 reports were issued in draft during early/mid March and were finalised in late April due to the Easter holidays. One of these was the purchase ledger audit which had taken longer than estimated to complete due to it being part of the new financial system implemented in July 2011 and the requirement for training, familiarisation and additional testing/clarification in many areas.

5.5 The areas shown in this table were over their allocated time by more than +/- 5% for the reasons highlighted below:

Area	Variance (> +/- 5%)	Reason
Captain Webb Primary school	-16%	School was well prepared and this assisted the audit process and time on site
Sales Ledger	+95%	The sales ledger audit was almost double the estimated time due to it being part of the new financial system, training, familiarisation and additional testing/clarification required in many areas.
General Ledger	-8%	This was slightly under budget as some of the work had already been covered in the purchase ledger and interfaces audits.
Housing/Council Tax Benefits	-7%	Slightly under budget due to the improvements to the system and therefore less testing was required compared to previous years.
Haughton School	-25%	School was well prepared and this assisted the audit process and time on site

The reasons for the positive and negative variances are as explained and time allocations during 2012/13 will be reviewed based on this information.

- 5.6 Areas of more than 10 days in Appendix B are explained below:
- Advice & consultancy – due to all the restructures and implementation of revised governance, systems and procedures service areas are seeking advice.
 - Fundamental systems – payroll, main accounting, purchase ledger and sales ledgers are all significant audits and as a consequence the time during the quarter was more than 10 days.
 - Newport pool review – analysis, testing, collection of information and reporting took the timescale over 10 days to complete.
 - Planning applications – this area had not been reviewed for a while which has resulted in over 10 days work being required. Draft report issued late March 2012.
- 5.7 From Appendix C there is currently only one original amber report that remains amber – Abacus review and the follow up is in progress with further work on site required to obtain evidence to confirm implementation of the recommendations. The results of this will be reported in the next update report to members.
- 5.8 There was one amber report issued during quarter 4 – Sales ledger and summary information is provided in Appendix D. Management actions to implement recommendations have been agreed and Internal Audit are confident that improvements will be made when the follow up is undertaken at the end of June.

5.9 ICT Infrastructure Project and Contract

- 5.9.1 The review into the ICT Infrastructure contract and project was initiated in December 2010 by a complaint being received anonymously about potential significant payments being made to the infrastructure supplier. The final report was issued as a yellow report and agreed by the Senior Management Team in March 2012.
- 5.9.2 The reasons for the duration of the review are due to the complexity of the project, the amount of information that had to be located and then analysed (a lot of which had/was held by employees who had left the Council), coming to the conclusion that some information was missing and the restructuring programmes across the Council.
- 5.9.3 The review found that the contract had been changed by the new Project Manager in order that the project design was undertaken by the Council instead of the supplier and that the overall implementation provided a better outcome to meet the Council's needs.
- 5.9.4 The Project Manager negotiated a contractual payment of £368,000 to pay for the services and work already provided by the supplier at the time of the contract change. Further payments were made to the supplier under the revised contract for their work undertaken to support the revised implementation.
- 5.9.5 The review identified that the Project Manager had not followed the appropriate governance reporting arrangements put in place to endorse this significant contract change although his actions were in the best interest of the Council, within his authorisation limits and the agreed budget.
- 5.9.6 Implementing the revised solution has resulted in over £200,000 being saved by the Council and the following additional benefits being realised:
- The entire ICT infrastructure has been updated onto a modern and virtual platform which is scalable, adaptable and flexible.
 - All the requirements that were originally set have been realised.
 - The ICT service has improved from regular infrastructure failures with low customer satisfaction and the Schools on the verge of withdrawing from their contracts to an ICT service that is more stable and reliable, and one where we can build new services onto (i.e. the use of cloud services) which will make significant savings across equipment purchasing.
 - ICT achieved 100% buy back on the Schools Service for 11/12 and this would not have happened if the project had not been implemented in the changed model.
 - As the Council is now on a virtual platform it will be able to decommission the Civic Offices Data Centre within the costs and timescales put forward.
- 5.9.7 The review identified 8 recommendations for the Senior Management Team (SMT) to implement to learn from the review findings and improve processes. The recommendations are attached as Appendix E with the agreed actions and implementation dates.
- 5.9.8 The agreed actions include a revised project governance process for significant projects to ensure that they are all monitored by the Senior Management team and the Managing

Director/Director. In addition revised payment authorisation levels have been introduced which include counter authorisations for all payments over £50,000.

5.10 All areas reported on during the quarter not highlighted in this report 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 & Assurance 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 & Assurance 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 internal control. There is also a requirement to comply with CIPFA's Code of Practice for Internal Audit in Local Government. 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.
Links with Corporate Priorities	The audit plan is linked to corporate priorities through the risk management 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. Internal Audit staff under the supervision of the Assistant Director Finance, Audit & IG annually review the Council's risk management process and have concluded that it is operating effectively.
Financial Implications	The Council has saved over £200,000 due to the changed implementation approach for the ICT infrastructure project. Where recommendations are made by Audit Services, if possible, cost/savings implications are identified. MLB 27.04.12
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 2011/12 and strategy

Report by Jenny Marriott, Audit & Assurance Manager 383101

FINAL REPORTS ISSUED QUARTER FOUR – JANUARY – MARCH 2012

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance
Captain Webb Primary school	Green	N/A	7.75	6.5	-16%
Sales Ledger	Amber	June 2012	25	48.9	+95%
General Ledger	Yellow	June 2012	50	46.1	-8%
Housing Benefits	Green	Annual Audit	50	46.5	-7%
Supplier Query Review	Yellow	July 2012	**	16.5	n/a
ICT Infrastructure Contract & Project review	Yellow	September 2012	**	25	n/a
Newport pool review	Yellow	August 2012	**	13	n/a
Haughton School	Green	N/A	7.75	5.8	-25%

** - additional unplanned works.

QUARTER 4 - AREAS WHERE WORK UNDERTAKEN HAS BEEN FOR ONE DAY OR MORE

Audit Area	Days
Abacus system review	1
Advice/Consultancy + organisational change	24
Agresso Interfaces with other systems	5
AGS assurance & certification	2
Building Control Fees	5
Building Schools for the Future	1
Business Planning	3
Business watch	1
Captain Webb School	7
Care first application review	1
Catering spot checks	1
Constitution review	1
Contract changes & waivers of SOs	1
Corporate Induction Training	1
Discharge process - Acute Hospitals & Mental Health Units	2
Education liaison/dev groups	1
Email & Internet Filtering	2
External Audit Liaison/preparation for new arrangements	4
Family Connect	1
Finance savings	6
FMS System development	1
Follow ups	7
Fraud & Compliance Checks	5
Haughton School	6
HR/Payroll	28
ICT Infrastructure Contract review	4
ICT Procurement	1
Integrated Benefits System	8
Main Accounting	31
Markets & Cash collection	9
Newport Pool	1
Newport Pool Review	13
Oakengates Tennis contract	1
Planning Applications	15
Public Health Transfer	1
Purchase Ledger	13
Sales Ledger	25
School Funds	1
Security Group	1
Temporary Accommodation	3
Town Park Visitors Centre	1
Visible Minorities Development Council - Complaint	2
Wellington Library / First point	2

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.03.12
Safer Stronger Communities Partnership (SSCP)	Yellow	Yellow	Follow up complete. Some recommendations are outstanding with a further follow up due in February 2012.	Agreed to move the date of February follow up due to service restructure. Update to appear in future report to members.
Children in transition	Yellow		Follow up carried out in October 2010. Where possible actions have been implemented. However the restructure process will have an impact on some of the recommendations made.	A system review will be carried out in 2012-13 following the completion of the reorganisation process.
ICT Release Management	Yellow	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Recommendations in relation to this audit are in progress	Follow up is still in progress so update will appear in future report to members
Confirm System	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit still required to be implemented.	Follow up is in progress so an update will appear in a future report to members.
ICT Governance	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. One policy & procedure recommendation outstanding.	One recommendation remains outstanding
Review of 'I Can 2' Project	Amber	Green	Satisfactory follow up	Complete
Protocol System Review	Amber	Yellow	Follow up work ongoing, due for completion end of April 2012.	Update will appear in future report to members

STATUS ON FINAL REPORTS ISSUED JULY 2009 TO DECEMBER 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.03.12
Windmill Primary School	Yellow		Email from headteacher stating school wish to remain yellow as they are appointing a new School Business Manager & they will be following up the outstanding recommendations.	School wish the report to remain as 'Yellow' as a training tool for the new business manager
ICT Change management	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit are in progress	F follow up is still in progress and update in future report to members.
Community Centres	Yellow		Follow up in progress	Update will appear in future report to members
Absence Management	Yellow		Follow up due June 2012	Update will appear in future report to members
Millbrook Primary school	Yellow	Green	Follow up satisfactory.	Complete
Putting People First – Mainstreaming & Developing Personalisation	Yellow		Follow up due in April 2012.	Update will appear in future report to members
Taxi Licensing compliance review 2011	Yellow		Follow up in progress	Update will appear in future report to members
Children's Statutory Complaints	Yellow		Follow up in progress	Update will appear in future report to members
Payment Card Industry Standard	Yellow	Green	Follow up satisfactory	Complete

STATUS ON FINAL REPORTS ISSUED JULY 2009 TO DECEMBER 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.03.12
Software Licensing	Yellow		Follow up in progress	Follow up to be sent Update will appear in future report to members.
ICT Back up and Recovery	Amber	Yellow	Follow up completed and further review due April 2012.	Assistant Director and Service Delivery Manager attending Audit Committee June 2012 to provide another update.
Server Virtualisation	Yellow		Follow up due April 2012	Update will appear in future report to members.
Waste management Contract review	Yellow	Yellow	Follow up sent January 2012. Not returned. Still remains yellow.	Follow up not returned, therefore report remains 'Yellow'
Travel Link	Yellow		Follow up in progress	Update will appear in future report to members.
Frozen Meals Contract	Yellow		Follow up in progress	Update to appear in future report to members
Website management	Yellow		Follow up due April 2012	
P2 Net	Yellow		Follow up in progress	Update to appear in future report to members
Abacus system	Amber		Follow up in progress and visit being undertaken.	Update to appear in future report to members
Agresso Go Live Checkpoint	Yellow		As part of annual audit follow up.	
Newport Junior Primary school	Yellow		Follow up due April 2012	
Information Governance	Yellow	Yellow	Follow up completed	No further action to be taken as per follow up procedure.
Lightmoor Primary School	Yellow		Follow up due May 2012	

STATUS ON FINAL REPORTS ISSUED JULY 2009 TO DECEMBER 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.03.12
Cash Collection	Yellow		Annual Audit – follow up will be undertaken in quarter 3-4	
ICT Procurement	Yellow		Follow up in progress	Update to appear in future report to members.
Wombridge Primary school	Yellow		Follow up due May 2012	
Donnington Wood Jnr	Yellow		Follow up due May 2012	

AMBER REPORT QUARTER 4 - SALES LEDGER AUDIT 11/12

1. Introduction and Scope

- 1.1 An audit review commenced October 2011 to provide an opinion on the control environment and a level of assurance for Sales Ledger system and processes and the operations of the Invoicing and Collection Team (I&C Team).

The I & C Team have faced a number of issues during the year which have impacted on the results of this audit review. These included:

- the implementation on 04/07/11 of a new sales ledger module within the new financial management system, Agresso;
 - the introduction of new ways of working to support the new system;
 - a staffing restructure during which there was a period of time when they were under resourced; and
 - although now fully staffed with new employees they are still undertaking training and becoming familiar with their roles.
- 1.2 The scope of the audit was agreed by the Revenues Service Delivery Manager.
- 1.3 Staff within Revenues & Benefits, Finance, ICT, Estates & Investments, Legal and Leisure Services all contributed to this audit review.

2 Management Summary and Overall Opinion

- 2.1 The implementation of the new financial management system (Agresso) has caused a number of errors and issues which the I & C team are aware of and are working with the Agresso Support Team to resolve. The audit work confirmed the issues identified and has not made specific recommendations on these but will follow these during the further review in June 2012.
- 2.2 During the audit the main areas of concern included arrears, refunds, payment plans, credit balances, reconciliations and system problem resolution. Many of these were already highlighted by the Invoicing & Collection team and were substantiated by the testing throughout this audit.
- 2.3 On the basis of the work carried out it is our opinion that as a high proportion of the key controls tested are not currently adequate then the level of assurance we can provide 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. There are a number of legal and/or financial regulation recommendations or recommendations concerning areas of high priority to the Council.
- 2.4 The grading of this report was discussed and agreed with the Revenues Service Delivery Manager and 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 27/3/12
Legal Requirement – immediate implementation	2	5%	1
Financial Regulation – immediate Implementation	1	3%	1
Policy/Procedure – implementation within a month of agreement to the report.	35	92%	4
Best Practice – implementation at a mutually agreed date	0	0	
Total	38	100%	6

2.5 As part of this audit we 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	Not Implemented	Superseded due to changes in system
Legal Requirement			
Financial Regulation			
Policy/Procedure	4	4	7
Best Practice			
Total	4	4 *	7

*Recommendation made again this audit

Due to the changes in the financial management system, 7 of the previous recommendations have been superseded. All new recommendations have been included in the report.

2.6 The implementation of the recommendations made in this report, those outstanding from the previous review and the rectification of issues identified by the Income & Collection Team will strengthen the controls and processes in this area.

Recommendations made to SMT following the investigation and actions agreed

No.	Recommendation	Action agreed	Implementation date & responsibility
1.	That effective Project Governance arrangements should be established and followed for significant Council projects and that proper, accurate and regular reporting occurs to SMT to keep them up to date with progress against the plan ¹ , expenditure against the budget and management of risks. Members should be briefed as appropriate (depending on the original approval process for the project and funding).	SMT have agreed the definition for significant Council projects ² and the implementation of robust and systematic governance arrangements for significant projects. Directors to monitor for those AD's that report to them.	Agreed 12/03/12 SMT - to be implemented from 01/04/12 - SMT
2.	To ensure that the project governance arrangements established above operate effectively training/awareness should be provided to ensure everyone involved understands their roles and responsibilities so that they can be effective.	Communication and awareness by Corporate Communications following agreement and reminder at one of the monthly management meetings.	31/05/12 – Corporate Communications
3.	Project specifications should be thoroughly reviewed before release. Any significant changes to project specifications and/or contractual arrangements for significant Council projects during the term of the contract (including cost and public interest issues) should be escalated through the governance process and, where necessary, reported to SMT. They should be approved by those who made the original decision and Legal Services should advise on this process.	Project Managers to ensure all appropriate professionals and specialists review specifications before issued and confirm to SMT lead that fit for purpose. Governance processes will ensure any changes are appropriately reported and approved.	Immediately – SMT to brief their project managers From 01/04/12 – SMT lead and Project Managers and
4.	That following contract award Service areas, with the assistance of procurement and Legal Services, should agree and finalise with the contractor/supplier proper contracts which are duly signed and retained. Any requirements of Cabinet/Council resolutions must be implemented as part of this process (sealing of contracts etc).	Project Manager with appropriate professional support and evidence confirmed to SMT lead.	Immediately – SMT lead, Project Manager and Legal Services

¹ This should include progress against key tasks, targets and outcomes

² The definition of significant projects – projects of a Council wide nature, significant financial and community impact (financial over £0.5m as this equates to the threshold for key decision) and/or significant impact on the reputation of the Council (directly or through changes to service delivery)

No.	Recommendation	Action agreed	Implementation date & responsibility
5.	All appropriate project expenditure should be properly accounted for against the project budget. Variances should be reported appropriately. Individual payments outside of scheduled payments that are over an amount to be agreed by SMT should be listed and reported as part of the monitoring information provided to SMT (see recommendation 1).	Finance officers to ensure all expenditure recorded properly against the project. SMT agreed that project variances of over £50,000 should be reported in project monitoring process to SMT.	Immediately - Finance From 01/04/12 – Project Manager (SMT lead)
6.	There should be a review of authorisation levels to ensure that, as a further protection ³ , payments of a significant value cannot be authorised in the first place by the Project Manager/Senior Manager alone.	SMT agreed on 12/03/12 to revised authorisation levels with additional counter authorisation for payments over £50,000.	Implementation due 31/05/12 as additional work required by – Agresso Support team
7.	Where competing key priorities are identified for ICT or the service area then there should be transparency through SMT. They should be informed of the priorities, issues, risks and associated costs and agree the order of work to meet the Council's priorities (including the application of any virement procedures).	SMT agreed on 12/03/12 that the summary ICT work plan would be reviewed by SMT on a quarterly basis to ensure delivering in line with Council priorities and agreed any adjustments. However in between will report by exception/through projects if decisions in projects/service delivery impact on the priorities within the plan.	Work plan to be presented to SMT in Spring 2012 and monitoring to commence after that - AA/KK
8.	Good project management practice includes that a post implementation review (PIR) should be undertaken not more than 9 months after implementation to identify lessons learnt and confirm that targets and outcomes have been delivered. For significant corporate projects these PIR's should be reported to SMT.	Agreed that proportionate PIR's would be undertaken within 9-12 months of implementation. Any council wide lessons that should be learned should be shared through SMT. PIR's in respect to significant projects should be undertaken by Internal Audit and will be reported to SMT.	Wef 01/04/12 Project Manager/SMT lead Internal Audit in association with Project Manager/SMT lead

³ This will also provide an enhanced audit trail.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JUNE 2012

AUDIT & ASSURANCE ANNUAL REPORT 2011/12

REPORT OF THE AUDIT & ASSURANCE MANAGER

1 PURPOSE

- 1.1 To present the 2011/12 Audit & Assurance Annual Report which covers Internal Audit, Risk Management and Information Governance.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the 2011/12 Audit & Assurance Annual Report.

3 SUMMARY

- 3.1 To continue to demonstrate good governance and support the Annual Governance Statement (AGS) the Council produces an Annual Report on the Internal Audit, Risk Management and Information Governance activities of the Council. This report combines this information into the 2011/12 Audit & Assurance Annual Report to support the AGS.
- 3.2 The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (the Code), which has been deemed as proper internal control practice under the Accounts and Audit (England) Regulations 2011, states under Standard 10 – Reporting, that “the Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control”. The Internal Audit Annual report sections of this report summarise the key areas of operation for 2011/12 and provides an opinion to support the Council’s 2011/12 Annual Governance Statement.
- 3.3 It is good governance and practice to have annual reporting on information governance and risk management. In respect to risk management it is also a requirement of the Council’s Risk Management Strategy.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 16th June 2009 – Annual report 2008/09
Audit Committee 28th June 2010 – Annual report 2009/10
Audit Committee 27th June 2011 – Annual report 2010/11

5 2011/12 INTERNAL AUDIT ANNUAL REPORT

5.1 Assurance and Opinion on the Systems of Internal Control

- 5.1.1 The Council’s section 151 officer’s statutory obligation under the Accounts and Audit (England) Regulations 2011 to provide assurance on the systems of internal control is provided by the work of internal audit. This assurance forms part of the Council’s assurance framework.

- 5.1.2 The system of internal control helps the Council to manage and control the risks which could affect the achievement of its priorities and objectives rather than eliminate them completely. Internal Audit and the other assurance processes therefore provide reasonable and not absolute assurance of the adequacy and effectiveness of the systems of internal control within the Annual Governance Statement.
- 5.1.3 The planned Internal Audit resources for 2011/12 were 1129 days plus 64 days specialist ICT audit provided under contract (from an external provider). The actual resources available were as planned but some resources were diverted from Internal Audit work due to work on Ombudsman complaints (30), transparency (9), cost review work for SMT (30), recruitment – Internal Audit Team Leader (6) and restructure work (6).
- 5.1.4 Based on the work undertaken during the year (main areas attached as **Appendix A**) and the implementation by management of the agreed recommendations Internal Audit can provide reasonable assurance that the systems of internal control within these areas of the Council were operating adequately and effectively when reviewed during the year. There were issues brought to the attention of Audit and identified during the audit review with the implementation and operation of the new financial system (Agresso) but management have provided assurance that these have or are currently being addressed.
- 5.1.5 The previous Internal Audit Annual Report included information in respect to the type and number of recommendations made during the year (as requested by the Committee). This information has continued to be collected for 2011/12 and is shown below with comparisons to 2010/11 and 2009/10 in brackets.

Number of Recommendations made by Type 2011/12 (2010/11) (2009/10)

No. of Audit Reports & Grading	Total number of recommendations	Financial Regulation or DCSF Requirement (schools only)	Legal	Policy and/or Procedure	Best Practice
44 (68) (79)					
11 (12) (15) Green	416	63	29	288	36
30 (41) (52) Yellow	(963)	(361)	(55)	(475)	(71)
3 (15) (10) Amber	(1003)	(243)	(64)	(523)	(173)
0 (0) (2) Red					

Green = good; Yellow = reasonable; Amber = limited; Red = poor

- 5.1.6 44 reports were issued during 2011/12, less than in the previous two years. This is due to the reduction in resources and the additional work required around testing the modules within the new financial system.
- 5.1.7 Out of the 44 reports 25% were green (good), 68% were yellow (reasonable) and 7% were amber (limited). There were no red (poor) reports. Summary amber reports and explanations have been reported to the Committee with detailed reports being circulated to members of the Committee prior to the meeting.
- 5.1.8 22% of the 11/12 recommendations were legal/financial regulation compared to 43% in 10/11. 69% of the 11/12 recommendations were policy and procedure compared to 49% in 10/11. This outlines the impacts of organisational change and the reduced familiarity of staff in new roles.

5.2 Performance against External Review

5.2.1 KPMG has been the Council's External Auditors since 1st April 2007. There is continuous liaison between Internal and External Audit to ensure that Internal Audit is undertaking appropriate work upon which the External Auditor can rely and reduce the external audit fee. Internal Audit has delivered all the work for 2011/12 upon which External Audit places reliance to a good standard.

5.2.2 In order to place reliance on the work of Internal Audit the External Auditor assesses the performance of Internal Audit each year against the CIPFA Code (see 3.2). KPMG have undertaken the 2011/12 review and a summary of the findings will be presented to the Committee as part of their interim review feedback. There has been no indication from KPMG of any adverse findings but any actions required will be incorporated into the Internal Audit 12/13 key tasks list. This external review has also been used to meet the requirement of the Accounts and Audit (England) Regulations 2011 for an annual review of internal audit.

5.3 Local Performance

5.3.1 Internal Audit has retained 2 local performance indicators. The results with explanations are shown below.

PI Ref	Definition	Outturn 08/09	Outturn 09/10	Outturn 10/11	Target 11/12	Outturn 11/12	Comments/Explanation
LAUD1	% of completed work for the external auditor	100.00	100.00	100.00	100.00	100.00	Achieved
LAUD2	% Planned work completed	90.00	90.00	92.00	92.5	90.00	Not achieved by 2.5% due to the additional work outlined in paragraph 6.1.3

5.3.2 During the year to improve the team's efficiency, effectiveness and productivity we have held team development and training sessions. At these sessions and continually during the year we investigate and implement new/alternative ways of service delivery (practices, use of technology, procedures and standard documentation) based on customer feedback (see 5.4), sharing best practice with other local authorities and service providers.

5.3.3 The team has also during 11/12 completed the achievement of 23.3% staff savings (target 20%) and 20% non-staff savings.

5.3.4 Internal Audit is a member of the CIPFA benchmarking club (membership of 147 local authorities). A report was presented to the Audit Committee in November 2011 providing the results which showed that Internal Audit compares positively against other unitary authorities. Using this and qualitative data from the benchmarking club additional areas for improvement have been identified and are included in the 2012/13 key tasks list.

5.3.5 The Audit & Assurance Manager is the Unitary and District representative on the CIPFA Audit Panel. This helps the team to be at the forefront of public sector audit giving them advanced notice of developments in Internal Audit and governance enabling them to contribute to and influence relevant guidance.

5.4 Customer Feedback

5.4.1 Internal Audit receives customer feedback in several ways:-

- a) Informal feedback from auditees during the audit
- b) Seeking feedback from auditees at draft report discussion meetings
- c) Completion of a post audit questionnaire

5.4.2 The analysis of post audit questionnaire feedback is shown in the table below compared to the last 3 years.

POST AUDIT QUESTIONNAIRE FEEDBACK 2011/12 compared to last 3 years

Question	2008/09 from top score 5	2009/10 from top score 5	2010/11 from top score 5	2011/12 from top score 5	Difference 10/11 to 11/12
Pre- Audit Arrangements	4.6	4.6	4.8	4.8	No change
Audit Visit	4.8	4.8	4.8	4.6	-0.2
Communication	4.6	4.3	4.5	4.8	+0.3
Report	4.6	4.7	4.7	4.7	No change
Is audit a positive support – Yes	94%	100%	100%	100%	No change

5.4.3 The team continues to perform well with all average scores over 4.5 out of 5. The audit visit score has reduced slightly and communication improved. The team has reviewed these scores and where additional information has been provided in the feedback changes have been made, where appropriate.

6. 2011/12 RISK MANAGEMENT ANNUAL REPORT

- 6.1 Risk Management is a key component of good governance and was unchanged following the restructure within Governance. The service has continued during 2011/12 to support senior managers and service delivery managers with the management of their risks and good management practices (including service planning).
- 6.2 The Senior Management Team has managed the key risks during the year as part of their management agenda's and specifically the risks associated with reduced resources (financial and people) and the Council wide reorganisations (restructures and service reviews).
- 6.3 During the year Risk Management has also supported the Council's major projects including the Co-operative Council project.
- 6.4 Risk Management participates and contributes to external benchmarking exercises and the results of these have informed the service and confirmed similar performance to other local authorities.

7. 2011/12 INFORMATION GOVERNANCE ANNUAL REPORT

7.1 Information Rights

7.1.1 Information rights is the collective name for 3 main pieces of legislation in respect to public sector information, these are:

- **Data Protection Act 1998** – looks at personal information relating to individuals
- **Freedom of Information Act 2000** – encompasses all information held by the Council
- **Environmental Information Regulations 2004** – information with an environmental impact

7.1.2 The Information Governance (IG) Team plays a key role in providing assurance that the Council complies with information rights legislation. From April to the end of September 2011 IG advised on the application of relevant exemptions in respect to requests received under information rights legislation. From 1st October 2011 it took over responsibility for the administration of all information rights requests on behalf of the Council, including subject access requests.

7.1.3 The ICO has set a benchmark of 80% for responding to FOI requests within the 20 day statutory deadline for responding to requests. The Council answered 909 FOI requests during the year, an average of 76 per month. 85% of these requests were answered within the 20 day working day statutory deadline with the average time to respond to each request being 12 days.

7.1.4 There were 41 Environmental Information requests, 51% of which were responded to within 20 working days. There were 95 subject access requests (under the Data Protection Act), 68% of which were answered within 40 days.

7.2 Data Security Incidents

7.2.1 IG investigates all instances of alleged data breaches that are identified and referred to them. Following training and awareness raising the Council has developed a culture of reporting possible breaches to Management and IG. Prompt reporting where personal/sensitive data breaches have occurred can significantly reduce the impacts upon individuals.

7.2.2 A data breach can cover a number of different incidents from a member/employee reporting a lost Blackberry to confidential/sensitive information being communicated to an unauthorised and/or incorrect recipient. Suspected data breaches are reported to the Audit & Assurance Manager, SIRO (Assistant Director Finance, Audit & IG) and the relevant Assistant Director/SDM. Information Commissioner (ICO) guidance is followed in respect of the reporting of breaches. The ICO can impose sanctions on authorities for non-compliance including monetary penalties in appropriate cases.

7.2.3 During the year there were 77 reported instances of possible data breaches. IG investigated all of these and has confirmed that 40 data breaches had occurred. These are shown below categorised by type of breach.

Category/Type	Number of cases (%)	Number of Formal ¹ Complaints received from Data Subjects
Information accidentally sent/made available to the incorrect recipient	31 (77%)	6
Accidental release of personal information verbally	3 (8%)	0
Documents containing sensitive information left in an insecure location	1 (2%)	0
Documents/information containing sensitive information disposed of inappropriately	2 (5%)	0
Information lost or stolen	3 (8%)	0
Total	40	6

7.2.4 For each of these breaches IG agreed actions with the relevant management team to minimise the impact of the breach on individuals. The Council has also changed procedures and provided additional training to reduce the possibility of similar data breaches occurring in the future. Disciplinary action has been taken in 4 cases, 2 members of staff have resigned during these processes and 1 has been dismissed.

7.2.5 The circumstances for two (5%) of the confirmed data breaches met the ICO's notification rationale and were referred to the Information Commissioners Office (ICO). We are still waiting for the ICO's final response to these incidents including any action he requires the Council to take. The Council also informed the ICO of another case due to the extensive local press coverage it received.

7.2.6 Any lessons that should be learnt from data security incidents are shared locally with appropriate employees. IG also plans to produce a summary of key lessons learnt from data breaches investigated and disseminate these across the Council.

7.3 Information Governance Work Programme

7.3.1 The IG team in addition to the administration of information rights legislation and the investigation of data security breaches has set down a work programme to further improve the information governance framework of the Council. Progress achieved during the year is shown below:

Action	Progress achieved 2011/12
Production of a fit for purpose publication scheme	Scheme implemented in March 2012.
Development of a FOI disclosure log	Complete. Disclosure log now posted on Council's website and updated monthly
Review of Corporate Information Security Policy (CISP)	On-line acceptance of the CISP now in place and is complemented by the introduction of online information security training.
Follow up of the implementation of the actions from the 2010/11 Safeguarding review	Follow up work completed in December 2011. Progress had been made by Safeguarding in respect to the implementation of suggested actions however a number of actions are still outstanding. A further follow up is due in April 2012.

¹ Formal complaint = a formal complaint made, logged and processed through the Council's Complaints procedure

Developing training and awareness	<p>A number of actions have taken place on this including:</p> <ul style="list-style-type: none"> • Production and distribution of posters on information security for Council buildings • Online information security training and acceptance of CISP now in place. • Production of a data protection / information security self assessment for managers • Dissemination of data breaches lessons learnt via corporate communications • Plans to produce a corporate summary lessons learnt statement on all 11/12 data breaches to be disseminated via Corporate Communications. • The IG & Risk Team Leader attended a number of Service Unit management meetings to raise awareness. • Targeted training undertaken in higher risk areas such as Safeguarding. • Members session in November 2011 • Presentation to all Finance officers in December 2011.
Online agreement to abide by requirements of the CISP	Fully implemented.
Guidance on undertaking Privacy Impact Assessments	Guidance now complete and communicated to Project Officers in ICT.

8 CONCLUSIONS FOR 2011/12

- 8.1 Despite reduced resources arising from the restructure in October 2010 and the change in responsibilities in respect to information rights requests and Ombudsman's complaints the Audit & Assurance Team has achieved good results and contributed to ensuring good governance arrangements throughout the Council.
- 8.2 The statutory responsibilities of the Council's Chief Financial Officer (section 151 officer) to provide an adequate internal audit service have been met and Internal Audit has provided reasonable assurance to the Council on the internal control systems for the areas reviewed in 2011/12.
- 8.3 The Information Governance team have exceeded the ICO's target of responding to 80% FOI requests within the statutory deadlines, achieving 86%.
- 8.4 However, there are numerous major changes occurring both within and outside the Council during 2012/13 which could affect the team's activities, for example :-
- a) The Council's budget strategy requiring further savings has resulted in a further review of the structure of the team that was launched on 25th April 2012 and is currently in the 3 month consultation period;
 - b) Further service reviews and re-organisations, revised governance arrangements and reduced supervisory levels;
 - c) The continued development of relationships with revised service delivery areas to ensure the team continues to support the authority in achieving its objectives.
 - d) Changes to the Government's expectations of local government and policies;
 - e) Consideration of the future changes to the external audit and inspection regime;

- f) Additional requirements from the Government in respect to information governance i.e. information security, data quality and sharing standards;
- g) The Council's key projects - becoming a Co-operative Council, the Accommodation moves, Building Schools for the Future and Waste.

9 **OTHER CONSIDERATIONS**

AREA	COMMENTS
Equal Opportunities	All members of Audit & Assurance have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.
Environmental Impact	All members of Audit & Assurance 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 the proper practices in relation to internal control. There is also a requirement to comply with CIPFA's Code of Practice for Internal Audit in Local Government. Undertaking the audits as set out in the report and providing updates and an Annual Report to this Committee contributes towards meeting these requirements. Further reference to legal requirements and the implementation of those legal requirements in accordance with CIPFA guidance are contained within the main body of the report at paragraphs 3.2, 5.1.1 and 5.2.2 respectively. 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.
Links with Corporate Priorities	All aspects of the Audit & Assurance teams work supports good governance which underpins the achievement of the Council's objectives and quality service delivery.
Risks and Opportunities	All aspects of the Audit & Assurance teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	There are no financial implications arising from this report. Audit & Assurance operated within budget for 2011/12 with a small underspend at the end of the year. Where recommendations are made by team members following reviews, if possible, cost implications are identified. MLB 27.04.12
Ward Implications	The work of the Audit & Assurance team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

10 **BACKGROUND PAPERS**

Annual Audit Plan 2011/12 and strategy
 Internal Audit Action Plan 2011/12
 CIPFA Benchmarking Information 2011
 Risk Management Strategy 2011
 Corporate Information Security Policy

Report by Jenny Marriott, Audit & Assurance Manager. Telephone: 383101

MAIN AREAS OF INTERNAL AUDIT WORK UNDERTAKEN 2011/12

Areas	Days
Abacus system review	12
Advice/Consultancy + organisational change	66
Agresso Interfaces with other systems & systems development	29
AGS assurance & certification	18
Building Control Fees	5
Building Schools for the Future	2
Captain Webb	7
Cash Collection - general	22
Catering - Systems Development	3
Catering spot checks	2
Cinema Press release review	5
Community Centres	12
Council Tax / NNDR	51
Council Tax Ward data checks	11
Direct Payments Review	8
Discharge process - Acute Hospitals & Mental Health Units	7
Donnington Wood Junior School	6
External Audit Liaison & changes to external audit arrangements	11
Follow ups	21
Fraud & Compliance Checks	9
Fraudulent Credit Cards	4
Grange Park School	8
Haughton School	6
ICT infrastructure project and contract review	12
ICT Procurement	28
Integrated Benefits System	47
Lightmoor	7
Main Accounting	46
Markets & Cash collection	9
Meals on Wheels	8
National Fraud Initiative	15
Newdale Primary	7
Newport Junior School	8
Newport Pool	9
Newport Pool Review	13
P2.net	8
Payroll	30
Performance Indicators	15
Planning Applications	15
Purchase Ledger	41
Putting People First	4
Redundancy Payments process	2
Risk management	16

Safeguarding Recommendations Follow Up	4
Sales Ledger	49
School Funds	6
Single Status	1
Social Care Service Improvement	17
Speak Up Policy Update	3
St Matthews School	7
St Peters School Bratton	7
Supplier Query	16
Taxi review	2
Temporary Accommodation	3
The Place	21
Travel Link	8
Treasury Management	12
Visible Minorities Development Council - Fraud Complaint	2
Wellington Library / First point	2
Wombridge School	7
Woodlands School	8
Work for SMT on costs, fees and charges	30
Youth Service	3

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JUNE 2012

2011/12 ANNUAL REPORT - CORPORATE ANTI-FRAUD & CORRUPTION ACTIVITY

REPORT OF THE CHIEF FINANCIAL OFFICER

1. PURPOSE

- 1.1 For the Audit Committee to consider the 2011/12 Annual Report on Corporate Anti-Fraud and Corruption activity.

2. RECOMMENDATIONS

- 2.1 That the Audit Committee notes the 2011/12 Annual Report on Corporate Anti-Fraud and Corruption activity.

3. SUMMARY

- 3.1 The Council is committed to high standards of Corporate Governance and has a set of effective procedures in place to support this. These procedures include the Anti-Fraud & Corruption Policy.
- 3.2 The terms of reference of the Audit Committee include:
"15. To approve the Anti-Fraud and Corruption Policy for adoption by the Council and to monitor its operation. The policy will be reviewed it at least once every two years."
- 3.3 This is the fourth annual report setting out the Corporate Anti-Fraud and Corruption activity for 2011/12 to enable the Audit Committee to monitor the policies operation.

4. PREVIOUS MINUTES

- 4.1 Audit Committee 28th July 2009
Audit Committee 27th July 2010
Audit Committee 20th September 2011

5. INFORMATION

- 5.1 The latest Anti-Fraud and Corruption Policy was reviewed, updated and agreed by the Audit Committee on 22nd March 2011 and was approved by Council on 23rd June 2011. The policy supports one of the key dimensions of good Corporate Governance – Standards of Conduct. The Council aims to ensure that all those associated with it maintain high standards of ethics and conduct in public life contributing to good corporate governance.
- 5.2 Nationally due to the economic climate there are indications from the Police and Government statistics that fraudulent activity has and will continue to increase during the recession. Therefore it is important that the Council continues to maintain its vigilance in respect to Council services and the Community.
- 5.3 This report contains information about counter fraud and investigation activities within Benefits, Internal Audit and Trading Standards, including Licensing. The Committee should note that the Councils procedures and controls are designed to minimise the opportunity for fraud and to highlight where possible activity may have occurred.

5.4 Members and officers regularly receive information on their responsibilities in respect to the use of public money and the prevention and detection of fraud. They provide information for investigation by appropriately trained and experienced officers within the Council (and by the Police or other external party when required).

6. BENEFITS

6.1 The benefit caseload has increased again over the last 12 months, from 19,460 (live cases) at 31st March 2011 to 20,063 at 31st March 2012. This represents a 3% increase over the year. This is a slightly larger increase than between 2009/10 and 2010/11.

6.2 The Council has followed the Department for Work & Pensions (DWP) lead in “securing the gateway”. The DWP aim at ‘getting it right, and keeping it right’ i.e. ensuring only those properly entitled are granted and paid benefit. A telephone claim process has been introduced and the vast majority of claims are processed in this way. A telephone appointment is made within anyone making contact to make a new claim. A Benefit Assessment Officer takes all the necessary details and then an appointment is made for the claimant to see a Benefit Assessment Officer at the Council’s First Point facility where the information they have given is checked against the relevant proof of income, identity and rent details. To this end the majority of new benefit claimants who make a claim direct to the Council are seen in person by a Benefit Officer. This ensures the best possible service for the customer as claims are processed whilst they wait and the Benefit Assessment Officer explains to the customer their responsibilities regarding reporting of changes in circumstance. Entitlement letters are given to the customer at the end of the interview and explained and checked with the customer to ensure accuracy.

6.3 Referrals to the Benefits Investigation team come from various sources. The table below show the sources, number and percentage of total. The total number of referrals is significantly less than last year when we recorded 1,293 - a 44% reduction. The reduction is due to the implementation of the service restructure and reduced resources in this part of the service (this reflects what has been happening across all areas of the Council).

Source	Number of Referrals	Percentage of Total
Anonymous letter	74	8.3
Anonymous telephone call	212	23.7
Member of staff	137	15.3
Housing Benefit Matching Service (HBMS)	64	7.2
DWP	122	13.6
Police	20	2.2
Landlord	29	3.2
Internet/email	104	11.6
Shropshire Star/Newspaper	1	0.1
Other Local Authority	12	1.3
Named Member Of Public	3	0.3
National Fraud Initiative (2011/12)	117	13.1
Letter from the public	1	0.1
Total Referrals	896	100.00

6.4 Benefits Data Matching

6.4.1 In 2011/12 there were 51 investigations closed which had been opened due to a Housing Benefit Matching Service (HBMS) referral. Of these, 22 resulted in a positive outcome i.e.

benefit was affected / fraud found. There were 64 referrals as a result of a HBMS match within 2011/12 – some of these files were still open at the end of 2011/12.

6.4.2 The Investigation Team have also been investigating matches identified through the National Fraud Initiative (NFI). So far 916 matches have been completed and 46 incorrect awards of benefit and 7 frauds have been found. The fraud and error has resulted in overpayments of £77,519.

6.4.3 Unfortunately Benefit fraud is not just external to the Council. The Council undertakes internal checks in respect to monthly data matches with all new starters. This ensures all changes in circumstances have been declared. During the last year we have cautioned one person who was a Telford and Wrekin employee and another has accepted an administrative penalty following investigations into benefit fraud.

6.5 Cases Investigated

6.5.1 The Benefit Investigation Team have reviewed 896 referrals. Using a risk based approach 319 of these cases were taken on for investigation. Within 2011/12 251 investigations were closed and of these 170 proved positive. Of this total, 86 cases received a formal sanction:

- Prosecutions – 44
- Administrative Penalties – 14
- Formal Cautions - 28

6.5.2 Although no credit is given, sanctions are also applied to partners/landlords/employers where it can be demonstrated that they were complicit in the fraud. As a result, 1 further formal caution was also applied.

6.5.3 For the prosecutions fines of £1,780 were imposed and costs of £3,050 Awarded, please note that some of these are attributable to joint working with Department for Work and Pensions. Other sentences imposed by the courts in the last year include suspended custodial sentences, community orders, curfews and unpaid work. In addition to recovery of the overpaid benefit amount anyone accepting a caution, administrative penalty or successful prosecution cases will have a loss of benefit sanction applied which means that any ongoing benefit entitlement is reduced for a period of four weeks.

6.5.4 Overpayments detected in the above sanction cases totalled £315,102. The Investigation Team identified a further £246,766 of incorrectly claimed benefit.

6.6 Benefit Fraud Sanction & Prosecution Policy

6.6.1 The benefit fraud policy was rewritten and approved by Cabinet in January 2010. The refreshed policy was to give much clearer guidance to decision makers on a wider range of factors that they should consider when deciding which sanction to apply to a fraud case, as well as streamlining the decision making process to speed up the time taken for sanction authorisation to be granted.

7. INTERNAL AUDIT

7.1 Internal Audit has an important role in the investigation of suspected internal fraud and assisting managers in ensuring they have appropriate systems and controls in place that are designed to prevent or reduce the opportunity for fraud.

- 7.2 Annually days are allocated within the risk based audit plan to undertake proactive fraud work and work in areas where previous frauds have occurred. This work is informed by a Fraud Risk register. In addition to good practice and local internal intelligence, this register was informed through being part of the West Midlands Fraud Group¹. A summary of the fraud risk areas and audit action taken during 2011/12 is attached as Appendix A for your information. For 2011/12 the planned proactive days were 40 days and actual 27.5 (per plan) 11 days due to a reduction in overall resources. In addition where possible the proactive activities were included within other planned audits.
- 7.3 In addition to proactive fraud work and continuous advice and guidance to managers, Internal Audit also has potentially irregular activities reported to them throughout the year for investigation. Appendix B outlines in summary investigations into potential irregularities undertaken during 2011/12. The majority of investigations undertaken result in improvements to procedures, controls and training and awareness for employees.
- 7.4 The number of days work undertaken on suspected fraudulent activities during 2011/12 was 53 days. These days are taken from contingency (101) or by re-allocating planned audit time.

7.5 National Fraud Initiative (NFI)

- 7.5.1 The Audit Commission's NFI exercise is part of Central Government's national recognition that taxpayers have a right to expect public bodies to put in place every possible measure to protect their money from fraud. The national public bodies included in this exercise are police authorities, local probation boards, fire and rescue authorities and all upper tier and districts councils.
- 7.5.2 The council has a statutory responsibility to provide data to the Audit Commission for the prevention and detection of fraud as part of the NFI. NFI is an exercise that matches electronic data within and between audited bodies to prevent and detect fraud.
- 7.5.3 The Information Governance and Risk Team Leader is the nominated 'Key Contact' for the authority. It is the Key Contacts responsibility to ensure the appropriate datasets are sent to the Audit Commission and then when data match information is provided (January 2011) to provide a co-ordination role to ensure service areas are investigating matched records in their areas in compliance with Audit Commission guidelines.
- 7.5.4 The Council received their data match information in January 2011. In total 7,500 matches were identified covering a number of data sets, see below for breakdown:

Housing Benefit - 2104
Payroll - 579
Blue Badge - 226
Concessionary Travel - 1134
Private Residential Care Homes - 45
Licensing - 3
Creditors – 3409*

*This includes standing data such as duplicate creditor masterfile records and historical data in respect to possible duplicate payments made to suppliers.

- 7.5.5 The Audit Commission does not expect all 7,500 matched records to be reviewed but they do suggest reviewing matches on a risk basis using their recommended filters. In total 1,837 matches have been processed with a further 145 in the process of being investigated. This is

¹ Specialist fraud networking and training group of West Midlands metropolitan authorities and unitary authorities (the unitary authorities include Stoke, Nottingham, Derby and Leicester)

broadly in line with the number of recommended matches highlighted by the Audit Commission.

- 7.5.6 Steady progress has been made by the Council in reviewing matches on a risk basis. The main key findings have been where housing benefit data matches have been investigated. This has uncovered 7 frauds and 43 errors totalling £76,007.
- 7.5.7 In October 2011 the Council submitted council tax data and in December 2011 electoral registration data to the Audit Commission for data matching purposes. This resulted in 1168 matches which have been recently sent to the Council for investigation. Work on these matches is ongoing.

7.6 Training & Awareness

- 7.6.1 The Council ensures that both Members and Officers are aware of their responsibilities in respect to the Council's Anti-Fraud and Corruption policy.
- 7.6.2 All new staff within Revenues & Benefits (R&B) (as part of their induction) receives in depth Fraud Awareness training from the Corporate Training Team. In addition, an annual refresher is given to existing staff. Out of the fraud referrals received in 2011/12, 137 came from members of staff.
- 7.6.3 For officers there is the Code of Conduct for Employees and High Standards Cards which are included in induction sessions and personal information folder. Available on the intranet to Managers is an electronic Booklet and an electronic leaflet for all employees. Anti-fraud and corruption and the Speak Up Policy are included in induction for new employees.

7.7 Publicity

- 7.7.1 As per the policy publicity of cases is important as a deterrent. The Benefit Fraud Team and Trading Standards use PR to issue press releases about upcoming notable cases. Often the press then follow up with the headlines about the action/fine. The press releases are also published on the Council's website.
- 7.7.2 Internally cases of note are included within the Revenues and Benefits weekly team brief notes and also included in the quarterly Service Area report. These are issued to all R&B staff.
- 7.7.3 Where allegations of internal frauds have been investigated and procedures and controls are changed the lessons learnt are shared across the Council through the e.news, in management meetings and in audit recommendations in other areas.

8. TRADING STANDARDS & LICENSING

- 8.1 The Trading Standards and Licensing services of the Council play a significant role in delivering the Council's response to business related fraud in the borough. The majority of the responses are based around statutory responsibilities refined to provide effective detection and countermeasures in respect to fraud. These services are not restricted as to whom its officers may investigate, and are constrained only by the limitations of the statute under which an investigation is being conducted. As such investigations may involve Council officers, Members, suppliers to the Council and the business activities of the Council itself.
- 8.2 Officers of these services have access to specific legal, procedural and operational training to enable effective discharge of their responsibilities.

- 8.3 Staff undertake extensive professional training and mentoring before being permitted to commence enforcement duties, and have access to a range of professional competency training facilities through CEnTSA (Central England Trading Standards Authorities) and the Institute of Licensing (IOL) and their regional professional networks.

8.4 Anti Fraud responsibilities

- 8.4.1 Specific and identifiable responsibilities falling to the Trading Standards and Licensing within the Public Protection Service Delivery Unit, to combat fraud in the community include:

For the Licensing Service:

- **Street trader consents**
Prevention and detection of the illegal and highly lucrative transfer of street trader consents ('burger wars')
- **Taxi licensing**
Ensuring the correct vehicle, correctly insured and driven by the licensed driver.
- **National Insurance Fraud Network.**
Partnership working to detect and report vehicle accident patterns.
- **Scrap metal dealers licensing.**
Joint working with police to detect illegal trading in stolen vehicles through scrap metal dealers and motor salvage operators.
- **National Fraud Initiative.**
Provision of information for the purposes of detection of benefit and other related frauds.
- **Intelligence Data System.**
New data system linked to DVLA for the detection of driving licence frauds.
- **Gambling Act enforcement**
Gaming establishments, registration of gaming machines, enforcement of 'amusement machines licensing duty certificates' in respect of the avoidance of taxation payments.
- **Money Laundering.**
Taxis, private hire vehicles, gaming machines, as a means of converting large quantities of cash.
- **Street Collections, Charity collections.**
Identification, detection and enforcement of fraudulent collections

For the Trading Standards Service:

- 8.4.2 Trading Standards has responsibility for enforcing a wide range of legislation that supports the authority's anti fraud responsibilities, and could be considered under the following broad headings:

- **Goods and services misdescriptions legislation.**
cover such things as property (houses etc. misdescriptions) vehicles, animals, professional, personal and manual services.
- **Intellectual Property crime**
Copyright, Trade marks
- **Consumer protection against unfair trading legislation**
Wide ranging and subject unspecific legislation to keep pace with constantly changing fraudulent practices.
- **Consumer Credit**

- Credit, debt, finance agreements, misleading advertising
- **Cattle identification legislation**
To prevent fraudulent transfer to limit disease spread.
- **Weights and Measures**
Misrepresentation of quantity of goods supplied.

8.4.4 Intelligence shows that there is a 20% increase in rogue trader complaints across the Midlands and this is mirrored within the borough. These fraudsters specifically target vulnerable and older people, carry out unnecessary or misrepresent home improvement work and as a result con them out of thousands of pounds. This area of fraud remains a priority for Trading Standards for 2012/13.

8.4.5 The team also has a proactive role in educating consumers and businesses by raising awareness of rogue traders, counterfeiters and making consumers better able to distinguish the rogues from the reputable businesses and increasing consumer confidence.

8.5 Trading Standards Regional Initiatives

Scambusters

8.5.1 Dedicated Trading Standards officers working alongside officers from the Police, HM Revenue & Customs and other enforcement agencies. They work across local authority boundaries focusing on the hardest to tackle scams and rogue traders that set out to con people out of their money/assets.

8.5.2 This regional approach has demonstrated that targeted, proactive and intelligence led enforcement works. There has been much closer co-operation and data sharing between Trading Standards and other agencies, partly due to the level of criminality the teams have investigated.

Examples of the types of issues that have been targeted are:

- Doorstep crime
- Deceptive selling techniques
- 'Cowboy' builders doing shoddy and unnecessary work
- Large scale organised counterfeiting operations

8.6 Loan Shark Team

8.6.1 A loan shark is an unlicensed moneylender. Licensed moneylenders are regulated by the Office of Fair Trading (OFT) and must follow the OFT's codes of practice.

Because they're not licensed, loan sharks operate outside the law. If you borrow from them it's likely you'll:

- get a loan on very bad terms
- pay an extortionate rate of interest
- be harassed if you get behind with your repayments
- be pressured into borrowing more from them to repay one debt with another

8.6.2 The role of this team is to identify, investigate and if necessary prosecute loan sharks and to work with victims to secure a satisfactory financial outcome. It also has a proactive role to educate and raise awareness in local communities of the pitfalls of loans harks and promotes alternative sources of obtaining small loans and savings plans.

9. Challenges for 2012/13

- Reduced resources for the provision of Council services and therefore reduction in control and supervision and therefore potential increased opportunities for internal fraud
- Reduced resources for the provision of Council services, including Governance and therefore reduction in fraud awareness and opportunities for proactive work
- Impact of the continued recession and economic climate on the potential incidence of fraud
- The inevitable increase in the benefit caseload

10. OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	The Anti-Fraud & Corruption policy operates within Equalities legislation and the Council's associated policies. Any investigations follow legal requirements and proper procedures to ensure that equality and diversity requirements are met.
Environmental Impact	None
Legal Implications	Regulatory and enforcement teams throughout the Council (including internal audit) have powers and responsibilities set out in statute and regulation to detect, investigate and take enforcement action in relation to fraud and corruption. Such roles and responsibilities also include information sharing which is referred to in this report. When undertaking these actions all relevant statutory requirements need to be adhered to.
Links with Corporate Priorities	The policy supports all Corporate Priorities and good Corporate Governance demonstrating the Council's desire to ensure sound conduct and ethical procedures for all those associated with the Council and service delivery. Monitoring the policy provides the opportunity to identify if there are any changes required or additional areas of activity.
Financial Implications	None as all current activity is met from within existing budgets.
Opportunities and Risks	Having a policy which sets out the Council's anti-fraud and corruption culture and associated procedures assists in the management of the risk of fraud and corruption against the Council.
Ward Implications	Borough wide implications.

11. BACKGROUND PAPERS

Corporate Anti-Fraud and Corruption Policy 2011
Speak Up Policy 2009 and 2012
Benefits Counter Fraud and Sanctions Policy 2010
Audit Commission requirements for the National Fraud Initiative
Trading Standards & Licensing Legislation

Report prepared by Jenny Marriott – Audit & Assurance Manager - 01952 383101; Lee Higgins – Benefits Manager – 01952 83894 & Anita Hunt – Trading Standards Team Manager – 01952 381998; Suzanne Fisher – Licensing & Support Team Manager

INTERNAL AUDIT FRAUD & CORRUPTION PROACTIVE WORK UNDERTAKEN 2011-12

Work Area	Work undertaken
Cash collection	Annual cash collection audits Review of arrangements at Travel Link office
Cash Collection – catering	Audit working with catering Service who are implementing new catering management information system
Failing to institute arrears recovery proceedings	2011-12 - Reviewed arrears procedures in Sales Ledger, Council tax, NNDR annual audits
Improper award of contracts	This is looked at as part of each audit. Review to be carried out during 2012-13 Specific work done on ICT procurement 11-12 Investigation into allegations that Council employee was favouring a particular supplier (see Appendix B).
Social Care establishments – theft of client monies	Community living imprest accounts
Corruption- Award of planning consents & licences	Planning & building regulations fees audit undertaken Feb / Mar 2012
Imprest accounts	As a result of Audit findings in checks carried out 2010-11 an article was put in the bulletin 6 May 2011 Training provided by Audit for youth services in June 2011
Recruitment	This area has been highlighted by the Audit Commission as a risk area. Reduced risk at present due to recruitment freeze To carry out Recruitment Audit based on guidance in Protecting the Public Purse 2012-13
Compliance with Audit Commission Guidance	Completed Protecting the Public Purse Checklist and has informed updated Anti-Fraud & Corruption Policy. Completion of fraud & corruption checklists for all audit areas

Potential Irregular/Fraudulent Activities Investigated 2011/12

Area	Days
• Social service direct payments investigation re potential fraud by someone employed under a direct payments contract.	8
• Payments to the council being made with fraudulent credit cards.	4
• Leisure centre investigation following financial irregularities.	13
• Investigation into allegations that Council employee was favouring a particular supplier.	16
• Review of the infrastructure project and contract payments.	12
TOTAL	53



ANNUAL GOVERNANCE STATEMENT 2011/12

1. Standards of Governance

- 1.1 The Council expects all of its members, officers, partners and contractors to adhere to the highest standards of public service with particular reference to the formally adopted Codes of Conduct, Constitution, and policies of the Council as well as applicable statutory requirements.

2. Scope of Responsibility

- 2.1 Telford & Wrekin Council is responsible for ensuring that its 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 to secure continuous improvement.
- 2.2 To this end the Council has a local code of corporate governance to ensure that it is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. Within this code and to meet its responsibilities, the Council (members and officers) are responsible for putting in place proper arrangements for the governance of its affairs including risk management, the requirements of regulations¹ and ensuring the effective exercise of its functions.
- 2.3 The Council continues to review its arrangements against best practice and implement changes to improve the governance framework (including the system of internal control) - see paragraph 5.

3. The Purpose of the Governance Framework

- 3.1 The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, priorities and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to appropriately identify, quantify and manage the risks to the achievement of the Council's priorities, objectives and policies.
- 3.3 The governance framework has been in place at the Council for the year ended 31st March 2012 and up to the date of approval of the statement of accounts. Reviews and updates to

¹ Regulations 4(2), 4 (3) and 4(4) of the Accounts and Audit (England) Regulations 2011

the framework will take place during 2012/13 and beyond to support good governance, revised service delivery and organisational change.

4. The Governance Framework

4.1 The key elements of the systems and processes that comprise the authority's governance framework include:

- Vision 2026 – Transforming Telford & Wrekin: From New Town to Modern City, the Community Strategy, the Council's Plan which outline the Council's ambitions and priorities based on stakeholder feedback and these inform the service planning process and personal targets;
- The Constitution (which includes the scheme of delegations, financial regulations and contract standing orders), Forward Plan and decision making processes;
- Co-operative Council principles and clear vision and values² for the Council and the Community;
- Clear governance arrangements to manage the Council's change programmes and restructuring occurring across the Council and key capital projects;
- The Council has designated statutory officers – Head of Paid Service (Managing Director), Chief Financial Officer, Monitoring Officer, Director of Children's Services, Director of Adult Social Services and Scrutiny Officer;
- The Council's Information Governance Framework including a designated Senior Information Risk Owner (SIRO), data and information security and sharing policies and procedures. There is also a comprehensive training and awareness programme;
- The Performance management framework and data quality systems. These provide reports to SMT³, Cabinet and Scrutiny;
- Legal Services ensure that the Council operates within existing legislation and is aware of and acts upon proposed changes to legislation;
- The democratic decision making and accountability processes contained within the Constitution;
- SMT meets weekly with regular management meetings with Service Delivery Managers and Group/Team Leaders;
- Policy Review – appropriate SMT members and Cabinet meet regularly to discuss emerging key strategic issues which could affect the Council in the future and formulate medium term planning strategy/options.
- The Standards Committee, Audit Committee, scrutiny function and other regulatory committees;
- The development of internal controls and checks within new systems and when existing systems are reviewed;
- The Council's human resources and workforce/organisational development procedures⁴ are supported by clear recruitment processes. These are followed up by induction training (which includes information on the constitution, key policies, procedures, laws and regulations appropriate to the post and experience of the post holder) and on going training and development;
- Member and Officer Codes of Conduct and the Officer/member protocol underpin the standards of behaviour expected by members and officers;
- Member development programme to ensure members are properly equipped and have the capacity to fulfil their roles;
- The Council's communication and consultation strategies ensure that the local community knows what the Council is doing, receives feedback from them including the identification of their needs for incorporation into the Council's priorities;

² Co-operative values of ownership, openness & honesty, involvement, fairness & respect

³ Senior Management Team – Managing Director, Directors and Assistant Directors.

⁴ Further development work is required on some of these during 2012/13 to reflect a service reorganisation and the Co-operative Council

- The deputy Leader of the Cabinet is the lead member responsible for Corporate Governance including Risk Management. The key officer for Corporate Governance including risk management is the Managing Director. The service and financial planning process incorporates risk management and there is provision for appropriate awareness and training for officers and members;
- The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010);
- Comprehensive budget strategy and management of the associated risks of reduced resources provides robust financial management and regular reporting to members;
- A new financial management systems was introduced in July 2011 to provide financial management including budget monitoring, payment of suppliers and collection of income;
- The Council's Treasury Management Strategy and arrangements conform to CIPFA and Audit Commission guidance and is monitored by the Audit Committee;
- Internal audit review controls based on risk to provide assurance and recommendations for improvement and the Audit & Assurance Manager has been measured by external Audit against the CIPFA Statement on the Role of the Chief Internal Auditor in Public Sector (2010);
- Anti-fraud and Corruption, Speak Up and Prosecution policies support the council's governance processes and anti-fraud and corruption culture;
- The Council's Partnership protocol and agreed governance and reporting arrangements for the Council's significant partnerships;
- Projects are managed, as appropriate, within the principles of the PRINCE 2 methodology. This includes risk identification and management.
- Awareness and training for members within their member development programme and for officers through induction, Staff news, and update sessions on any revised governance arrangements (including information governance).

5. Review of Effectiveness

- 5.1 Telford & Wrekin Council has responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements including the system of internal control. The review of the effectiveness is informed by:-
- a) the senior managers within the authority who have responsibility for the development and maintenance of the governance environment;
 - b) the work of internal audit; and also
 - c) by comments made by the external auditors and other external review agencies and inspectorates.
- 5.2 The Cabinet monitors the effectiveness of the governance framework through the consideration of regular performance information and financial management reports from senior management. Individual Cabinet members receive regular feedback from senior officers in respect to their areas of responsibility on the progress of priorities and objectives. Issues of strategic and corporate importance are referred to the Cabinet.
- 5.3 The Council's Scrutiny arrangements were reviewed and further revisions were agreed at the Annual Council meeting in May 2011. The Council's Scrutiny function continues to review the decision making process and areas of concern. The subjects for the areas of concern are informed by community consultation, direct feedback to members from within the community and the results of review and inspection (both external and internal) and areas of policy being developed by the Council and Executive.

- 5.4 The Internal Audit plan is informed by the Council's risk management and performance management processes, external inspection reports, the requirements of the External Auditor, comments from senior management and their opinion of the current state of the governance arrangements and internal control system. During 2011/12 the Internal Audit team achieved 90% of their planned work (best practice is 90%) and this has been used with the relevant output from unplanned work to form their opinion on the systems of internal control.
- 5.5 Internal Audit report on a quarterly basis and also annually to the Audit Committee. The Audit Committee has asked for additional information during the year and requested Assistant Directors and Service Managers to attend to provide assurance on the management of risks and implementation of recommendations. The Audit Committee has also reviewed benchmarking information on Internal Audit.
- 5.6 The Audit Committee terms of reference also incorporates the review and monitoring of the Council's Treasury Management arrangements. Members of the Committee are kept up to date through awareness training on the state of the markets that influence/affect delivery of the strategy.
- 5.7 The Council's performance management framework has systems and procedures which drive continuous improvement in performance. This has been reviewed and developed to reflect the Government's Single Data List.
- 5.8 The Council has continued to review its governance framework to gain assurance that its approach to corporate governance is both adequate and effective in practice and that sound systems of internal control are operating. These reviews have included the Constitution and associated policies, procedures, management processes and reporting arrangements. However it is recognised that further work is required to update the Constitution and management procedures and this is included in the action plan attached to this statement (Annex 1).
- 5.9 The Council recognises the importance of Information Governance and has taken significant steps to improve the security of its IT, paper and handling processes to meet the compliance requirements for Data Handling in Government. This included bringing the Information Governance standard setting and compliance responsibilities into Audit & Assurance in 2010 and reorganising resources to co-ordinate information rights responses in October 2011. Information Governance has during 2011/12 reported to the Audit Committee including information on responses to information rights requests and data security breaches. We reported two data breaches to the Information Commissioner. We are awaiting direction from the ICO in respect to these instances.
- 5.10 ICT infrastructure upgrades during the year have further improved security, data handling and business continuity.
- 5.11 The annual review by Internal Audit of the key financial systems has identified a number of areas for improvement. Reassurance has been provided by management that these improvement areas are being progressed, co-ordinated by a Steering Board.
- 5.12 The Managing Director, Directors, Assistant Directors and Service Delivery Managers have signed annual assurance certificates confirming that the governance framework has been operating within their areas of responsibility, subject to the actions outlined in Annex 1.
- 5.13 The requirements under the Accounts and Audit (England) Regulations 2011 require a review of internal audit and the External Auditors review of Internal Audit has been used to meet this requirement. The results of the review will be presented to the Audit Committee as part of the Internal Audit Annual Report.

5.14 The External Auditor's Annual Audit Letter 2010/11 included in its headlines:

- VFM conclusion – We issued an unqualified value for money (“VFM”) conclusion for 2010/11 on 29 September 2011. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness. 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.
- Audit opinion - We issued an unqualified opinion on your financial statements on 29 September 2011. 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.

5.15 We have been advised on the implications of the review of the effectiveness of the governance framework by the Cabinet, Standards Committee, Audit Committee, Scrutiny, senior managers, Internal Audit and external review, and plan to address weaknesses and ensure continuous improvement of the framework as outlined in the action plan attached as Annex 1.

Leader of the Council.....

Managing Director.....

Date.....

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26TH JUNE 2012

THE ANNUAL GOVERNANCE STATEMENT 2011/12

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

1 SUMMARY OF MAIN PROPOSALS

- 1.1 For the Audit Committee to approve the Annual Governance Statement 2011/12 will accompany the 2011/12 annual accounts.

2 RECOMMENDATION

- 2.1 That members of the Audit Committee approve the Annual Governance Statement 2011/12, attached as Appendix A, and note the information in the report.

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>Annual Governance Statement signed and ready to accompany the 2011/12 accounts by 30th June 2012.</i>	
FINANCIAL/VALUE FOR MONEY IMPACT	No	<i>Good governance processes support value for money in ensuring economy, efficient and effectiveness in the Council's decision making and 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 is signed by the Leader and Managing Director of the Council. This statement should accompany the Annual Accounts.
- 4.2 The Annual Governance Statement for 2011/12 is attached at Appendix A and has been developed based on the requirements of the regulations and CIPFA/Solace guidance¹. The statement includes an action plan (Annex 1) to ensure that we continue to improve our existing governance arrangements.
- 4.3 The action plan attached to the 2010/11 statement (implemented during 2011/12) has been reviewed, updated to reflect current progress. The position as at 31/03/12 is attached as Appendix B to this report.

¹ Application Note to Delivering Good Governance in Local Government: a Framework March 2010

- 4.4 The Annual Governance Statement outlines that the Council has been adhering to its Local Code of Corporate Governance, continually reviewing procedures to maintain and demonstrate good corporate governance and that it has in place robust systems of internal control. The Council can be assured that during 2011/12, including during organisational changes that the existing or revised governance arrangements have continued to support proper governance. Where required changes to procedures have been agreed by SMT and changes to the Constitution have been agreed by the Council, through the Council's Constitution Committee.
- 4.5 Assurance for the annual governance statement is provided by all areas of the Council and externally by the following:
- a) Leader and Managing Director – who sign the statement;
 - b) Senior management – Managing Director, Directors, Assistant Directors;
 - c) Chief Financial Officer;
 - d) The Monitoring Officer;
 - e) Members – Scrutiny arrangements, Standards Committee, Audit Committee and other Regulatory Committees;
 - f) Internal Audit ;
 - g) Partners;
 - h) External Audit; and
 - i) Other external inspection agencies.
- 4.6 The 2011/12 Annual Governance Statement sets out the Council's governance arrangements that operated during the period – 1st April 2011 to 31st March 2012 and measures the effectiveness of them. Unitary elections took place on 5th May 2011 and new councillors were elected. A new administration was elected at the Annual Council meeting on 26th May 2011. This new administration has made changes which are reflected in this statement.

5 IMPACT ASSESSMENT – ADDITIONAL INFORMATION

N/A

6 PREVIOUS MINUTES

- 6.1 Audit Committee 28th June 2010
Audit Committee 27th June 2011
Cabinet 31st May 2012

7 BACKGROUND PAPERS

Local Code of Corporate Governance May 2008
Application Note to Delivering Good Governance in Local Government: a Framework March 2010
KPMG Report to those charged with governance 2010/11
KPMG Annual Audit Letter 2010/11
Annual Audit & Assurance Report 2011/12

Report by Jenny Marriott, Audit & Assurance Manager 383101

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

No	Action	Lead Officer	Comments	Date
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
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.
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 Customers and People	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
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
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
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

PROGRESS AS AT 31/03/12 ON 2010/11 ACTION PLAN FOR IMPLEMENTATION 2011/12

No	Action	Lead Officer	Comments	Date	Progress as at 31/03/12
1.	Strategic management of organisational change and the development of the new administrations governance requirements. Strategic management of the implementation of the revised governance framework (encompassing the corporate governance structure incorporating information, information technology, partnership and project governance).	CMT (plus the Monitoring Officer)	Understanding the revised governance requirements and confirming their legality. Confirming the requirements are incorporated into any changes to the Constitution, strategies and policies. Endorsing an awareness programme for officers and members.	Ongoing 31/03/12	This work is still on going to reflect the recent senior management restructure and requirements of government legislation.
2.	<p>Managing Decision making:</p> <ul style="list-style-type: none"> a) Implementation of the Strong leader model; b) Implementation of the revised governance staff structure; c) Embedding the new administration; d) Clarifying officer/member roles & responsibilities including delegations e) Developing Member/officer relationships including revised standards regime f) Continued development and implementation of transparency agenda. g) Other constitution changes to reflect the revised organisational structures & ways of working h) Preparations for the revised external audit arrangements. 	Head of Governance	This action develops further the implementation of previous actions in respect to the Constitution and has been updated to include the implementation or preparation of key governance areas including embedding the new administration, the implementation of the Governance Unit restructure the requirements of the Localism Act and revised external audit arrangements.	Some action will be completed during 2011/12 and others will still be in development and progress by 31/03/12.	<p>Still work required in respect to (b), (d), (g) and (h). Have been included in 11/12 action plan for continued implementation in 12/13.</p> <p>The other areas have been mainstreamed.</p>
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. 	Chief Executive (VB)	Work continues to develop the people aspects of the revised One Council One Team One Vision and appropriate cultures to support good governance.	31/03/12	This work continues as a restructure in these areas is planned for May/June 2012.

	Action	Lead Officer	Comments	Date	Progress as at 31/03/12
4.	Implement action plans from external assessments and inspections.	Assistant Chief Executive & appropriate Heads of Service.	Action plans to address relevant governance issues from external assessments/ inspections have been and will be included in appropriate priority/service area plans.	Ongoing but by 31/03/12	Ongoing and have been mainstreamed into service action plans.
5.	Data and information security: a) Continue the development & implementation of ICT service continuity & resilience within the ICT infrastructure. b) Implement the transfer of the administration and management of the Council's information right's legislation to Governance. c) Continue the implementation of revised systems & procedures for safeguarding.	Head of Property & ICT, Head of Governance and Head of Safeguarding	Deadlines: a) Completion of work from 2010/11 b) This change has arisen out of a review of the freedom of information arrangements within the Council and will be implemented in the second quarter of 11/12 c) This is the continuation and completion of work commenced during 2010/11 which identified during internal and external reviews.	Dates: a) 31/10/11 b) 31/10/11 c) 31/03/12	(a) ICT Service continuity and resilience completed March 2012 but will be further changes required as a result of accommodation moves. (b) Complete (c) Progressing and now mainstreamed as part of service action plan.

**TELFORD & WREKIN AUDIT COMMITTEE
OUTLINE OF BUSINESS FOR FUTURE MEETINGS 12/13**

DATE OF MEETING	ITEM	RESPONSIBLE OFFICER
Tuesday 26 th June 2012	<ol style="list-style-type: none"> 1. Review of TOR for the Committee 2. KPMG Interim Report 2011/12 3. Update on ICT Back Up and Recovery 4. Update on Children's Placement Costs 5. Draft Accounts 11/12 6. Treasury Management Outturn 2011/12 7. Internal Audit Quarter 4 11/12 Update Report 8. 2011/12 Annual Audit and Assurance Report 9. Anti- Fraud & Corruption Annual Report 2011/12 10. Annual Governance Statement 11/12 11. Outline of Business for 12/13 	JE KPMG AA/KK CJ/KP KC KC JM JM JM JM JM
Tuesday 25th Sept 2012	<ol style="list-style-type: none"> 1. Annual Governance Report 2011/12 2. External Audit Fee 12/13 3. Annual Statement of Accounts 2011/12 4. Capital receipts update 5. Audit Committee Annual Report 2011/12 6. Annual Report on Complaints and assurance on lessons learnt 2011/12 7. Internal Audit Quarter 1 Update Report 12/13 8. IG update report 12/13 	KPMG KPMG KC DS/KC JM AA/AM/HW JM JM
Tuesday 29th January 2013	<ol style="list-style-type: none"> 1. Annual External Audit Report 2011/12 2. Grants Report 2011/12 3. External Audit Plan 12/13 4. Draft Treasury Management Strategy 2013/14 and update 12/13 5. Internal Audit Quarter 2 & Quarter 3 Update Reports 12/13 6. Updated position of the AGS Action Plan 2011/12 7. Feedback from CIPFA Internal Audit benchmarking 2012 and comparisons with previous years 8. Review of the Effectiveness of the Audit Committee 	KPMG KPMG KPMG KC JM JM JM JM
Tuesday 26 th March 2013	<ol style="list-style-type: none"> 1. Internal Audit Plan & Strategy 2013/14 2. Feedback from review of effectiveness of the audit committee 3. Update on Speak Up Policy activity 2012 	JM JM JM
June 2013	<ol style="list-style-type: none"> 1. Review of TOR for the Committee 2. KPMG Interim Report 2012/13 3. Draft Accounts 12/13 4. Treasury Management Outturn 2012/13 5. Annual Governance Statement 12/13 6. 2012/13 Annual Internal Audit and Internal Audit Quarter 4 12/13 Update Report 7. IG Annual Report 12/13 8. Outline of business for 2013/14 	JE KPMG KC KC JM JM JM