

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 17th September 2013 at 6.00 pm in Meeting Room 7, Ground Floor, Darby House, Telford

PRESENT: Councillors R Sloan (Chair), K Austin, D Davies, I T W Fletcher, A Lawrence, S A W Reynolds,

Officers: K Clarke (Assistant Director: Finance, Audit & Information Governance), J Marriott (Audit & Information Governance Manager), P Harris (Finance Manager), B Morris (Finance Manager) A Astley (Assistant Director: Customers and People), K Turner (Assistant Director: Development, Business and Employment), J Dunn (Service Delivery Manager: Regeneration and Investment) and J Clarke (Democratic Services Support Officer).

IN ATTENDANCE:

H Garrett – KPMG
R Williams – Invited Member of Budget & Finance Scrutiny Committee
Cllr Gill Green

AUC-14 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 26th June 2013 be confirmed and signed by the Chairman.

AUC-15 APOLOGIES FOR ABSENCE

Cllr W L Tomlinson
Cllr G Reynolds – Invited Member of Budget & Finance Scrutiny Committee

AUC-16 DECLARATIONS OF INTEREST

None

AUC-17 ANNUAL GOVERNANCE REPORT 2012/13

H Garrett from KPMG presented the Annual Governance Report 2012/13.

The report summarised the key messages identified during the audit of the Council's financial statements for year end 31st March 2013 together with the assessment of the Authority's arrangements to secure value for money (VFM) in the Council's use of its resources.

Based on the work undertaken it was anticipated that an unqualified audit opinion would be issued by the 30th September 2013.

The audit identified 1 adjustment with a total value of £0.4m which related to an error with the prior period re-statement which arose from a change in the accounting policy for schools who acquired trust status. There was no impact on the General Fund balance as a result of this amendment.

KPMG had noted an improvement in the quality of the accounts together with the supporting papers. Officers of the Council dealt efficiently with the audit queries and the audit process was completed within the planned timescales.

There were some slight weaknesses in respect of individual financial systems which impacted on the audit:

- Year end cash book reconciliation – a small variance between the cash book and general ledger which resulted from a formula error in the working papers. The reconciliation also included a line for “over/under banking” which had unreconciled differences – these amounted to £3k
- The Fixed Asset Register identified that the Authority’s reconciliation of its Fixed Assets Register to the General Ledger as at 31st March 2013 was not clearly documented and did not reconcile with the general ledger. KPMG therefore had to amend their audit strategy and complete additional substantive work at year end.

KPMG’s VFM conclusion was that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A discussion took place including:

- £0.4m adjustment with regard to trust schools
- Best Practice with regard to draft Statement of Accounts

The report would sit with the Statement of Accounts.

RESOLVED – that the report be noted.

AUC-18 2012/13 STATEMENT OF ACCOUNTS

The Finance Manager presented the Statement of Accounts for 2012/13 for which the Audit Committee had delegated authority to approve.

The audit had gone well and the Council were expected to receive an unqualified opinion.

The agreed changes had been incorporated into the report and the out-turn at the end of June showed an underspend of £0.06m which remained unchanged. No changes had impacted on the General Fund Balance.

Presentational changes to the Statement of Accounts could be found at 5.3 of the report and detailed £402K of changes.

A discussion took place around the Statement of Account and it was suggested that the use of pie charts to display the information continued and that they gave a comprehensive visual impact.

It was hoped that the Statement of Accounts would be available on the Council’s website by the end of September 2013.

The Assistant Director: Finance, Audit and Information Governance thanked KPMG’s Audit Team for a very smooth, although challenging, audit which had been undertaken in the best possible way. This was supported by the Chair together with the members of the Audit Committee.

RESOLVED – that:

- a) the 2012/13 Statement of Accounts be approved;

- b) delegated authority to the Assistant Director: Finance, Audit & Information Governance to make any presentational changes required to the Statement of Accounts prior to publication be granted.**

AUC-19 CUSTOMER FEEDBACK PERFORMANCE 1ST APRIL 2012 – 31ST MARCH 2013

The Assistant Director: Customers and People gave a report on customer feedback performance from the 1st April 2012 until 31st March 2013.

There had been a relatively small number of complaints registered compared to the number of services provided by the Council on a daily basis and against the backdrop of having delivered £42m of savings over the last 3 years and the loss of 1,000 posts. Complaints were considered to be a good form of customer feedback and were used as a form of feedback and as a learning tool to continually help improve the delivery of services.

An increase in compliments had been received by front line services from 411 during 2011/12 to 506 during 2012/13.

Complaints had risen from 738 to 1,116 during the reporting period which was an increase of 51%. The largest increase in complaints was regarding the refuse provider whose complaints had gone up from 73 in 2011/12 to 262 during the reporting period. Robust discussions were being held with the contractor as part of the monitoring of the service in order to secure improvements in service delivery. Of the 697 complaints made regarding this service 62% had elements of concern that were partly or fully upheld. From 1st April 2013, following consultation with customers, the target response rate had been increased to 15 days. During the reporting period 78% of the Stage 1 complaints had been responded to within the 10 day period.

The other main area of increase was in relation to the Revenues and Benefits Service. The impact of the current economic climate and a major increase in workloads had slowed the decision making which had resulted in increased calls to the contact centre and customers experiencing delays with calls being answered. Additional resources had since been moved into Revenues, Benefits and Customer Services to help with the increase in demand following the launch of the Government's Welfare Reforms and this had resulted in an overall improvement in customer services for the first part of the new monitoring period. Less than half of the customer complaints had been upheld. There had been some instances of a delay in the Summonses being sent out and where customers had already paid the summonses were withdrawn, the fees removed and an apology given.

There had been a small number of complaints from Leisure customers following the opening of the new Leisure Centres at Abraham Darby and Wellington Civic. These were considered to be "teething problems" which had now been addressed.

Adult and Children's Statutory Complaints had seen a decrease from the previous year and 31% of the complaints had elements that were upheld. The average time taken overall to respond to Adult statutory complaints was 39.5 which was unacceptable. Children's Statutory complaints had 22% of elements upheld and were responded to within 10 working days. A further 25% were responded to within 20 working days giving an average response time of 17.5 days. These figures needed to improve dramatically over the next 3 years.

Freedom of Information enquiries had dropped from 909 in 2011/12 to 862 during the reporting period. This was still a huge pull on officer time and resources although 90% of the

enquiries had been replied to on time. The public were still using FOI requests inappropriately.

Member enquiries logged through the Customer Quality Team had decreased during the reporting period from 319 during 2011/12 to 239. It was important that Members logged their enquiries through Customer Quality in order that response times could be monitored and the correct procedures followed.

MP enquiries had increased from 133 to 146 during the reporting period. Only 57% of responses to MP enquiries were received within 10 days. The Managing Director was unhappy with these response times and this was being monitored on a monthly basis.

Parish Enquiries had increased from 1,271 to 1,538. The Council had received positive feedback from the Parish and Town Councils.

There had been no findings of mal-administration by the Ombudsman during the reporting period.

A discussion took place including:

- The changes within the Council and staff reductions
- Quality of responses to MP enquiries and members requested more further analysis of the MP's enquiries
- The monitoring of outsourced services
- Re-design of the Council website and the introduction of self-service functionality

An update would be brought to the January 2014 Audit Committee.

RESOLVED – that the report be noted.

AUC-20 AUDIT COMMITTEE ANNUAL REPORT 2012/13

The Audit & Information Governance Manager presented the annual Audit Committee Report for 2012/13.

The work of the Audit Committee included:

- raising awareness on the need for governance (including risk management) and internal control including the implementation of both internal and external audit recommendations
- increasing public confidence in the objectivity and fairness of financial and other reporting
- reinforcing the importance and independence of internal and external audit
- providing additional assurance through a process of independent and objective review by a cross party group of elected Members including challenging Cabinet Members and Senior Officers

Other work undertaken by the Committee could be found at Appendix A to the report.

As the key assurance Committee of the Council it was accepted best practice that an Annual Report was presented to the Council on the operations of the Committee during the municipal year. The structure of the report was based on the terms of reference and included a summary of the business conducted by the Committee during the period.

There were 4 meetings of the Audit Committee in 2012/13 compared to 5 in 2011/12 and 6 in 2010/11. The reduction was due to removing the November meeting as part of the Council's continuing efficiency agenda and did not appear to have affected the effectiveness of the Committee.

During the 2013/14 municipal year the meetings of the Audit Committee would be further reduced to 3 per year. Additional meetings during the 2013/14 period may need to be called as the Committee had a large agenda to cover.. A training programme had been drafted to in order to help the Committee to become more effective.

A discussion took place including:

- The reduction of the meeting to 3 per year during the 2013/14 municipal year
- Training Sessions
- Timing of Audit Committee meetings

RESOLVED – that the report be noted.

AUC-21 DRAFT TRAINING PROGRAMME 13/14 FOR AUDIT COMMITTEE MEMBERS

The Audit & Information Governance Manager presented a report on the draft Training Programme for Audit Committee Members for the 13/14 municipal year.

The results from the skills survey undertaking in May/June 2013 had now been collated and a draft Training Programme drawn up which would be delivered during 2013/14.

Five topics had been suggested:

- Audited Accounts
- General legislation, rules and regulatory frameworks governing the Council
- Information Governance Framework
- Treasury Management
- Anti-Fraud & Corruption Policy

A discussion took place including:

- When the training sessions would take place
- Times of the training sessions
- Content of the training sessions
- Budgets for external Member training

The Statement of Accounts training had taken place prior to this meeting and the Treasury Management Training had been scheduled to take place prior to the meeting in January 2014.

It was suggested that the future dates of training could be November, January or February and that the training could start at 5.30pm due to Members' work commitments.

The constitution was currently being re-written so it was suggested that this training would be held once the document had been finalised.

RESOLVED – that following the incorporation of the changes listed above that the Training Programme be approved.

AUC-22 INTERNAL AUDIT AND INFORMATION GOVERNANCE UPDATE REPORT 2013/14

The Audit & Information Governance Manager presented the annual Internal Audit and Information Governance update report.

Internal Audit

The report provided information on the work of Internal Audit from 1st April – 30th June 2013 and gave a progress update on previous audit reports.

The key focus for quarter 1 had been the commencement of the work from the 13/14 annual plan and some audits which were carried forward from 2012/13.

Appended to the report were a list of final reports issued in quarter 1 together with budgeted time, actual time and percentage variances, a list of work undertaken for quarter one for a period of 1 day or more, previous graded report from July 2011 to March 2013 showing their current status and the summary of amber reports issued in quarter 1.

There were 3 amber reports issued during quarter 1:

- Temporary Accommodation
- Electronic Client Record
- John Fletcher Primary School

Management action plans to implement the recommendations had been agreed following the audits and Internal Audit would follow up on the planned work but were confident that the management would implement the remaining recommendation to provide appropriate assurance and improve the controls and grading.

There were five original amber reports that remained amber as at 30th June 2013. Follow ups had taken place on Corporate Parenting which had now moved to green and Arthog had now moved to yellow. The Life Cycle review was currently underway and Newport Infants School and the Car Parking Review were due to take place during September 2013.

Following the attendance of the Assistant Director: Adult Care & Support at the March 2013 Audit Committee it was agreed that a further Abacus follow up would be re-scheduled to August 2013 with an update to the Audit Committee if required. Due to a further delay with regard to implementation, it was suggested that an update by the Assistant Director be received at the January 2014 Audit Committee meeting.

A discussion took place regarding the Temporary Accommodation – Family & Cohesion (12/13) Audit and it was suggested that the Assistant Director attend at a future meeting of the Audit Committee, if no further progress was made.

Information Governance

The work programme was progressing well, although task 10 on Appendix E to the report had been slightly delayed due to the late receipt of guidance from the Information Commissioners office. Following receipt of the guidance the revised completion date for the review was now the end of December 2013.

The Council had received 333 FOI / EIR requests for the period 1/4/13 – 31/7/13 with 297 requests being responded to. The remaining 36 requests were not due to be responded to during the reporting period.

During the reporting period the Council had received 23 Subject Access Requests with the response rate of 89%. One request was on hold pending receipt of information/identification. On average it took 26 days to respond to each request.

Confirmed data breaches during the period were 29. The majority of the breaches were information sent accidentally to the wrong recipient and Information Governance were working hard with the service areas where breaches had occurred in order to improve procedures. The appropriate disciplinary action was taken where necessary.

RESOLVED – that the report be noted.

AUC-23 REVIEW AND UPDATE TO THE SPEAK UP POLICY

The Audit & Information Governance Manager gave an update on the Speak up Policy.

A revised Speak Up Policy had been approved in January 2012 according to the Terms of Reference; however, due to revised legal requirements becoming effective from June 2013, the Policy had been updated. The main changes were:

- “referrals in good faith” would be changed to “referrals in the public interest”
- Due to organisational changes

The revised Speak Up Policy could be found at Appendix A to the report.

The Council would continue to protect those providing information under the Policy but would take action against anyone who made malicious or vexatious allegations.

Once the Speak Up Policy had been agreed by Council then the updated leaflets would be put onto the intranet and the revised Policy circulated to staff.

RESOLVED – that

- a) the revised Speak Up Policy incorporating the changes outlined in paragraphs 5.1 to 5.3 be approved; and**
- b) the Speak Up Policy be recommended for adoption by the Council.**

AUC-24 EXCLUSION OF THE PRESS AND PUBLIC

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

AUC-25 CAPITAL RECEIPTS UPDATE

The Chair welcomed the Members of the Budget & Finance Scrutiny Committee who had been invited to attend the meeting.

The Assistant Director: Development, Business and Employment, together with the Service Delivery Manager for Regeneration and Investment, gave a verbal update on capital receipts.

The disposals of assets were at different stages:

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

Due to current market conditions, disposal of some of the assets were proving to be more difficult than others, although a revised schedule for disposal of assets had been drawn up covering 2013/14, 2014/15 and 2015/16. This schedule was subject to further change in response to market trends and was regularly reviewed. As additional sites were identified for disposal they were added to the disposal programme but the overall income target was maintained to reduce reliance on any one receipt. There appeared to be an improvement in market conditions which it was hoped would be reflected in values and the timeliness of disposals. Regular monthly meetings took place to look at timing for the disposal of assets noting that there were instances where an earlier disposal for a lower capital receipt was favourable in some circumstances.

A discussion took place including:

- Shortfalls
- New builds
- Market prices

RESOLVED – that the information be noted.

The meeting ended at 7.56 p.m.

Chairman:

Date:

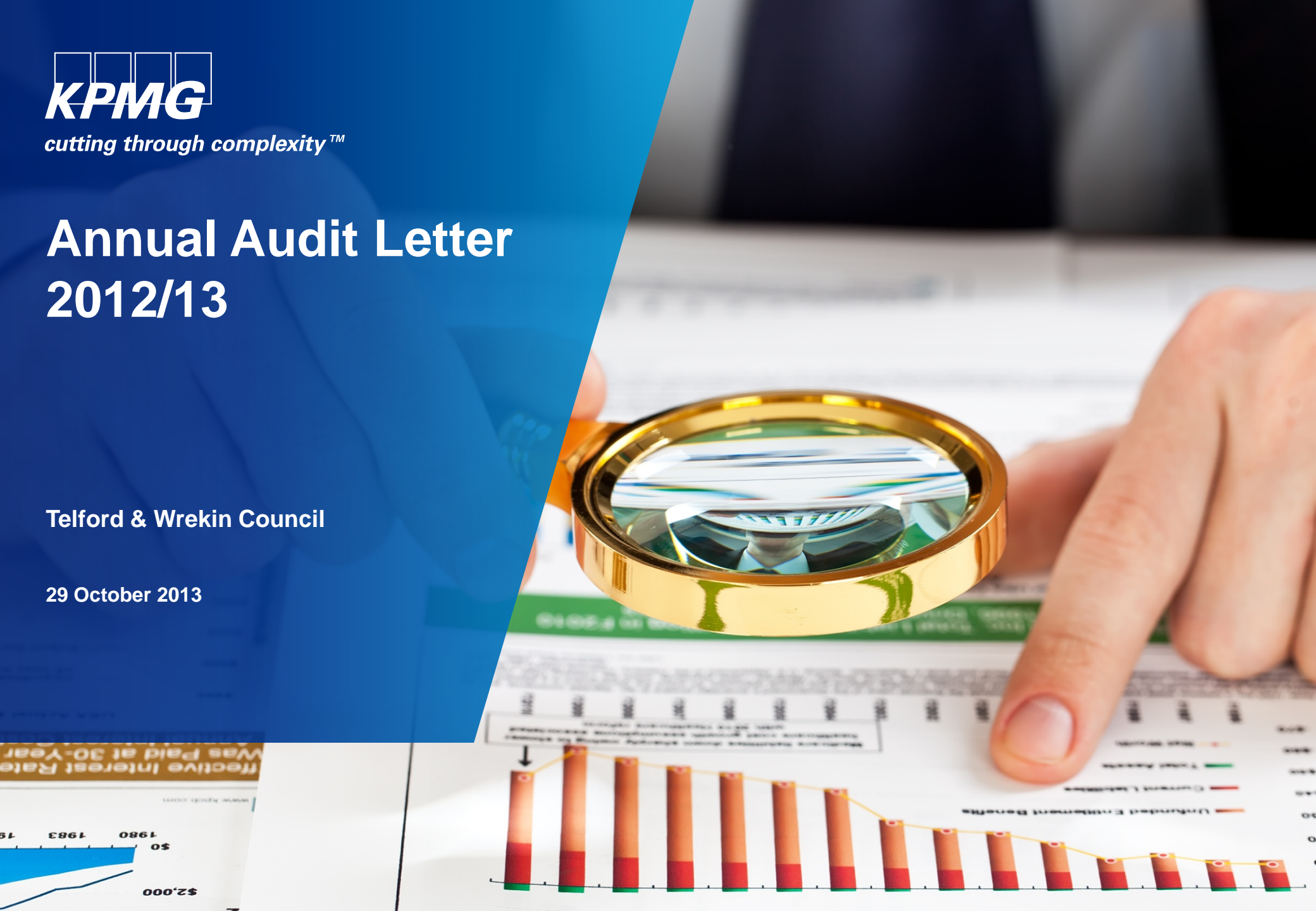


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Annual Audit Letter 2012/13

Telford & Wrekin Council

29 October 2013



The contacts at KPMG in connection with this report are:

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Report sections

- Headlines

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Appendices

1. Summary of reports issued
2. Audit fees

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, 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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This report summarises the key findings from our 2012/13 audit of Telford & Wrekin Council (the Authority).

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

Our audit covers the audit of the Authority's 2012/13 financial statements and the 2012/13 VFM conclusion.

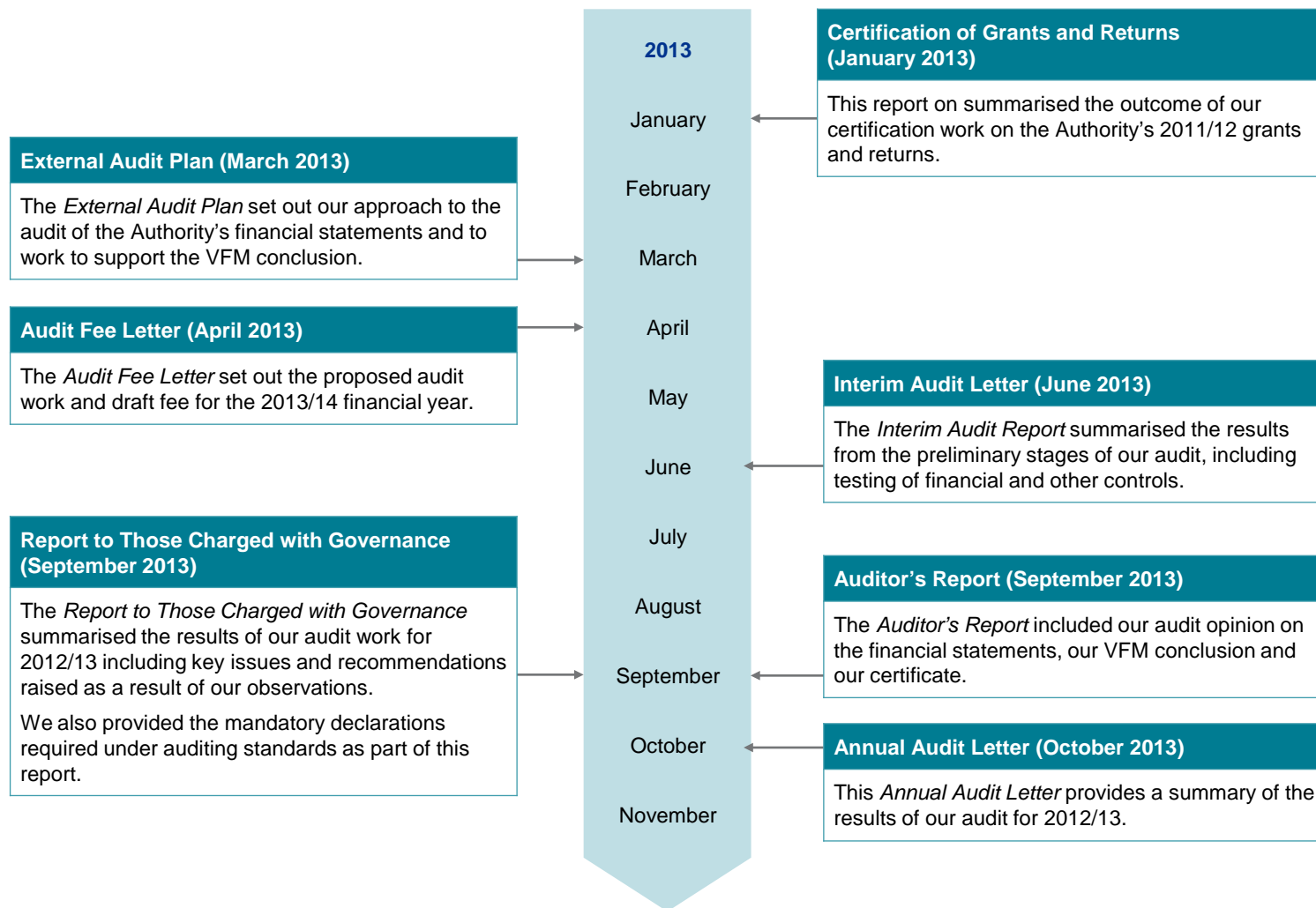
VFM conclusion	<p>We issued an unqualified Value for Money (VFM) conclusion for 2012/13 on 24 September 2013.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
VFM risk areas	<p>We identified one significant risk to our VFM conclusion in relation to the Authority's future savings plans. We considered the arrangements you have put in place to mitigate this risk.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ the Authority reported an under spend of £0.055m in 2012/13 as a result of the successful delivery of savings plans. The positive outturn position has enabled the Authority to contribute £2.5m to reserves to support the 2013/14 budget strategy. ■ 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; and ■ the Authority has established savings plans for 2013/14 and is in the process of finalising plans for future periods. These plans identify savings throughout the organisation and are being monitored in an appropriate manner.
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 24 September 2013. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
Financial statements audit	<p>We noted an improvement in the quality of the accounts and many of the supporting working papers.</p> <p>Our audit identified one adjustment with a total value of £0.4 million.</p> <p>The adjustment was in relation to an error with the prior period restatement arising from a change in accounting policy for schools acquiring trust status. The net impact of this adjustment to the re-stated 2011/12 figures was as follows:</p> <ul style="list-style-type: none"> ■ Increase the deficit on provision of services for the year 2011/12 by £0.4 million; and ■ Increase the other comprehensive income for the year 2011/12 by £0.4 million. <p>There was no impact on the General Fund balance as a result of this amendment.</p> <p>Two medium priority recommendation were raised regarding the preparation and review of reconciliations relating to both the cash book and the fixed asset register. These have been discussed with Management and an action plan agreed. We will formally follow up these recommendations as part of our 2013/14 work.</p>

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

Annual Governance Statement	We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding of the Authority.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of <i>Whole of Government Accounts</i> by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements on 4 October 2013.
Certificate	We issued our certificate on 4 October 2013. The certificate confirms that we have concluded the audit for 2012/13 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our audit fee for 2012/13 was £155,088, excluding VAT. This was in line with the planned fee for the year and represents a 41% reduction from the prior year fee. Further detail is contained in Appendix 2. Additional work has been undertaken during the year in relation to an elector query resulting in a fee of £9,216.

Appendix 1: Summary of reports issued

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



This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

External audit

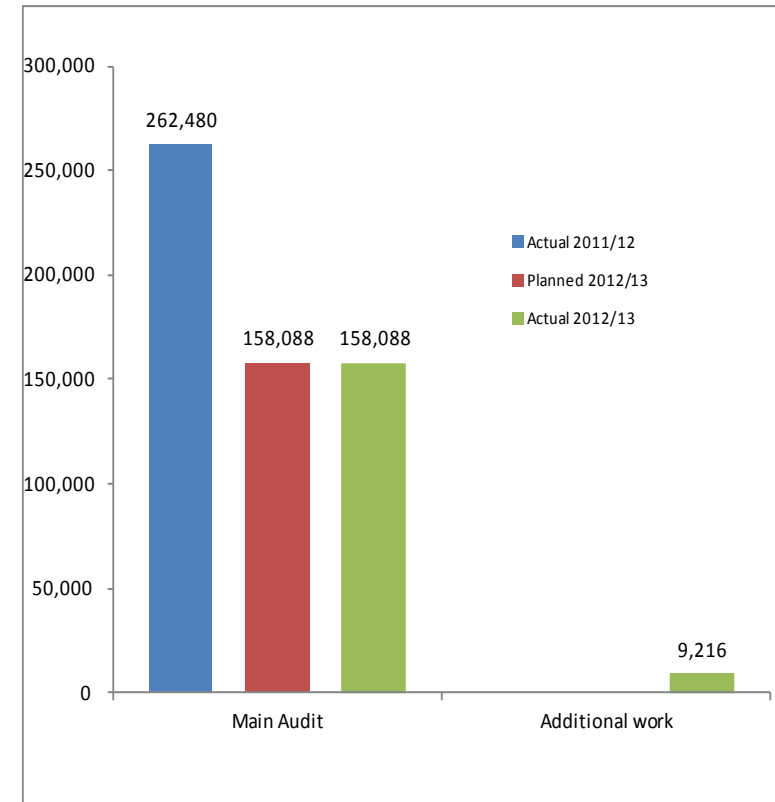
Our final fee for the 2012/13 audit was £155,088, in line with the planned fee. This is an overall reduction of 41 percent on the comparative total fee for 2011/12 of £262,480. This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

In addition to the main audit work, we were required to undertake additional work as a result of one Elector Query received during the year. The fee charged for this work was £9,216.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we are due to issue in January 2014.

External audit fees 2012/13 (£'000)





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Certification of grants and returns 2012/13

Telford & Wrekin Council

January 2014



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in connection with this
report are:**

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<p>Introduction and background</p>	<p>This report summarises the results of work on the certification of the Council's 2012/13 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2012/13 we certified: <ul style="list-style-type: none"> – one grant with a total value of £86.2m; and – two returns with a total value of £75.8m. 	<p>-</p>
<p>Certification results</p>	<p>We issued unqualified certificates for the grant and one return, but a qualification was necessary for the second return.</p> <ul style="list-style-type: none"> ■ We identified a number of inaccuracies in the information reported on the Teachers' Pension return. It was possible for the Council to correct some of these inaccuracies (see below) but there remained unresolved inaccuracies around the salary and contributions reported against each of the contribution rate bands applicable to the Local Government Pension Scheme. These errors arose due to the format of the system reports differing from the new reporting requirements of the scheme. ■ We had issued no qualified opinions in the previous year. 	<p>Page 3</p>
<p>Audit adjustments</p>	<p>A number of adjustments were necessary to one of the Council's grants and returns.</p> <ul style="list-style-type: none"> ■ A number of small value adjustments were required in relation to the Teachers' Pension return in order to ensure that (with the exception of the issue referred to above) the values reported agreed to the year-end payroll reports. This required amendments to the total contributory salary (+£2,503), the employer contributions (-£420) and the employee contributions (+£420). There was no impact upon the total value of the return. ■ This is consistent with the prior year where the only amendments required as a result of our certification were also to the Teachers' Pension return. 	<p>Page 3</p>
<p>The Council's arrangements</p>	<p>The Council has good arrangements for preparing its grants and returns and supporting our certification work but some improvements are required in specific areas.</p> <ul style="list-style-type: none"> ■ The Council needs to address the issues identified in relation to the Teachers' Pension return so as to ensure that accurate information is reported on the 2013/14 return. 	<p>Page 5</p>
<p>Fees</p>	<p>The Audit Commission changed its fee regime for certifying grants and returns in 2012/13, and set an indicative fee for the Council of £16,850. Our actual fee for the certification of grants and returns was lower at £16,399.</p> <ul style="list-style-type: none"> ■ This represents a reduction of 53% from the fees charged in relation to our certification work for 2011/12. This is in part a result of the Audit Commission's move to a fixed fee regime but also reflects the general reduction in the fees we charge as your external auditors. ■ The fee charged in relation to individual grants and returns has resulted in minor variances. 	<p>Page 4</p>

Overall, we certified three grants and returns:

- two were unqualified with no amendment; and
- one required both adjustment and a qualification to our audit certificate.

We have summarised the key issues behind each of the adjustments or qualifications required.

We set out below a summary of the key outcomes from our certification work on the Council's 2012/13 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments below	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing & Council Tax Benefit					
National Non Domestic Rates return					
Teachers' Pensions return	1				
		1	-	2	2

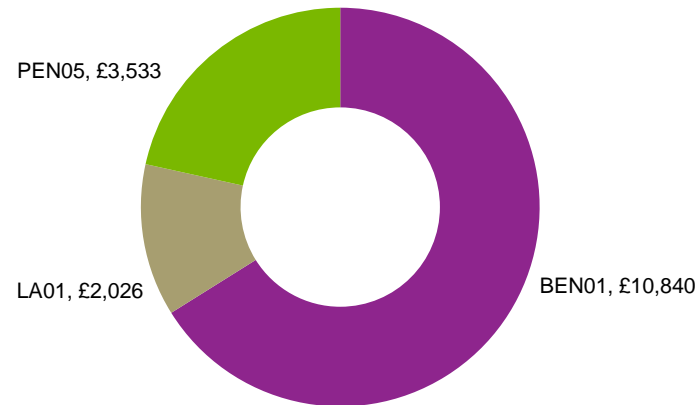
Ref	Summary observations	Amendment
1	<p>Teacher's Pension return</p> <ul style="list-style-type: none"> ■ There were differences between the values entered on the return and those on the year-end payroll reports. The correction of these variances resulted in amendments to the total contributory salary (+£2,503), the employer contributions (-£420) and the employee contributions (+£420). There was no impact upon the total value of contributions paid over or on the overall year-end balance. ■ There were further differences in relation to the analysis of salary and contributions between the various contribution rates applicable to the pension scheme (ranging from 6.4% to 8.8% of an employee's salary). This was a new reporting requirement introduced for 2012/13 and the data was being taken from a separate payroll report which was found to include a number of errors across the bands. ■ Neither of these issues were identified during our 2011/12 certification work where the adjustments required related to the classification of Additional Pension Payments and Additional Contributions. 	No impact upon total return value.

Fees

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

There were, however, small variances in fees relating to individual grants which has resulted in an overall reduction in the fee charged.

Breakdown of certification fees 2012/13



Breakdown of fee by grant/return

	2012/13 (£)	2011/12 (£)
BEN01 – Housing and Council Tax Benefit	10,840	23,351
LA01 – National Non Domestic Rates return	2,026	5,507
PEN05 – Teachers’ Pensions return	3,533	6,142
Total fee	16,399	35,000

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. It set an indicative fee for the Council of £16,850. Based on the actual work we carried out the actual fee we charged was lower than the indicative fee. There were small variances in the fees charged on individual grants:

- additional work being required to address errors in the Teachers’ Pension return that required adjustments and a qualification to our audit certificate; and
- we were able to place reliance upon the control environment operating over the National Non Domestic Rates return, thereby reducing the amount of detailed testing required.

We have made one recommendation which, if implemented, should assist the Council to minimise certification fees in the future. Details are provided on the following page.

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit.

Priority rating for recommendations

<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements 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>
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Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Teachers' Pension Return					
<p>Banding Reconciliations</p> <p>The Council is required to provide information relating to the value of contributory salaries and contributions paid for each band of the pension scheme.</p> <p>The way in which the Council's systems operate at present results in inaccuracies in relation to these figures where staff move between bandings during the course of the year.</p>	<p>This issue resulted in the qualification of the 2012/13 return as it was not possible to confirm that the figures had been accurately recorded. Without appropriate resolution, future returns are also likely to be qualified.</p> <p>It is important to note that we did not identify any errors in relation to the overall value of the contributions paid over by the Council.</p>	<p>1 The Council should revise the format of its system reports in order to ensure that they are aligned with the requirements of the return's reporting requirements.</p> <p>In the interim, the Council should develop a temporary process which manually corrects the information reported by the payroll system. This process will need to result in a clearly documented audit trail supporting all adjustments made.</p>	<p>2</p>	<p>The EOYC in respect of 2012/13 is fully in balance in respect of the total contributions matching the amount paid over and the correct contributions have been collected. The total contributions held at individual employee level are also correct. However, due to how our system was set up during 2012/13, whilst contributions have been calculated at the correct percentage, they have not all been recorded against the correct tier. This situation will have arisen when a retrospective adjustment has been made to a period where the tier differed from that currently in place.</p> <p>To rectify this situation in the long term, our system has been reviewed and developments are currently underway to ensure the contributions are calculated and recorded against the correct band. Once complete the process will be run retrospectively in respect of the current year to highlight any issues still remaining and these will be rectified before year end.</p> <p>In the short term details have been manually adjusted to ensure they are identified against the correct bands.</p>	<p>Employment Services & Purchase Ledger Manager</p> <p>31/03/14</p>



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External Audit Plan 2013/14

Telford and Wrekin Council

January 2014



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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.audit-commission.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 Ian Pennington, 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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

This document describes how we will deliver our audit work for Telford and Wrekin Council.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in June 2013. It describes how we will deliver our financial statements audit work for Telford and Wrekin Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work and sets out our initial risk assessment for the VFM conclusion.

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 the headline messages. The remainder of this report provides further details on each area.

Audit approach	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on-site work, have been agreed with the Assistant Director: Finance, Audit and Information Governance.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the process. We will review the initial assessments presented in this document throughout the audit and we will evaluate any new risks as they emerge, and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessment for the financial statements audit and have identified the following significant risks:</p> <ul style="list-style-type: none"> ■ Accounting policies and estimates - The Authority is considering revising its accounting policy regarding the capitalisation of borrowing costs, with such costs now being capitalised where possible. In addition, the approach used to calculate the Minimum Revenue Provision has been revised for 2013/14, with the Annuity Approach now being adopted. ■ LGPS triennial valuation - During the year, the Local Government Pension Scheme for Shropshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013, in line with the Local Government Pension Scheme (Administration) Regulations 2008. There is an audit risk that the data provided to the actuary for this exercise is inaccurate, which could lead to errors in the actuarial figures in the accounts. <p>Further details are provided on pages 10-11 of this report. We will assess the Authority's progress in addressing these risk areas as part of our interim work and conclude on this work at year end.</p>
VFM audit approach	<p>We have completed our initial risk assessment for the VFM conclusion and have identified the following significant risks:</p> <ul style="list-style-type: none"> ■ Savings plans - The Authority's savings programme for 2013/14 totals £8.6m. The Authority's funding gap is expected to increase to £11.4m in 2014/15 and £22.3m in 2015/16, with savings of £22.2m required across the two years in order to address continuing central government funding reductions; and ■ New contracts and projects - As part of the Authority's income strategy, and plans to maximise savings, the Authority has re-tendered their waste contract and proposed two significant commercial projects; the development of new homes for the private rental market and the construction of large scale solar farms on land owned by the Authority. The Authority has incurred, or is committed to incur, substantial costs (£1.1m for housing development and £0.1m for solar farms) regarding the planning and feasibility assessments for these projects. There is the potential that this expenditure could fail to result in future benefits should the outcomes not support the continuation of the projects. As a result, we will carry out audit work on the Authority's arrangements to secure VFM of these costs. <p>Further details are provided on pages 16-17 of this report.</p>

This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit team, deliverables, timeline and fees

We have refreshed our audit team this year. Ian Pennington joins the audit team as Engagement Lead, and Adam Bunting assumes the role of Engagement Manager.

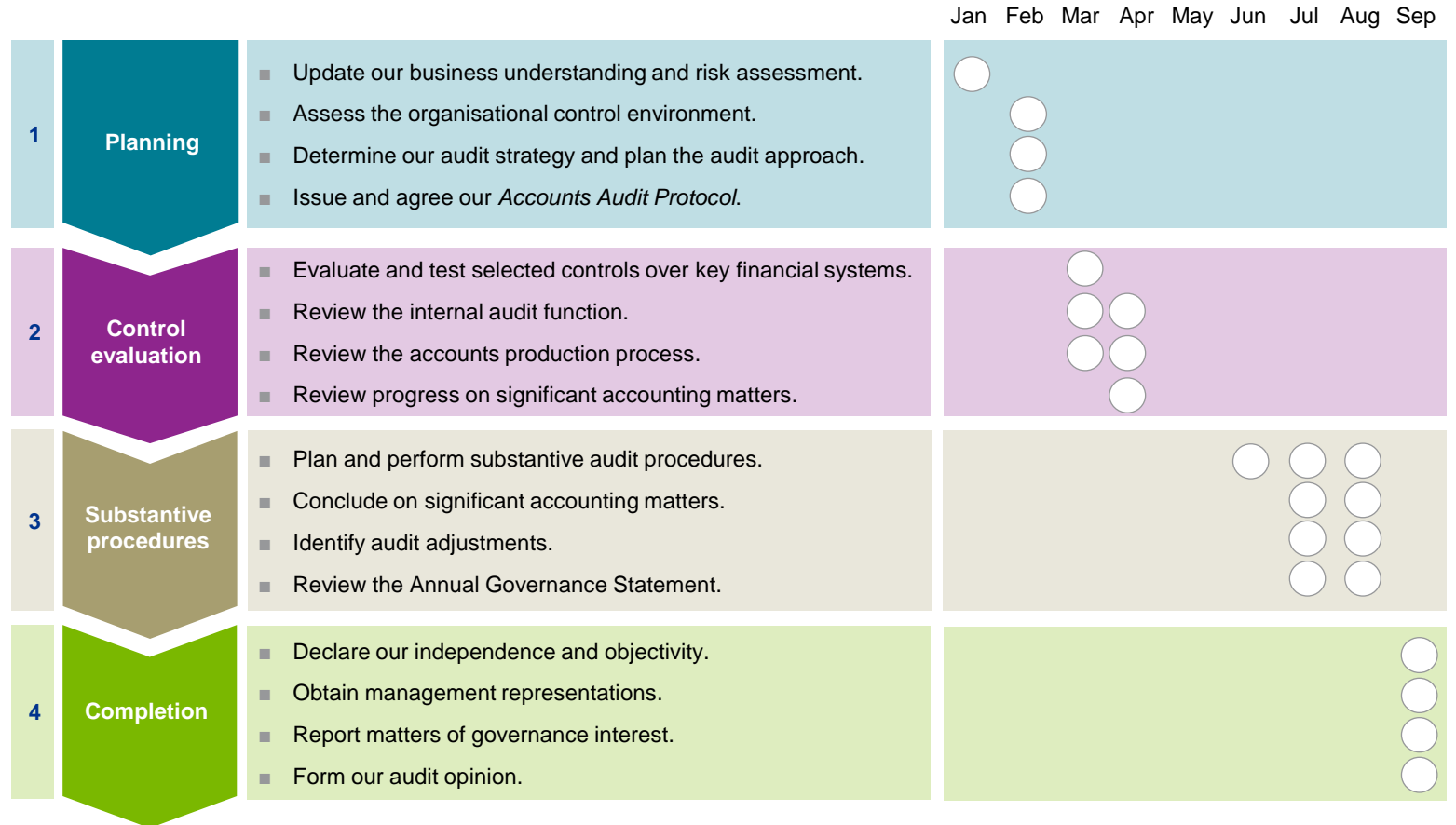
Our main year end audit is currently planned to start in July. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)* in the September 2014 audit committee meeting.

The planned fee for the 2013/14 audit is £155,088. This is unchanged from the position set out in our *Audit Fee Letter 2013/14* and is the same as the fee charged for the 2012/13 audit.

We undertake our work on your financial statements in four key stages during 2014:

- **Planning** (January to February).
- **Control Evaluation** (March to April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During January and February 2014 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

We will issue our *Accounts Audit Protocol* following completion of our planning work.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue and agree our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the process. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to continue to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the Corporate Finance Team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit.

The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We met with the Assistant Director: Finance, Audit & Information Governance and his team to discuss mutual learning points from the 2012/13 audit. These will be incorporated into our work plan for 2013/14. We will revisit progress against areas identified for development as the audit progresses.

During March to April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your Internal Audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

Our interim visit on site will be completed during March and April. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on significant accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs 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.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work internal audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and will meet with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2013/14.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

We raised two recommendations in our *ISA 260 Report 2012/13* relating to the accounts production process. These were regarding:

- the review of unreconciled items identified as part of the cash book reconciliation; and
- the documentation of the fixed asset register reconciliation.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

Significant audit risks

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in June 2014.

During July and August 2014 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on significant accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit Committee in September 2014.

Our final accounts visit on site has been provisionally scheduled for July 2014. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on significant accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Significant audit risks

We conclude our testing of the significant risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our findings with the Assistant Director: Finance, Audit & Information Governance prior to reporting to the Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the Assistant Director: Finance, Audit & Information Governance, the Finance Manager, and the Finance Team Leader on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a finalised schedule of audit differences and agree a timetable for the completion stage and the accounts sign off. This will meet the Authority's timescales for publication of the draft Statement of Accounts and Governance Report in advance of the September Audit Committee.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The cost incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 18.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of January 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.

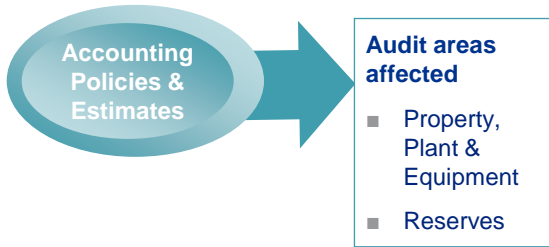
We have outlined the impact that each of the risks identified will have upon our audit.


Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risk we have identified through our planning work that is specific to the audit of the Authority's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Significant Audit Risk	Impact on audit
	<p>Risk</p> <p>Following a balance sheet efficiency review, the Authority is considering a revision to its accounting policy on the capitalisation of borrowing costs. This revision will result in borrowing costs being capitalised as part of the cost of constructing fixed assets and subsequently charged to the Income & Expenditure account as part of the annual depreciation charge.</p> <p>In addition, the Authority has changed its approach to calculating the Minimum Revenue Provision from 2013/14 onwards. This will see a move from a straight line approach to the annuity approach, which will mean more of the cost is deferred to later years. As well as changing the calculation method going forward, the Authority is to reassess historic charges so as to be in accordance with the annuity method. We have agreed with officers that the approach is permitted in principle</p> <p>Our audit work</p> <p>We will review the accounting policy changes to ensure that they comply with the Code of Practice and that have been accounted for correctly. We will also test the revised calculations to confirm their accuracy and that the required accounting entries have been properly processed and disclosed.</p>

Significant Audit Risk	Impact on audit
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Pensions Liability ■ Actuarial gains or losses 	<p>Risk</p> <p>During the year, the Local Government Pension Scheme for Shropshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013, in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pension assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is an audit risk that the data provided to the actuary for this exercise is inaccurate, which could lead to errors in the actuarial figures in the accounts. Most of the data is provided to the actuary by Shropshire County Council, who administer the Pension Fund.</p> <p>Our audit work</p> <p>As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>We will liaise with the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf. The Pension Fund may seek to recharge any additional costs arising from this work but we will discuss the approach with the Assistant Director: Finance, Audit & Information Governance .</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

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

Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee. Any change to our audit fee will be discussed and agreed with the authority in advance.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our *ISA 260 Report*.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p> <p>If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.</p>

We have identified two VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We will carry out additional risk-based work in the following areas:

- New projects and contracts.

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and


- concluded to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion,

There are some potential implications for our financial statements audit work.

We will report our final conclusions in our *ISA 260 Report 2013/14*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>As at December 2013, the Authority is forecasting that it will deliver its 2013/14 budget in overall terms. This includes a savings programme for 2013/14 totalling £8.6m.</p> <p>The Authority currently estimates that its funding gap will increase to £11.4m in 2014/15 and £22.3m in 2015/16. As a result the Council will need to achieve a further £22.2m in savings by the end of 2015/16 in order to address ongoing 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. The Authority is forecasting that its base budget gap will be £31.0m in 2015/16.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>Specific additional risk based work required: No</p> <p>The Authority has identified savings plans for all areas of its operations. These are monitored on a regular basis and slippages investigated. No specific work has been undertaken by the Audit Commission, other inspectorates or review agencies in relation to these risks.</p>

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>During 2012/13 the Authority re-tendered the contract for the collection, treatment and disposal of its waste in attempt to maximise savings. The 24 year contract was awarded to Veolia Environmental Services in October 2013.</p> <p>As part of its income strategy the Authority has identified a significant commercial opportunity which will involve the development of new homes for the private rental market. The Authority has committed to undertake a detailed feasibility study, beginning in 2014 to assess the viability of the project. The costs associated with this study are approximately £1.1m in 2013/14.</p> <p>Similarly, the Authority has committed to costs of £0.1m regarding its energy strategy and the proposal to develop a commercial-scale solar farm on Authority-owned land.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>Specific additional risk based work required: Yes</p> <p>We will assess the specific costs involved with each project, and the measures the Authority has taken to ensure that this represents value for money, in order to inform our overall VFM conclusion.</p> <p>We will also review the accounting treatment applied to these transactions in order to ensure that it is appropriate.</p>

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree as appropriate each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	January 2014
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provide our opinion on the Authority's WGA pack submission. 	September 2014
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	January 2015 (issued to the Authority in December 2014)

The fee for the 2013/14 audit of the Authority is £155,088. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in June 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in June 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2013/14 is £155,088. This is the same as the final 2012/13 audit fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out and agreed in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Assistant Director: Finance, Audit & Information Governance in advance.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

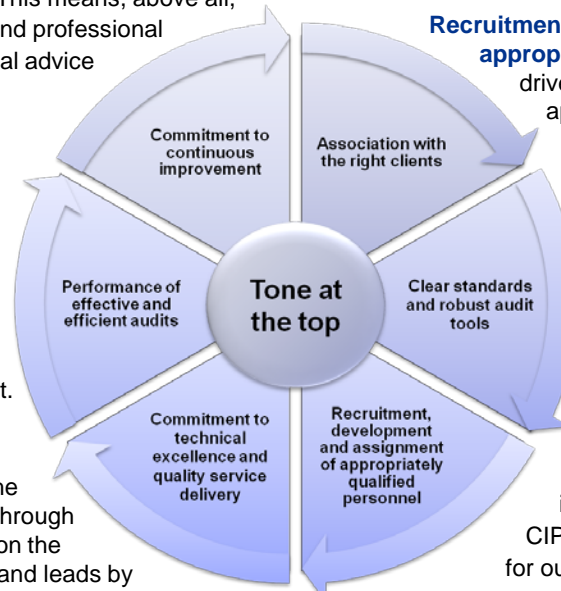
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Ian Pennington the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAUDIT application has significantly enhanced

existing audit functionality. eAUDIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.



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TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 28th JANUARY 2014

PUBLICATION OF INFORMATION ON COUNCILLORS WHO TRADED WITH THE COUNCIL DURING 2012/13

JOINT REPORT OF THE MONITORING OFFICER AND THE CHIEF FINANCIAL OFFICER

1 PURPOSE

- 1.1 To present to the Audit Committee the information to be published in respect to Councillors who traded with the Council during 2012/13.

2 RECOMMENDATIONS

- 2.1 That Members of the Audit Committee note the contents of the report and information that will be published on the Council's website.

3 SUMMARY

- 3.1 To improve transparency it was agreed in autumn 2012 that details of Councillors who have an interest in companies that receive a payment from the Council, for example a directorship, should be separately reported to the Council through the Audit Committee.
- 3.2 This information was collected as part of the 2012/13 final accounts process and this report represents information for 2012/13.
- 3.3 This information will in future be reported to Council following presentation to the September Audit Committee.

4 PREVIOUS MINUTES

- 4.1 Council's Constitution Committee 4th September 2012
Council 19th September 2012

5 BACKGROUND AND INFORMATION

- 5.1 Currently, as part of the annual account process councillors disclose where they have an interest in a company/companies that receive payment from the Council. These are shown annually in the Final Accounts which go to Audit Committee. This makes the information available to anyone who may wish to access the information but Members consider that this information is not easy to find.
- 5.2 The Council through the Constitution Committee and Council agreed that in order to provide better transparency additional details of any Councillors who have an interest in companies that benefit from trading with the Council will be taken to Full Council via the Audit Committee as a separate report each year and published on the Council's website. This information will be more readily accessible by the public and demonstrate the Council's co-operative commitment to openness.

- 5.3 It was agreed that the information reported would be the previous year's value and description of any payments received from the Council to any businesses/companies where that Member has an interest.
- 5.4 As the decision was made in September 2012 for publication following the final accounts process for 2012/13 this report provides the information for 2012/13.
- 5.5 The only Councillor during 2012/13 who received any such payments from the Council was Councillor Stephen Burrell in respect to the company Peace of Mind Ltd. The value of the payments was £479,105.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	Transparency supports equalities and demonstrates the Council's commitment to be open and fair.
Environmental Impact	This report has limited environmental impact due to the nature of the work companies reported.
Legal Implications	None
Links with Corporate Priorities	The report supports the Council's values which are embedded in the delivery of all the Council's priorities.
Risks and Opportunities	The risks and opportunities in respect to this report will be appropriately identified and managed.
Financial Implications	There are no financial implications arising from this report as the information is already collected as part of the final accounts process.
Ward Implications	Borough wide

7 BACKGROUND PAPERS

Localism Act 2011

Co-operative Council Commissions Report 2012

Report prepared by Jonathan Eatough – Monitoring Officer and Ken Clarke, Chief Financial Officer

TELFORD & WREKIN COUNCIL

**AUDIT COMMITTEE – 28 JANUARY 2014
CABINET – 20 FEBRUARY 2014
COUNCIL – 27 FEBRUARY 2014**

2014/15 TREASURY STRATEGY AND TREASURY UPDATE REPORT

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

LEAD CABINET MEMBER – CLLR BILL McCLEMENTS

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

The report updates members on Treasury Management activities during 2013/14 and details the Treasury Strategy recommended to be adopted for 2014/15

2013/14 Treasury Management Update

The treasury portfolio at the end of December showed overall net indebtedness of £102.8m (borrowing: £142.6m less investments: £39.8m). Base rates have remained at 0.5% all year with the next move expected to be upwards but not for some time, perhaps until 2016/17.

The borrowing strategy for 2013/14 is to use maturing investments to reduce borrowing where possible. To date, two PWLB loans have matured and no new loans have been taken out. Short term borrowing has been used to fund short term cash flow requirements.

The investment strategy for 2013/14 is to gain maximum benefit with security of principal sum invested being the primary consideration. The weighted average return on internal investments at the end of December 2013 was 3.31% compared to a benchmark return for the period of 0.42%. This is an outstanding over-achievement against benchmark and reflects decisions taken some years ago to place investment funds in longer-term fixed rate investments when interest rates were considerably higher than they are today. A schedule of investments is shown at Appendix F.

TREASURY STRATEGY

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

The Council is currently expected to be required to borrow up to £1.0m in 2014/15 based on the current capital programme plans and will adopt a flexible

approach to borrowing. The borrowing requirement may increase if the Council proceeds with large commercial projects for example investment in a solar farm or housing for rent at commercial rent levels. In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing debt, interest rate and refinancing risk as well as borrowing source.

Where possible, maturing investments will be used to reduce the level of additional borrowing which will reduce investment exposure going forward. The strategy for any new investments will be to lengthen investment periods, where cash flow permits, to achieve higher interest rates within acceptable risk parameters. Maximum investment levels with counterparties will be set to ensure prudent diversification is achieved.

The report also includes the Council's Minimum Revenue Provision Statement, which although the policy is unchanged from 2013/14, within the existing policy we are amending how we calculate the provision from straight line to an annuity basis. This is allowed within the guidance and we have discussed our proposals with our auditors and they have agreed our approach. This includes backdating of the adjustments back to the start of the prudential regime. This will produce a one off saving in 2013/14 of £4.884m and savings in 2014/15 of £1.489m, 2015/16 £1.232m, 2016/17 £1.084m and 2017/18 £0.921m, these gradually reduce before ultimately becoming a cost. If a net present value calculation is done to the cashflows then for a £10 million investment over 40 years using the government's green book discount rate, then the annuity cashflow is around £1 million lower. This change and saving reflects the time value of money. It also sets the Prudential Indicators associated with Treasury for 2014/15.

2. RECOMMENDATIONS

Audit Committee Members are asked to note the following recommendations which will go on to Cabinet:

Members are asked to note the treasury management activities for the first half year, note the Treasury Management Policy Statement (Appendix A) and approve the Treasury Strategy, including the Annual Investment Strategy for 2014/15 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement.

3. SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific priority plan objectives? Yes/No Maximisation of investment income whilst managing risks and minimising borrowing costs whilst also managing risks helps to support the council's overall financial position and therefore the delivery of all policy objectives. Will the proposals impact on specific groups of people? Yes/No
TARGET COMPLETION / DELIVERY DATE	Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.
FINANCIAL/VALUE FOR MONEY IMPACT	Yes/No Where appropriate these are detailed in the body of the report.
LEGAL ISSUES	Yes/No The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and Appendices A and C of the strategy itself (Attached). The Assistant Director: Finance, Audit & Information Governance (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Assistant Director: Finance, Audit & Information Governance is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee."
OTHER IMPACTS, RISKS AND OPPORTUNITIES	Yes/No The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.
IMPACT ON SPECIFIC WARDS	Yes/No

PART B – ADDITIONAL INFORMATION

4. 13/14 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

	31 March 13	31 Dec 13
	Principal £m	Principal £m
Fixed Rate Borrowing - PWLB	50.522	40.022
Fixed Rate Borrowing - LOBO	60.000	60.000
Variable Rate Borrowing - LOBO/market	<u>0.092</u>	<u>42.570</u>
Total Debt	110.614	142.592
Investments - in-house	<u>31.426</u>	<u>39.829</u>
Total Investments	31.426	39.829
Net Indebtedness	79.188	102.763

4.2 INTEREST RATES

Base rates began the year at 0.5% and have remained unchanged all year. The Bank of England Quantitative Easing programme remained at £375bn. The next move in the base rate is expected to be upwards, but not for some time, perhaps not until 2016 and will be strongly linked to the recovery of the economy.

4.3 BORROWING & RESCHEDULING

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

Rescheduling

During 2013/14 no rescheduling has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

New Borrowing

During the year 2 PWLB loans matured in November for £5m each.

Between the period 1 June 2013 (previous Member update) and 31 December 2013, £60.6m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.27% to 0.40% - interest rates have remained fairly low during this time. £42.6m of this temporary borrowing was outstanding at 31 December 2013.

4.4 INVESTMENTS

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

4.4.1 In-House Investments

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

Temporary Investments

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

In total £1,064m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.35% to 0.80% and periods ranged from overnight deposits to 52 days. £39.829m in house temporary investments were held at 31 December 2013.

Longer Term Investments

A number of internally managed deposits have been made previously. This has not been added to during 2013/14 and one investment has matured so far during the year for £5.0m. A full list of longer term investments is shown below and total £20.0m.

		£m	%
Fixed Deposit	03/08/09 – 01/08/14	5.0	6.32
Fixed Deposit	06/03/09 – 06/03/14	5.0	6.31
Fixed Deposit	31/03/09 – 31/03/14	5.0	6.37
Fixed Deposit	22/04/09 – 22/04/14	5.0	6.35
Total		20.0	

It should be noted that under the current guidance from our Treasury Advisors our investment policy would mean that new investments should not be placed for longer than 12 months. However the majority of these investments were placed before the start of the financial crisis which resulted in recommended periods for maximum duration being shortened considerably. The council is benefiting from very attractive rates of interest that are no longer available as a result of the decisions to place these investments for longer term periods when interest rates were considerably higher, but these all now mature within the next 7 months.

Overall the weighted average return on all internal investments for the year to date was 3.31% compared to a benchmark return for the period of 0.42%.

4.4.2 Overall Position and Exposure

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

Our current counterparty limit and maximum exposure is £20.0m with any one counterparty. Counterparty limits will be reviewed once our long term investments have matured during 2014. At the end of December the greatest exposure with a single counterparty was £20.0m with Barclays (50% of the total portfolio).

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

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

4.5 LEASING

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

The first drawdown for 2013/14 was completed in October. The drawdown from JCB Finance totalled £0.017m and funded the purchase of equipment over five years at an interest rate of 1.8%. A further lease drawdown is anticipated in March.

5. TREASURY STRATEGY FOR 2014/15 to 2016/17

5.1 BACKGROUND

5.1.1 The CIPFA Treasury Management Code of Practice

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

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

- Treasury Management Strategy for 2014/15
- Annual Investment Strategy for 2014/15
- Prudential Indicators for 2014/15, 2015/16, 2016/17 and 2017/18
- MRP Statement.

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

As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management in Public Services at a meeting of Full Council on 4 March 2010. In addition, the Department for Communities and Local

Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

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

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

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

5.1.2 External Context

Economic background: The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment was 7.7% in August 2013, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

Credit outlook: The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will suffer a haircut on its conversion bail-in to alternative securities and/or equity. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail in risk will become even more important in the light of these developments.

Interest rate forecast: Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table below shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%. A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix D.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 2.5% for 2014/15, 3.25% for 2015/16 and 4.5% for 2016/17 onwards, and that new longer term loans will be borrowed at the same average rates.

5.1.3 Local Context

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

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2017/18. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

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

The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/13 Actual £m	31/03/14 Estimate £m	31/03/15 Estimate £m	31/03/16 Estimate £m	31/03/17 Estimate £m
Capital Financing Requirement	241.957	275.699	270.329	258.250	248.247
Less: Other long term liabilities (e.g. PFI)	-61.924	-61.742	-60.432	-58.756	-57.605
Borrowing CFR	180.033	213.957	209.897	199.494	190.642
Less: External Borrowing	-110.614	-142.304	-134.644	-128.424	-124.244
Internal Borrowing	69.419	71.653	75.253	71.070	66.398
Less: Usable reserves	-49.116	-49.116	-49.116	-49.116	-49.116
Less: Working capital	-53.879	-32.537	-26.137	-21.954	-17.282
Investments	33.576	10.000	0.000	0.000	0.000

The table above shows a falling Capital Financing Requirement from 2014/15 onwards and this combined with maturing investments reduces the need to borrow other than replacing maturing borrowing and converting from temporary borrowing to fixed borrowing at the best time for the Council dependent on market conditions.

5.1.4 Borrowing Strategy

The Authority currently holds £142.592 million of loans, an increase of £31.978 million on the previous year, as part of its strategy for funding previous years' capital programmes. The Council also holds £61.742 million of other longer term liabilities (mainly PFI). The balance sheet forecast in the above table shows that the Authority expects borrowing to be maintained at around this level at year end and then fall over the next few years as capital receipts are realised. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £234 million.

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring

borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.
- include any other counterparty you intend to borrow from

The Authority has previously raised a significant part of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

The Authority holds £60m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £55m of these LOBOS have options during 2014/15, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk, which will arise at some point in the future when interest rates increase. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £60m. Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Appendix D indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial

position.

5.2 Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £31 million and £72 million, and levels are expected to reduce in the forthcoming year as long term investments mature and are used to avoid/reduce borrowing.

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

The Authority may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown.

Approved Investment Counterparties

Counterparty		Cash limit	Time limit †
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£20m each	10 years*
	AA+		5 years*
	AA		4 years*
	AA-		3 years*
	A+		2 years
	A		1 year
	A-		
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		£20m each	50 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher		£20m each	10 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings		£5m each	5 years
UK Building Societies without credit ratings		£1m each	1 year
Money market funds and other pooled funds		£10m each	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser		£5m each	3 months
		£1m each	1 year
		£100k each	5 years

† the time limit is doubled for investments that are secured on the borrower's

assets

* but no longer than 2 years in fixed-term deposits and other illiquid instruments

** but no longer than 5 years in fixed-term deposits and other illiquid instruments

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive are implemented.

In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

Current Account Bank: Following a competitive tender exercise held in 2010, the Authority's current accounts are held with HSBC plc which is currently rated above the minimum A- rating in table 2. Should the credit ratings fall below A-, the Authority may continue to deposit surplus cash with HSBC plc providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).

Registered Providers: Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Building Societies: The Authority takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority's deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

Money Market Funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. Note: we have removed the requirement for AAA ratings following EU proposals to stop money market funds from having credit ratings.

Other Organisations: The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

Risk Assessment and Credit Ratings: The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a A-rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - o the UK Government,
 - o a UK local authority, parish council or community council, or
 - o a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality"

is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£25m
Total investments without credit ratings or rated below A-	£5m
Total investments in foreign countries rated below AA+	£5m
Total non-specified investments	£30m

Investment Limits: The Authority has revenue reserves, which could be used to cover investment losses and are forecast to be £49 million on 31st March 2014 although not all of these are available though. In order that no more than 50% of reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £20 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers’ nominee accounts (e.g. King & Shaxson), foreign countries and industry sectors as below:

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£20m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker’s nominee account	£20m per broker
Foreign countries	£10m per country

Registered Providers	£10m in total
Building Societies	£10m in total
Loans to small businesses	£5m in total
Money Market Funds	£10m in total

Approved Instruments: The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £5 million in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

5.3 Ethical Investment

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

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

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

5.4 The Use of Financial Instruments for the Management of Risks

Policy on Use of Financial Derivatives: Local authorities have previously made

use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

5.5 Balanced Budget Requirement

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

5.6 2014/15 MRP Statement

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

5.6.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

NB This does not preclude other prudent methods.

5.6.3 MRP in 2014/15: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

5.6.4 The MRP Statement will be submitted to Council before the start of the 2014/15 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

5.6.5 The Council will apply Option 1 in respect of supported capital expenditure and

Option 3 in respect of unsupported capital expenditure.

There is a change to how MRP will be calculated under option 3 and rather than using a straight line basis MRP will be calculated on an annuity method as allowed within the guidance. This will be applied to the calculation of MRP for 2013/14 and ongoing, as well as a one off adjustment during 2013/14 in relation to voluntary overprovision of MRP in previous years since the introduction of the prudential system. The value of this over provision is a one off adjustment of £4.884m and this will be used to offset some of the costs in relation to the additional capital investments included in the budget over the next 10 years. Savings in MRP will also accrue in 2014/15 for £1.489m; 2015/16 £1.232m; 2016/17 £1.084m and 2017/18 £0.921m. This saving will gradually reduce and eventually become a cost. The revised methodology reflects the time value of money.

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

5.7 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

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

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

6 Other Items

6.1 Training

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

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

6.2 Investment Consultants/Treasury Advisors

The Council uses Arlingclose as its external treasury management advisers.

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

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

7. BACKGROUND PAPERS

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

Report prepared by
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(01952) 383100.

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

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

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

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

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

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

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

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

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

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

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt. The Council will look to minimise borrowing through the use of maturing investments to fund capital expenditure rather than reinvestment.

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

APPENDIX B
EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31/3/14 Estimate £m	31/3/15 Estimate £m	31/3/16 Estimate £m	31/3/17 Estimate £m	31/3/18 Estimate £m
External Borrowing:							
Fixed Rate – PWLB	40.0	20	39.5	28.5	27.5	26.5	25.5
Fixed Rate – Market	60.0	29	60.0	60.0	60.0	60.0	60.0
Variable Rate – PWLB	0.0	0	0.0	0.0	0.0	0.0	0.0
Variable Rate – Market	42.6	21	42.8	46.2	41.0	37.7	35.1
Total External Borrowing	142.6	70	142.3	134.7	128.5	124.2	120.6
IFRS Long Term Liabilities:							
PFI	61.0	30	61.0	59.7	58.0	56.9	57.3
Finance Leases	0.7	0	0.7	0.7	0.7	0.7	0.7
Total Gross External Debt	204.3	100	204.0	195.1	187.2	181.8	178.6
Investments: <i>Managed in-house</i>							
Short-term monies (Deposits/ monies on call /MMFs)	39.8	100	10.0	0.0	0.0	0.0	0.0
Long-term investments (maturities over 12 months)	0.0	0	0.0	0.0	0.0	0.0	0.0
Total Investments	39.8	100	10.0	0.0	0.0	0.0	0.0
(Net Borrowing Position)/ Net Investment position	(164.5)		(194.0)	(195.1)	(187.2)	(181.8)	(178.6)

Prudential Indicators 2014/15 – 2017/18

1 Background:

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

2. Gross debt and the Capital Financing Requirement:

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

The Assistant Director: Finance, Audit & Information Governance reports that the authority had no difficulty meeting this requirement in 2013/14, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

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

Capital Expenditure	13/14 Approved £m	13/14 Revised £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m
Total	107.199	99.125	115.650	26.518	4.464	1.432

**if applicable*

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	13/14 Approved £m	13/14 Revised £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m
Capital receipts	39.127	5.374	38.252	26.540	7.989	3.500
Government Grants	64.087	57.766	75.018	6.198	0.655	1.603
Revenue / External contributions	0.349	0.779	1.418	0.000	0.000	0.000
Total Financing	103.563	63.919	114.688	32.738	8.644	5.103
Supported borrowing	0.257	1.292	0.658	0.000	0.000	0.000
Unsupported borrowing	3.379	33.914	0.304	-6.220	-4.180	-3.671
Total Funding	3.636	35.206	0.962	-6.220	-4.180	-3.671
Total Financing and Funding	107.199	99.125	115.650	26.518	4.464	1.432

4. Ratio of Financing Costs to Net Revenue Stream:

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

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

Ratio of Financing Costs to Net Revenue Stream	13/14 Approved %	13/14 Revised %	14/15 Estimate %	15/16 Estimate %	16/17 Estimate %	17/18 Estimate %
Total	3.11	2.89	3.85	3.67	4.28	4.25

5. Capital Financing Requirement:

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

Capital Financing Requirement	13/14 Approved £m	13/14 Revised £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m
Total CFR	237.879	241.957	275.699	270.329	258.250	248.247

6. Actual External Debt:

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

Actual External Debt as at 31/03/13	£m
Borrowing	110.614
Other Long-term Liabilities	61.924
Total	172.518

7. Incremental Impact of Capital Investment Decisions:

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

Incremental Impact of Capital Investment Decisions	13/14 Approved £	14/15 Estimate £	15/16 Estimate £	16/17 Estimate £	17/18 Estimate £m
Increase in Band B Council Tax	-3.71	21.21	4.20	2.51	12.64

7.2 The increase in Band B council tax reflects the increases in the provision for Capital Financing Charges of £0.599m by 2019/20 to undertake additional borrowing of £18.846m arising from the proposed capital programme. In the short term there are savings due to the rephasing of existing planned borrowing and medium term there is spending ahead of anticipated capital receipts, but once complete the overall increase in Band B is £10.51.

8. Authorised Limit and Operational Boundary for External Debt:

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

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

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

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

Authorised Limit for External Debt	13/14 Approved £m	13/14 Revised £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m
Borrowing	145	145	170	165	165	160
Other Long-term Liabilities	65	65	64	63	62	61
Total	210	210	234	228	227	221

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

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

Operational Boundary for External Debt	13/14 Approved £m	13/14 Revised £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m
Borrowing	125	125	158	149	150	141
Other Long-term Liabilities	63	63	62	61	60	59
Total	188	188	220	210	210	200

9. Adoption of the CIPFA Treasury Management Code:

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

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

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

10. Gross Debt and the Capital Finance Requirement

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

Gross and Net Debt	13/14 Estimated £m	14/15 Authorised £m	15/16 Authorised £m	16/17 Authorised £m	17/18 Authorised £m
Outstanding Borrowing (at nominal value)	110.303	134.644	128.424	124.244	120.573
Other Long-term Liabilities (at nominal value)	61.742	60.432	58.756	57.605	58.042
Gross Debt	172.045	195.076	187.180	181.849	178.615

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

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

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

Guidance note on quantum of acceptable volatility...

	Existing level (or Benchmark level) at 31/03/13 %	13/14 Approved %	13/14 Revised %	14/15 Estimate %	15/16 Estimate %	16/17 Estimate %	17/18 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	30	30	30	30	30	30	30
Local Indicator – Upper limit for net variable rate exposure. (Net principal re gross variable rate borrowing and investments divided by gross borrowing plus investments)	70	70	70	70	70	70	70

11.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will

ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

12. Maturity Structure of Fixed Rate borrowing:

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

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

Maturity structure of fixed rate borrowing	Existing level (level at 31/03/13) %	Lower Limit for 14/15 %	Upper Limit for 14/15 %
under 12 months	30 (0)	0	40
12 months and within 24 months	8 (10)	0	25
24 months and within 5 years	2 (12)	0	50
5 years and within 10 years	2 (2)	0	75
10 years and within years	0 (0)	0	75
years and within 30 years	0 (0)	0	75
30 years and within 40 years	7 (5)	0	100
40 years and within 50 years	16 (25)	10	100
50 years and above	35 (45)	15	100

13. Credit Risk:

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

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

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

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

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

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

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

Upper Limit for total principal sums invested over 364 days	13/14 Approved £m	13/14 Revised £m	14/15 Estimate £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m
	95	95	95	95	95	95

Appendix D – Arlingclose Economic & Interest Rate Forecast December 2013

Underlying Assumptions:

- Underlying assumptions:
- Growth continues to strengthen with the second estimate for Q3 growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.
- The unemployment rate has fallen to 7.6%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.
- The CPI for November has fallen to 2.1%, a much more comfortable position for the MPC. Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.
- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.
- The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme, which will henceforth concentrate on business lending only.
- The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.
- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014. The US political deadlock over the debt ceiling will need resolving in Q1 2014.
- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.
- China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.
- On-going regulatory reform and a focus on bail-in debt restructuring of is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

Forecast:

- Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.
- We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk				-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80
Arlingclose Central Case	0.45	0.45	0.50	0.55	0.55	0.55	0.55	0.60	0.65	0.70	0.80	0.80	0.80
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.30	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	0.90	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.40	1.40
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	1.45	1.50	1.55	1.60	1.65	1.70	1.75	1.85	1.95	2.10	2.30	2.50	2.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	3.00	3.10	3.30	3.50	3.50
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.65	3.75	3.85	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.45	3.50	3.55	3.60	3.65	3.70	3.75	3.80	3.85	3.95	4.05	4.15	4.15
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Recommended Sovereign and Counterparty List (Section 8)

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

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Council Holding At 31/12/13 £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	20	20	7
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	20	20	0
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	20	20	0
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	20	20	20
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	20	20	13
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	20	20	0
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	20	20	0
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	20	20	0
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	20	20	0
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia	20	20	0

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

Term Deposits / CDs / Call Accounts	US	JP Morgan Chase	20	20	0
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***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened. The counterparty list was correct as at 10 January 2014.*

SUMMARY OF INVESTMENTS**TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 2013**

	CREDIT RATING				TOTAL £000
<u>Fixed Deposits</u>					
Barclays	UK AAA	F1+AA-	B	1	20,000
HSBC	UK AAA	F1+AA	B	1	13,029
Santander	UK AAA	F1+AA-	B	1	6,800
TOTAL- FIXED TERM AND CASH DEPOSITS					39,829

<u>SUMMARY BY SOVEREIGN RATING</u>	<u>£000</u>	<u>%</u>
UK AAA	39,829	100
Total	39,829	100

Credit Ratings – A Guide.

Long-term credit ratings and Sovereign Ratings

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

Investment grade

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

Non-investment grade

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

Short-term credit ratings

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

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

Bank Individual Ratings

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

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

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

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings

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

Timeliness and Effectiveness Requirements

Fitch Ratings' Support Rating definitions are predicated on the assumption that any necessary "support" is provided on a timely basis. The definitions are also predicated on the assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

Obligations and Financial Instruments Covered

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

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

Definitions:

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

GLOSSARY

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

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

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

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 28th JANUARY 2014

INTERNAL AUDIT UPDATE REPORT – QUARTERS TWO AND THREE 2013/14

REPORT OF THE AUDIT & INFORMATION GOVERNANCE MANAGER

1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarters two and three – July – December 2013.

2 RECOMMENDATIONS

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

3 SUMMARY

- 3.1 The Audit Committee receives a regular update of the work of Internal Audit. This report provides the update report for quarters two and three – July – December 2013.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 29th January 2013 – Internal Audit Update Report – Quarters Two & Three 12/13
Audit Committee 25th June 2013 - Internal Audit Quarter 4 Update report
Audit Committee 17th September 2013 – Internal Audit Quarter 1 and IG Update Report

5 INTERNAL AUDIT UPDATE INFORMATION

- 5.1 The report provides information on the work of Internal Audit from 1st July – 31st December 2013 and provides an update on the progress of previous audit reports issued (October 2011 to June 2013).
- 5.2 The key focus for the team during quarters 2 and 3 has been the commencement of the fundamental audits and completion of other areas of work identified from the 13/14 annual plan. In addition resources have been used in respect to the development of savings proposals and a restructure was launched on 26th November 2013 which closed on 14th January 2014.
- 5.3 The Audit Committee's terms of reference were updated in November 2013 to include under the Governance section – "To consider the effectiveness of the Council's governance processes and their compliance with legislation and best practice including:

c) oversight of the Commercial Board;

Internal Audit in their plan have scheduled in work to assist the Committee in fulfilling these requirements. The update is provided as part of this report by Internal Audit but the Managing Director/ Co-operative & Commercial Projects Service Delivery Manager will attend the June 2014 Audit Committee meeting to provide further updates and assurance in respect to the projects being managed by the Commercial Board.

5.4 Currently the Commercial Board is managing the following projects:

- **Housing development** – planning to build over 550 new homes for the private rental market on Council-owned land over the next 3 years. As well as providing a new income source for the Council, the development will also help to create new jobs in the local construction industry and supply chain.
- **Energy** – a number of renewable energy generation projects including:
 - (a) plans to develop a commercial-scale solar farm and to install roof-mounted solar panels on a number of Council buildings. As well as generating income, which is guaranteed by the Government for a 20-year period, these projects will deliver significant environmental benefits.
 - (b) Business Switch and Save – the Council is working in association with “Make it Cheaper” to help local businesses switch energy suppliers and save money and make a small commercial return to the Council
- **Everyday Telford app** – following the successful launch of the new Everyday Telford app, the Council has entered into a commercial partnership agreement with the app developer, who is based in the Borough, to help them market and sell the app to other councils and public sector organisations.
- **Extending the provision of Council services** – the Council continues to seek to generate additional income through the provision of Council services to schools and other organisations, both within and outside the Borough. For example, we have recently won contracts to provide catering services to 6 private pre-schools in the Borough and have recently launched our property and design service to residential and business customers.

5.5 The following internal audit update report appendices are attached:

- i) **Appendix A** – List of final reports issued in quarters two and three with our grading – red, amber, yellow or green. This report also includes budgeted time, actual time and percentage variance.
- ii) **Appendix B** – List of all work undertaken for quarters two and three for a period of 1 day or more.
- iii) **Appendix C** - Previous graded reports from October 2011 to June 2013 with their current status. (Members should note that once reports have reached a green status and have been reported to members that are excluded from future reports).
- iv) **Appendix D** – Summary of the amber and red reports issued in quarters 2 and 3.

5.6 Appendix A shows 29 reports were issued in quarters 2 and 3. For the final reports issued the areas shown in this table below varied from the allocated time by more than +/- 10% for the reasons highlighted.

Area	Variance (> +/- 10%)	Reason
Homer Lake Primary School	-30%	School well prepared and organised enabling efficiencies.
Disabled Facilities Grant	-13%	Staff well organised and available throughout the audit
Hollinswood Primary School	-36%	School well prepared and organised enabling efficiencies.
William Reynolds Primary School	-12%	School well prepared and organised enabling efficiencies
Uniform System	-25%	Well prepared for audit with required information readily available.

Area	Variance (> +/- 10%)	Reason
Transport PIR	-12%	Days allocated prior to full understanding of audit and service area requirements.
Protocol System	-48%	Well prepared for audit with required information readily available.
Verification of KPI's – Health check	-43%	Limited supporting evidence available therefore testing reduced.
Local Crisis Resettlement Assistance	-38%	Staff readily available and information provided at start of the audit.
I World system review	-19%	Well prepared for audit with required information readily available.
Postal Arrangements	-29%	Staff able to dedicate time to auditor and information was also readily available.
Telford Snowboarding & Ski Centre	+14%	Due to time elapsed since previous audit a number of issues were identified.
Children's Brokerage	-42%	Tender processes streamlined as framework used and readily available information.
Treasury management	-46%	No changes since previous audit so reduced time required.
Out of Area Children's Placements	+13%	New audit area and more complicated than anticipated.
Service User Journey	-22%	Following consultation with the service area combined a number of audits and therefore resource efficiencies
Old Park Primary School	-16%	School well prepared and organised enabling efficiencies.
Madeley Nursery School	-30%	School well prepared and organised enabling efficiencies.
Lawley Primary School	+28%	Budget allocated lower than other schools so actually only slightly over.

The reasons for the positive and negative variances are as explained above but generally during the last two quarters we have undertaken the audits below the time resources allocated. Time allocations for 2014/15 will be reviewed based on this information.

5.7 From Appendix A there were seven Amber reports issued during quarters 2 and 3 and two Red reports – Abacus Concerns and Moorfield Primary School. Summary information is provided in Appendix D. The William Reynolds School audit has already been followed up and the grading has improved to Green. The Back Up and Disaster Recovery review has also been followed up and the grading has improved to Yellow. For the other audits management actions to implement recommendations have been agreed and Internal Audit has follow up work planned or in progress. Internal Audit is confident that management will implement the remaining recommendations to provide appropriate assurance and improve the grading.

5.8 Areas of more than 10 days from Appendix B are explained below:

Audit Area	Days	Explanation
Advice & Consultancy	28	Due to restructures, reductions in budgets and the implementation of revised governance, systems and procedures service areas are continuing to seek advice and support.

Catering	16	Testing from a range of schools and reviewing cashless system procedures.
Council Tax	16	Fundamental system
Housing Benefits including Welfare Forms & the Local Council Tax Support Scheme	34	Fundamental system and new Council scheme for Council Tax support.
Moorfield Primary School	12	Normal audit extended due to investigation into potential loss of income undertaken
Sales Ledger	23	Fundamental system

5.9 From Appendix C there are currently three original amber reports that remain amber – Car parking, Temporary Accommodation and Electronic Client record. Follow up's are all in progress for these areas. The original Abacus report remained Amber but from Appendix A members will note that extended work has been undertaken in this area which has resulted in a red grading for this area (see Appendix D for more information).

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

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of Audit & Information Governance have attended equal opportunities/diversity training. If any such issues arose during an audit or risk review they would be notified to the appropriate manager.
Environmental Impact	All members of Audit & Information Governance are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	The Accounts and Audit (England) Regulations 2011 state that the Council must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. There is also a requirement to comply with Public Sector Internal Audit Standards. 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 service planning process. Where high risks are identified then Audit Services undertakes work on a more regular basis.
Risks and Opportunities	The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (mitigating risks) and therefore the delivery of services and achievement of objectives.
Financial Implications	The work undertaken has been resourced by Audit staff that are funded from the Council's base budget. Where recommendations are made by Audit Services, if possible, cost/savings implications are identified.
Ward Implications	Internal Audit is responsible for the internal audit of all the Council's activities and at all Council locations and therefore operates within all Council Wards.

7 BACKGROUND PAPERS

Annual Audit Plan 2013/14 and Charter

Report by Jenny Marriott, Audit & Information Governance Manager 383101

FINAL REPORTS ISSUED QUARTERS TWO AND THREE – JULY TO DECEMBER 2013

Audit Area	Opinion	Follow Up result or Date Due	Days allocated	Days Taken	Variance %
Holmer Lake Primary School	Yellow	January 2014	7.25	5.04	-30%
Disabled Facilities Grants	Yellow	January 2014	8.75	7.64	-13%
High Ercall Primary School	Yellow	January 2014	7.25	7.39	+2%
Hollinswood Primary School	Yellow	January 2014	7.25	4.04	-36%
William Reynolds Primary School	Amber	October 2013	7.25	6.49	-12%
Network Infrastructure Follow Up	Various – Yellow / Green / Green	February 2014	*	*	*
Uniform System	Yellow	January 2014	5	3.75	-25%
Remote Working	Yellow	January 2014	*	*	*
Back Up & Disaster Recovery	Amber	November 2013	*	*	*
Transport PIR	Amber	February 2014	7.25	6.47	-12%
Protocol System	Yellow	February 2014	8.25	4.36	-48%
Verification of KPI's – Health check ¹	N/A	December 2013	3.75	2.13	-43%
Deprivation of Liberty Safeguards	Yellow	December 2013	3.13	3.09	-1%
Local Crisis Resettlement Assistance	Yellow	February 2014	21.50	13.3	-38%
I World	Yellow	February 2014	10	8.11	-19%
Postal Arrangements	Yellow	March 2014	10.63	7.55	-29%
Abacus concerns+	Red	Dec 2013/ January 2014	From contingency	13.49	N/A
Telford Snowboarding & Ski Centre	Amber	February 2014	8.88	10.19	+14%
Children's Brokerage	Yellow	March 2014	9.75	5.59	-42%
Asset Register Review	Amber	March 2014	7.78	8.50	+9%
Treasury management	Green	N/a	10.25	5.54	-46%

¹ Health checks are undertaken at the request of the service area and recommendations are made to make improvements in the area which are followed up and any concerns would be raised with senior management

Audit Area	Opinion	Follow Up result or Date Due	Days allocated	Days Taken	Variance %
Moorfield Primary School+	Red	January 2014	7.25 plus contingency	19.59	N/A
Out of Area Children's Placements	Amber	January 2014	7.75	8.77	+13%
Service User Journey	Amber	March 2014	24.75	19.41	-22%
Old Park Primary School	Yellow	March 2014	6.13	5.17	-16%
Madeley Nursery School	Yellow	May 2014	8.00	5.61	-30%
Lawley Primary School	Yellow	May 2014	6	7.67	+28%
Dothill Primary School	Green	N/a	7.13	7.13	0%
Short breaks	Yellow	May 2014	6	5.79	-3%

* Review undertaken by Deloitte under specialist IT audit contract.

+ Additional work so days taken from contingency

QUARTERS TWO AND THREE - AREAS WHERE WORK UNDERTAKEN HAS BEEN FOR MORE ONE DAY OR MORE

AUDIT AREA	DAYS
Abacus Follow Up and Extended Review	4
Advice & Consultancy	28
ASC Complaint Support	3
Asset Register Review	6
Cash Collection	9
Catering	16
Children's Commissioning	2
Coalbrookdale & Ironbridge Primary School	6
Constitution review	1
Contracts Life Cycle	5
Council tax	16
Dothill Primary School	7
Downing House Imprest	2
Emergency Planning - Public Health Resilience	3
Family Connect workflow process	6
Fleet Management process	3
Follow ups	10
High Ercall Primary School	1
Hollinswood Primary School	4
Holmer Lake Primary School	1
Housing Benefits (Inc Welfare Reforms) & Local Council Tax Support Scheme	34
ICT audit contract procurement process and set up	5
ICT Contract monitoring	6
Impulse – children's admissions system	2
Iworld System Review	4
Lawley Primary School	8
Local transport grant	1
Madeley Nursery	1
Minimising Empty Homes	2
Moorfield Primary School	12
NNDR	7
Oakengates Children's Centre	9
Old Park Primary School	5
Ombudsman Complaints	9
Out of Area Children's Placements	9
Park & Ride - Contract / Cash collection	7
PI Verification	1
Postal Systems	2
Protocol system - review	2
R&B Contract life cycle review	5
Review of School Audit programme	3
Sales Ledger	23
School Improvement Team Process	3
Service User Journey	10
Short break - Disabled / respite & short Breaks	6

APPENDIX B (continued)

AUDIT AREA	DAYS
Ski Centre	10
Social Fund - Local Crisis assistance	8
Special Guardianship	2
St Marys Primary School	6
Treasury Management	5
Troubled Families Grant	4
Uniform	1
Voluntary Sector Contracts /Agreements	1
Wellington Civic Leisure Centre	9
William Reynolds Primary School	6
Wrockwardine Wood Infants School	6

STATUS ON FINAL REPORTS ISSUED OCTOBER 2011 TO JUNE 2013

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.13
ICT Release Management	Yellow	Yellow	Previous follow ups have been undertaken but there has been insufficient progress made to change the audit opinion.	Follow Up completed but insufficient progress to amend report grade. Next follow up due January 2014.
Confirm System	Amber	Green	Previous follow up reviews have been undertaken and we have seen some implementation of recommendations however there are still outstanding recommendations to be addressed.	Follow up now complete, sufficient progress made to ensure rated Green now.
Putting People First – Mainstreaming & Developing Personalisation	Yellow	Yellow	Follow up completed in March 2013. No change to grade as insufficient progress evidenced. Next follow up to be undertaken in December 2013 to allow service area to address outstanding issues.	Follow up underway, awaiting management responses. Update will be provided to the next appropriate Audit Committee
P2 Net	Yellow	Green	4th Follow Up completed May 2013 but insufficient information to change assurance rating.	Follow up completed November 2013, sufficient progress made to ensure rated Green now.
Abacus system	Amber	Amber/Red	Follow up completed in August 2012. Some progress has been achieved but insufficient to change the grading. 2nd follow up undertaken in December also insufficient progress made to change grading. Further follow up due March 2013.	Follow up completed in March 2013 and reported to Audit Committee. Further follow up due to be undertaken in August 2013 but additional work identified so update to be provided to January 2014 Audit Committee.
Email Arrangements	Yellow	Green	Follow up due to be completed in July 2013.	Follow up now complete, sufficient progress made to ensure rated Green now.
Planning Application Fees	Yellow	Yellow	Follow up in progress	Follow up carried out – insufficient progress made. Further Follow Up due January 2014 in line with revised implementation dates.
Building Control Fees	Yellow	Yellow	Further follow up due November 2013	Follow up in progress. Update will be provided to the next appropriate Audit Committee.

STATUS ON FINAL REPORTS ISSUED OCTOBER 2011 TO JUNE 2013

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.13
Telford Tennis Centre	Amber	Yellow	Follow up undertaken and grade changed to yellow.	Follow up issued in December, awaiting responses due January 2014. Update will be provided to the next appropriate Audit Committee.
Network Infrastructure Report	Various – see below+	Various – see below+	Follow up commenced March 2013	Follow Up completed by Deloitte and it appears that progress has been made however the main area Network Infrastructure requires further follow up in January 2014.
Teenage Pregnancy Governance Structures	Yellow	Green	Follow up July 2013 and grade remained yellow	Follow up now complete, sufficient progress made to ensure rated Green now
GIS Application	Yellow	Green	Follow up January 2013 and grade remained yellow.	Further follow up completed and progressed to so grading now revised to Green.
Contract Changes & Waivers	Yellow	Yellow	Follow up completed May 2013. No grade change due to insufficient improvements. Next follow up due October 2013	Follow up completed November 2013. No grade change due to insufficient improvements. Next follow up due February 2014
Young People In Transition & Enablement	Yellow	Yellow	Follow up in progress.	Follow up delayed re restructure. Follow up will take place in January 2014 and update will be provided to the next appropriate Audit Committee.
Procurement – Contract Monitoring	Yellow	Yellow	Follow up completed September 2013 and no change to grade.	Further follow up to be undertaken in March 2014.
Customer Relationship Manager (CRM) IT review	Yellow	Green	Follow up completed in June 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Children’s Placements	Amber	Yellow	Followed up August 2013	Follow up undertaken in August 2013 and insufficient evidence to change rating from Yellow (achieved in May 2013). Further follow up in progress (December/January 2014). Confirmed January 2014 as Green.
Lilleshall Primary School	Yellow	Green	Follow up July 2013	Follow up now complete, sufficient progress made to ensure rated Green now.

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.13
ICT Governance of Projects	Yellow		Follow up August 2013	Follow up postponed due to ICT issues. Next review in January 2014
Telecommunications	Yellow		System being re-procured in Dec 13/ Jan 14	System due to be replaced in January 2014, therefore a new audit will be required.
Apley Wood Primary School	Yellow	Green	Follow up July 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Abraham Darby Leisure Centre	Yellow	Yellow	Followed up October 2013 insufficient evidence to change rating	Next follow up due in February 2014. Will report to subsequent Audit Committee.
IT Service Design	Various – see below	Various – see below	Follow up May 2013 insufficient evidence to alter ratings.	Next follow up due January 2014 will be reported to the next Audit Committee.
Term / Service Contracts	Amber	Green	Follow up October 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Newport Infants School	Amber	Yellow	Follow up September 2013 sufficient evidence to change grade to Yellow	Follow up due January 2014. Update will be provided to the next appropriate Audit Committee
Arthog	Amber	Green	Follow up July 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Property & Design Help Desk	Yellow	Yellow	Follow up September 2013	Follow up completed September 2013. Further follow up required due February 2014. Update will be provided to the next appropriate Audit Committee
Corporate Parenting Team	Red	Yellow	Follow up June 2013 & October 2013, sufficient progress made to change rating to Yellow.	Next follow is in progress and awaiting management responses. Update will be provided to the next appropriate Audit Committee.

STATUS ON FINAL REPORTS ISSUED OCTOBER 2011 TO JUNE 2013

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.13
Car Parking	Amber		Follow up September 2013	Follow up in progress, awaiting responses from Finance. Update will be provided to the next appropriate Audit Committee
Tibberton Primary School	Yellow	Green	Follow up September 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Donnington Wood Infant School	Yellow	Green	Follow up September 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Pupil Tracking	Yellow	Green	Follow up September 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Temporary Accommodation	Amber		Follow up as part of Annual Benefits audit	Currently underway. Update will be provided to the next appropriate Audit Committee
Licensing	Yellow	Green	Follow up October 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Newdale Nursery School (First Steps System)	Yellow	Green	Follow up August 2013	Follow up now complete, sufficient progress made to ensure rated Green now.
Electronic Client Record	Amber		Follow up October 2013	Follow up in progress. Will provide update to the next appropriate Audit Committee.
John Fletcher of Madeley Primary School	Amber	Yellow	Follow up September 2013	Follow up completed September 2013. Upgraded to Yellow further follow up due March 2014.
Continuing Health Care & Joint Funding	Yellow	Yellow	Follow up November 2013	Follow up completed November 2013. Remains Yellow further follow up due March 2014.
Lightmoor & Reflexions Overpayment	Work for CFO		Follow up October 2013	Complete but further follow up to be undertaken April 2014.
CareFirst System	Yellow		Follow up September 2013	Follow up underway but delayed due to ICT resources. Update will be provided to the next appropriate Audit Committee.
St Patricks Catholic Primary School	Yellow	Green	Follow up November 2013	Follow up now complete, sufficient progress made to ensure rated Green now.

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.13
Stirchley Recreation Centre	Yellow	Yellow	Follow up December 2013	Follow up completed but insufficient progress made to change rating. Further follow up required in February 2014.
Homelessness Threshold	Yellow		Follow up January 2014	Follow Up not yet due
ICT Service Desk	Yellow		Follow up January 2014	Follow Up not yet due

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

ICT Service design – Various: Strategy – **Reasonable** Service Delivery – **Reasonable**; Capacity – **Limited**

AMBER AND RED REPORTS ISSUED QUARTERS TWO AND THREE

AMBER REPORTS:

William Reynolds Primary School

1. Introduction and Scope

- 1.1 An audit review commenced on 2nd July 2013, to provide an opinion on the control environment and a level of assurance for William Reynolds Primary School. The Internal Audit opinion on these controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.
- 1.2 We would like to thank the following for their help during the audit:
- ⌘ Head Teacher
 - ⌘ Business Manager
 - ⌘ Administrator

2. Good Practice Areas

- 2.1 During the audit a number of good practice areas within the processes and procedures for William Reynolds Primary School were identified. These included:
- ⌘ The school hold copies of their statutory educational policies on their network which can be accessed by all staff. All policies have the review date on their front cover.
 - ⌘ The school have produced a policy schedule showing which committees have taken responsibility for reviewing the agreed policies and these are reviewed on a rolling programme basis.
 - ⌘ Each Governor's sub-committee has its own leaver arch file (all filed in meeting order / clearly labelled) and the full governing body has a separate lever arch file for each term (Autumn / Spring / Summer).
 - ⌘ Personnel files are very well organised.
 - ⌘ The Head Teacher signs the copy of the PSE absence entry which is held on the staff members personnel file to demonstrate it has been checked as having been entered. The school also have individual sickness summary sheets so they can easily identify repeated absence.
 - ⌘ A manual requisition order form is completed and authorised prior to the order being placed on the Agresso System.

3. Management Summary and Overall Opinion

- 3.1 On the basis of the work carried out our opinion based on the level of assurance provided by the controls for this audit area is limited - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.

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

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	2	11%
Financial Regulation – immediate implementation	10	53%
Policy/Procedure – implementation within a month	7	36%
Best Practice – implementation at a mutually agreed date	-	-
Total	19	100%

- 3.3 We have not followed up the implementation of recommendations made in the previous audit reports because these related to the William Reynolds Junior & Infant Schools which has since been amalgamated, therefore these recommendations were superseded by the new processes and procedures in place at the primary school.
- 3.4 The implementation of the recommendations made in this report will further strengthen the controls and processes in your school.

Back Up and Disaster Recovery

1. Introduction and Scope

- 1.1 An internal audit was undertaken in February 2013, to provide an opinion on the control environment and a level of assurance of the adequacy of the controls in place to manage the risks associated with backup and disaster recovery (including Data Centre) arrangements within the Council. The Internal Audit opinion on these controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.
- 1.2 The scope of the audit was agreed with ICT Service Delivery Manager and we would like to thank the following for their help during the audit:
- ✪ Infrastructure Support and Design Team Leader
 - ✪ Senior Infrastructure Officer
 - ✪ Resilience Team Leader

2. Good Practice Areas

- 2.1 During the audit, a number of good practice areas were identified within the arrangements for backup and disaster recovery (including Data Centre). These included:
- ✪ Responsibility for the management of the backup routines including monitoring of completion and fault notification has been appropriately assigned.
 - ✪ Critical services and their relevant systems have been identified through a business impact analysis and these are revisited annually.
 - ✪ There are procedures in place for the periodic backup of Council data and errors are investigated and resolved.
 - ✪ Data restore and escalation procedures have been defined for the backup tools in use.
 - ✪ There is secure storage available at Granville House for weekly and monthly backup tapes.
 - ✪ There are adequate physical controls in place for access to both of the Council's data centres.

3. Management Summary and Overall Opinion

- 3.1 On the basis of the work carried out, it is our opinion that the level of assurance provided by controls for this audit area is 'Limited' level of assurance. 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.
- 3.2 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	-	-
Financial Regulation – immediate Implementation	-	-

Policy/Procedure – implementation within a month	7	88%
Best Practice – implementation at a mutually agreed date	1	12%
Total	8	100%

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

Transport System Post Implementation Review

1. Introduction and Scope

- 1.1 An audit review commenced in May 2013, to undertake a post implementation review of the Transport System contract. The Internal Audit opinion on these controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.
- 1.2 We would like to thank the following for their help during the audit:
- ** Transport Operations Group Manager
 - ** Contracts Team Leader
 - ** ICT Projects Co-ordinator

2 Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out our opinion based on the level of assurance provided by the controls arising from this post implementation review 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.
- 2.2 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown over the page.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	-	-
Financial Regulation – immediate implementation	8	40%
Policy/Procedure – implementation within a month report.	8	40%
Best Practice – implementation at a mutually agreed date	4	20%
Total	20	100%

- 2.3 The implementation of the recommendations made in this report will ensure future contracts are properly entered into and controlled.

Telford Snowboarding and Ski Centre

1. Introduction and Scope

- 1.1 An audit review commenced on 4 July 2013, to provide an opinion on the control environment and a level of assurance for the Telford Snowboarding and Ski Centre. The Internal Audit opinion on these controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.
- 1.2 The scope of the audit was agreed by the Team Leader - Telford Ice Rink and Telford Snowboard and Ski Centre whose helps along with Duty officers was appreciated during the audit.

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out our opinion based on the level of assurance provided by the controls for this audit area is Limited - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
- 2.2 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	2	9%
Financial Regulation – immediate implementation	4	18%
Policy/Procedure – implementation within a month	16	73%
Best Practice – implementation at a mutually agreed date	-	-
Total	22	100%

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

Asset Register Review

1. Introduction and Scope

- 1.1 An audit review commenced on 3 June 2013, to provide an opinion on the control environment and a level of assurance for the Asset Register. The Internal Audit opinion on these controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.
- 1.2 The scope of the audit was agreed by the Finance Team Leader and we would like to thank the following for their help during the audit:
- ** Property Lawyer
 - ** Surveyor
 - ** Finance Team Leader
 - ** Senior Finance Officer

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out our opinion based on the level of assurance provided by the controls for this audit area is Limited - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
- 2.2 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	-	-
Financial Regulation – immediate implementation	-	-
Policy/Procedure – implementation within a month	11	91%
Best Practice – implementation at a mutually agreed date	1	9%
Total	12	100%

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

Out of Area Children's Placements

1. Introduction and Scope

- 1.1 An audit review commenced on 2nd August 2013, to provide an opinion on the control environment and a level of assurance for Out of Area Children's Placements. The Internal Audit opinion on these controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.
- 1.2 The scope of the audit was agreed by the SDM – Placement and in addition to her we would like to thank the following for their help during the audit :
- ** Team Leader, Children in Care
 - ** Children's Safeguarding Team Manager
 - ** Business Support & Information Manager
 - ** Data Support Officer
 - ** Interim Service Delivery Manager, Commissioning
 - ** Family & Cohesion Services Team Manager
 - ** Brokerage Officer, Commissioning Children, Families & Transport
 - ** Quality Monitoring Officer, Placements, Commissioning & Transport
 - ** SDM - Safeguarding Advisory Service

2 Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out our opinion based on the level of assurance provided by the controls for this audit area is Limited – whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
- 2.2 This Audit report is supplementary to the Ofsted report published 10 August 2012, the Scrutiny Committee report dated 5 June 2013 and the Children's Brokerage Audit report currently being finalised – recommendations within this report are additional to, and not intended to supersede, the findings within those reports
- 2.3 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown over the page – where recommendations are considered to be high risk for the Authority (e.g. non-compliance with Legal requirements, non-compliance with essential procedures), this will have impacted on the overall opinion of the report.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	2	22%
Financial Regulation – immediate implementation	-	-
Policy/Procedure – implementation within a month	7	78%
Best Practice – implementation at a mutually agreed date	-	-
Total	9	100%

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

Service User Journey

1. Introduction and Scope

- 1.1 An audit review commenced in April 2013 to provide an opinion on the control environment and a level of assurance for Service User Journey processes. The Internal Audit opinion on these

controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.

- 1.2 The scope of the audit was agreed by the SDM - Access & Enablement and we would like to thank staff from the following areas for their help during the audit:

Personal Budget Support Team
Financial Case Management Team
Adult Social Care Commissioning Team
Access & Enablement Team
Access & Case Management Team
Access Team
ICT
Adult Safeguarding Team
Delivery & Planning Team
Finance
Adult & Community Services Team

2. Good Practice Areas

- 2.1 During the audit a number of good practice areas within the processes for Service User Journey were identified. These included:
- ⌘ The level of up to date information held on the Commissioning & Contracting Team intranet page
 - ⌘ Quality Monitoring Officers work plan which details the teams work programme, showing their latest actions and those providers they will be monitoring in the next few weeks
 - ⌘ The comprehensive Performance Summary Reports produced by Senior Information Officer
 - ⌘ Detailed and up to date process maps for the whole Service Area

3. Management Summary and Overall Opinion

- 3.1 On the basis of the work carried out our opinion based on the level of assurance provided by the controls for this audit area is **Limited** - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
- 3.2 Recommendations have been made to improve the controls found to be unsatisfactory¹ and these are categorised as shown below.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	1	3%
Financial Regulation – immediate implementation	-	-
Policy/Procedure – implementation within a month	32	94%
Best Practice – implementation at a mutually agreed date	1	3%
Total	34	100%

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

RED REPORTS:

Review of Abacus and Associated Processes – September 2013

1. Introduction & Scope

- 1.1 The Abacus System was implemented (phase 1) in February 2010 which enabled all financial assessments to be undertaken on the system, invoicing of residential clients for their contribution to care and payments to providers of certain client groups. Phase 2 of the implementation went live in August 2011 which added the facility to invoice domiciliary clients for their care contribution and allow payments to providers for all client groups.
- 1.2 The AD: Finance, Audit & Information Governance requested that Finance and Audit undertake an investigation into a number of issues identified by Finance Team Leader Peach in respect to Abacus and associated processes. These issues included:
 - a) Brokerage and the rationale behind the selection of Homecare providers – specifically whether the cheapest bid that meets client needs is always selected?
 - b) Whether the Council is suffering a financial loss as a result of unassessed and unbilled income – concerns that a number of clients, particularly ALD clients are unbilled and/or unassessed for client contribution
 - c) Overpayments being made to providers as a result of duplicate payments and due to “system tolerances”
 - d) Abacus over-forecasting commitments due to the non-closure of service orders resulting in misleading financial projections

2. Background to Previous Abacus Reviews/Issues Raised

- 2.1 Audit has previously undertaken a review of the Abacus system on the request of the Assistant Director: Adult Care & Support. The final audit report for this initial review contained 20 recommendations and was issued on 30 September 2011 graded as an Amber (limited assurance) report.
- 2.2 Subsequent follow ups have been undertaken by Audit to ascertain the progress the service area has made in implementing the actions agreed in response to the recommendations made, see details below:
 - First follow up completed on 26 July 2012 (status remained Amber)
 - Second follow up review issued on 6 March 2013 (status remained Amber)
 - Audit are currently working on the 3rd follow up

Management across the council had expected that the implementation of the Abacus upgrade to v162 would resolve a number of the issues raised in the above audits reports. The Abacus v162 upgrade has not been implemented as at 14 August 2013.

- 2.3 There is also an ongoing Abacus issues log monitored by the Abacus User Group detailing:
 - 9 issues have a status of ‘not started’
 - 16 issues are in ‘progress’
 - 15 issues are ‘on hold’
 - 3 issues have ‘not yet been actioned’

3. Summary of Conclusions

3.1 It is evident that 2 – 3 years after the implementation of Abacus and despite previous audit reports raising concerns which have also been raised by the Finance Team Leader that there are a number of outstanding issues in respect to how care services are brokered and paid for across Care & Support. The key issues are:

3.1.1 Fragmentation/culture of Care & Support Teams

3.1.2 Lack of financial control with Abacus system configuration

3.1.3 Human resources issues including lack of training

4. Opinion / Summary Recommendations / Advice

4.1 On the basis of the work carried out our opinion based on the level of assurance provided by the controls for Abacus and associated processes is **Poor** - the system of control is weak and there is evidence of non compliance with the controls that do exist. The main reasons for now giving this rating for the level of assurance are the level of known overpayments and the prolonged period (now over 2 years) that problems have been occurring without resolution and the increased scope of this review.

4.2 On discussion with the Personalisation Support & Service Provision Service Delivery Manager, Personal Budget Support Team (PBST) Team Leader and Financial Case Management Team (FCMT) Team Leader it is recognised that a number of issues in this report have already been identified by them. For some issues action plans are already in place or are due to be implemented in the future dependent on available capacity across the Council to address identified areas for improvement.

4.3 There are pockets of good practice in both PBST and FCMT with both Team Leaders demonstrating a keenness to improve. This is demonstrated in particular by the PBST being nationally recognised for the efficient way they process contracts.

4.4 This review has highlighted concerns that financial control arrangements in respect to the use of Abacus and associated processes have contributed to unacceptable levels of overpayment and loss of income due to a number of clients not being assessed/billed for their contributions to care. Furthermore these arrangements may be seen as contravening the Council's Financial Regulations.

4.5 This review has also raised concerns about the overall management and accountability of the use of Abacus and associated processes. This concern is evidenced by:

- Cultural issues where teams have continued to follow established localised procedures for brokering care services
- Some knowledge of overpaying providers on occasion for various reasons including the desire to ensure service providers were paid during the difficulties experienced when Abacus was being implemented. These have had to be reclaimed.
- A lack of implementation of the agreed actions to the recommendations made in previous audit reports which after 2 years (and 2 follow up reviews) are still graded as Amber (*whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls*).
- The number of high risk/priority issues that are still to be resolved on the Abacus issues log

- 4.6 To resolve the issues highlighted by this report recommendations have been made and agreed by management.

Moorfield Primary School

1. Introduction and Scope

- 1.1 An audit review was commenced on 1 July 2013, to provide an opinion on the control environment and a level of assurance for processes at Moorfield Primary School. The Internal Audit opinion on these controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.
- 1.2 We would like to thank the following for their help during the audit:
- ** Head Teacher
 - ** Business Manager
 - ** T&W Senior Finance Officer

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out our opinion based on the level of assurance provided by the controls at Moorfield School is **Poor** - the system of control is weak and there is evidence of non compliance with the controls that do exist.
- 2.2 As part of this review Audit also undertook a preliminary investigation, as requested by the Head Teacher, into the possible mis-appropriation of funds. The findings of this investigation have also been included in this report.
- 2.3 Recommendations have been made to improve the controls found to be unsatisfactory and these are categorised as shown below. Table 1 shows are the recommendations highlighted as part of the Audit and Table 2 are the recommendations highlighted as part of the investigation into possible mis-appropriation of Income.

Table 1

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	5	9%
Financial Regulation – immediate implementation	18	35%
Policy/Procedure – implementation within a month	26	52%
Best Practice – implementation at a mutually agreed date	2	4%
Total	51*	100%

Table 2

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation	1	8%
Financial Regulation – immediate implementation	7	53%
Policy/Procedure – implementation within a month	3	23%
Best Practice – implementation at a mutually agreed date	2	16%
Total	13 *	100%

*8 of the 64 recommendations have been re-iterated from the last audit.

- 2.4 The implementation of the recommendations made in this report will further strengthen the controls and processes in your school.
- 2.5 Due to the number of recommendations made within this report we have taken the opportunity to group the recommendations to assist management with areas to concentrate resources. These are shown below.

Area	Number of recommendations	Percentage
Policies and Guidance	2	3%
Governing Body	6	10%
Training	1	2%
Financial System	4	6%
Human Resources	3	4%
Payroll	6	10%
Purchasing	14	23%
Security	2	3%
School Fund	3	4%
Inventory	3	4%
Data Protection / Freedom of Information	5	8%
ICT	2	3%
Cash Collection, Banking & Monitoring	13	20%
TOTAL	64	100%

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 28th JANUARY 2014

UPDATE ON THE ANNUAL GOVERNANCE STATEMENT 2012/13 ACTION PLAN

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

1 SUMMARY OF MAIN PROPOSALS

1.1 For the Audit Committee to note the progress on the actions contained in the 2012/13 Annual Governance Statement (AGS) action plan for implementation during 2013/14.

2 RECOMMENDATION

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

3 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	<i>The Governance Framework encompasses the whole Council and therefore all of the Council's priorities.</i>
	Will the proposals impact on specific groups of people?	
	No	
TARGET COMPLETION/ DELIVERY DATE	<i>Progress on actions as at 31/12/13 from the 2012/13 AGS. Final position will be reported in the 2013/14 AGS which should be agreed by 30th June 2014.</i>	
FINANCIAL/VALUE FOR MONEY IMPACT	No	<i>Good governance processes support value for money in ensuring economy, efficiency and effectiveness in the Council's decision making processes.</i>
LEGAL ISSUES	Yes	<i>The requirement for an Annual Governance Statement is included in the Accounts and Audit (England) Regulations 2011.</i>
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	<i>Good governance supports the identification and management of risks and robust control arrangements.</i>
IMPACT ON SPECIFIC WARDS	Yes	<i>Borough-wide impact</i>

4 INFORMATION

4.1 Under the Accounts and Audit (England) Regulations 2011 the Council is required to produce an Annual Governance Statement and it is best practice that the statement should include an action plan for further improvement. This report sets out the progress made to the end of December 2013 against the actions agreed in this action plan in June 2013.

5 PREVIOUS MINUTES

5.1 Cabinet 30th May 2013; Audit Committee 25th June 2013

6 BACKGROUND PAPERS

Local Code of Corporate Governance May 2008

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

CIPFA/SOLACE – Delivering Good Governance in Local Government Guidance Note for English Authorities 2012 Edition and Addendum

2012/13 ANNUAL GOVERNANCE STATEMENT ACTION PLAN – PROGRESS AS AT 31st DECEMBER 2013

No	Action	Lead Officer	Comments when AGS agreed	Original Target Completion Date	Updated Position as at 31/12/13
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 31/03/14 Note – final constitution changes to be in place by May 2015	Constitution review continuing with member working group and changes to strategies and policies. Updates to officers and members as and when required. On going 31/03/14 and beyond. Urgent constitution amendments are made when required. The full constitution review will be concluded by May 2015
2.	Managing Decision making: a) Outstanding constitutional changes to reflect the revised organisational structures & ways of working b) Preparations for the revised external audit arrangements.	AD Law, Democracy & People Services and AD Finance, Audit & IG	This action develops further the implementation of previous actions in respect to the Constitution and revised external audit arrangements.	(a) 31/03/14 - Note – final constitution changes to be in place by May 2015 (b) – will need to respond to consultations on the proposed future changes during 13/14.	(a) On target – see comments above regarding constitution changes. (b) Consultation on secondary legislation provided for deadline of 20/12/13. Others to be provided as required.
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 and People Services restructure. 	AD – Law, Democracy & People Services	People Services has been fully restructured and implemented and interviews for an Organisational Development and Talent Manager will hopefully be appointed to on 15 th May. The post is critical in taking a lead on workforce development and management development. A workforce plan for children's services has already been completed in line with	31/03/14 and on going	Organisational Development and Talent Manager appointed and developing the service and workforce policies in consultation with service managers along with a revised learning and development plan. Further restructure of People Services launched 25/10/13 and closed 09/12/13. New structure to be in place by 21 st January 2014 which puts further emphasis on workforce development and policy redesign Review of policies and procedures

			Ofsted requirements. A review of HR policies has commenced with priority being given to sickness absence and capability policies. A number of other policies have been redesigned and reduced to maximum of 4 pages to make them more accessible and more business relevant. Work to 'lean' the recruitment process from start to finish commences in June.		<p>underway – priorities for policy review agreed with SMT. Negotiations underway with Trade Unions on Sickness Absence. Other policy changes already implemented. Next set of policies for review include Grievance and Capability along with a revised PPD process</p> <p>A new lean recruitment process supported by technology will go live at the end of March delivering further efficiencies and some cashable savings</p>
No	Action	Lead Officer	Comments when AGS agreed	Original Target Completion Date	Updated Position as at 31/12/13
4.	Further develop the governance and decision making arrangements for the Health & Well Being agenda and the transferred health services including Public Health	Director: Care, Health & Well-Being	Further clarification required of the governance (including clinical governance) and decision making routes for transferred Public Health and other Health services to meet the Health & Well Being Strategy.	31/12/13	<p>Public Health services are now fully embedded within the Council, with a Director of Public Health in place. Health & Wellbeing Board is well established.</p> <p>Complete</p>
5.	Implement the action plans from the Ofsted and Care Quality Commission (CQC) inspection reports (Safeguarding, Services for Looked after Children, Fostering Services, Children's Centres and Adult Care Provider Services).	Director: Children & Family Services and Director: Care, Health & Well-Being	This action plan is particularly focussed on any recommendations that improve the governance arrangements in these areas.	Various dates throughout 2013/14	<p>Action plans being implemented and progress on target.</p> <p>On the 23.9.2013 the CQC confirmed that Downing House had fully implemented its action plan. This means that all of the Council's registered care services for adults are considered fully compliant with the standards set out by CQC</p> <p>Whilst T&W Council is primarily a commissioner of care services, the Council does directly provide some care services which are registered and inspected by the CQC. In 2013/14 CQC undertook the following inspections and</p>

					<p>the outcomes were:</p> <ul style="list-style-type: none"> a) Intermediate Care - Domiciliary Care – All standards met following inspection – 22.2.2013 b) Carwood Residential Home – All standards met following inspection on 2.1.2014 c) Downing House Residential Home - All standards met following inspection on 22.9.2013 <p>The following registered services were not inspected in 2013/14. When last inspected they were rated as follows:</p> <ul style="list-style-type: none"> d) Shared Lives - Adult Placement Scheme – Last inspection rated “excellent” Community Services – Learning Disability, Domiciliary Care – Last inspection rated “excellent”.
No	Action	Lead Officer	Comments when AGS agreed	Original Target Completion Date	Updated Position as at 31/12/13
6.	Agree and implement the appropriate governance arrangements in respect to the Commercial Projects which form part of the income generation programme.	Managing Director	An internal Commercial Board has been set up to oversee the development and implementation of key commercial projects (including the set up and design of the associated governance arrangements).	On going during 2013/14	The Commercial Board was established to oversee the development and implementation of commercial projects. A number of projects are now in the process of being implemented. Commercial Board required from November 2013 to provide updates to the Audit Committee as part of non-executive Member oversight.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 28th JANUARY 2014

CHANGES TO THE INTERNAL AUDIT CHARTER 2014/15 AND PUBLIC SECTOR INTERNAL AUDIT STANDARDS - ACTION PLAN FOR COMPLIANCE

REPORT OF THE CHIEF FINANCIAL OFFICER AND THE AUDIT & IG MANAGER

1 PURPOSE

- 1.1 To seek the approval of Members of the Audit Committee to the Internal Audit Charter for 2014/15 and for them to note the contents of the action plan to ensure compliance with the Public Sector Internal Audit Standards.

2 RECOMMENDATIONS

- 2.1 That Members of the Audit Committee:
- a) approve the Internal Audit Charter for 2014/15 attached as Appendix A; and
 - b) note the PSIAS Action Plan attached as Appendix B.

3 SUMMARY

- 3.1 The terms of reference of the Audit Committee include:
"The approval (but not direction) of and monitoring of progress against, the Internal Audit Charter and Plan". This report presents the Internal Charter for 2014/15 for approval. The 2014/15 Plan will be presented to the June 2014 Audit Committee.
- 3.2 The Chief Financial Officer (CFO) statutory responsibilities under s 151 of the Local Government Act 1972 and other associated legislation.

This includes the Accounts and Audit (England) Regulations 2011 which states as follows:

Internal audit

6. A relevant body 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.

- 3.3 The Internal Audit standard setters for local government are CIPFA and from the 1st April 2013 the Public Sector Internal Audit Standards replaced the existing Code of Practice. The team has undertaken a detailed review of operations against the requirements of the Standard and identified some actions to ensure compliance. The Standards set out that the results of any such reviews are reported to the Audit Committee. Therefore attached as Appendix B is the action plan to achieve compliance.

4 PREVIOUS MINUTES

Audit Committee 28th March 2013 (2013/14 Internal Audit Plan and Charter and Information Governance Work Programme 2013/14)

5 INFORMATION

- 5.1 Internal Audit has a statutory obligation under legislation outlined in paragraph 3.2 above and is required under these regulations to follow proper practice – the Public Sector Internal Audit Standards (PSAIS) and the CIPFA Local Government Application Note.
- 5.2 As outlined in paragraph 3.3 the Public Sector Internal Audit Standards require the Council to have an Internal Audit Charter. The first Charter for 2013/14 was approved by the Audit Committee in March 2013 but the more detailed review of the requirements of the Standards and Application note identified further minor changes to the Charter. A revised draft is attached as Appendix A.
- 5.3 Also as outlined in paragraph 3.3 the team has undertaken a detailed review of operations against the Standards and Application Note. The outstanding actions are attached as Appendix B. Members will see that some will be completed by the end of the financial year but others have future implementation dates. The External Auditor will review compliance against the Standards in order to inform their opinion as to whether they place assurance and rely on the work of the team as part of their audit.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equalities	During audit work any equality issues identified are reported to the appropriate level of management. The Charter recognises the Council's obligations under Equalities legislation and internal policies and how Internal Audit will meet them. The PSIAS and Application Note support the equalities agenda.
Environmental or Sustainability Impact	During audit work any environmental or sustainability issues identified are reported to the appropriate level of management.
Legal Implications	The legal implications are contained within the main body of this report. The Council is under a statutory obligation to follow proper practices in regard to revenue accounts and accounting for capital expenditure. The Secretary of State, in addition to the statutory requirements, has the power to specify particular guidance from bodies such as CIPFA which the authority must have regard to. Officers have prepared this report, including appendices, in consideration of the respective guidance.
Links with Council Priorities	Internal Audit work through the plan and charter supports all services in the delivery of the Council's priorities.
Financial Implications	The Internal Audit Service operates and delivers their plan, charter and compliance with the Standards from within existing budgets.
Opportunities and Risks	The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (reducing risks) and therefore the delivery of services and the achievement of objectives. The Audit Plan will be flexible in order to reflect the changing risks and priorities of the Council and will have an ongoing dialogue with stakeholders.
Ward Implications	Internal audit work covers all wards within the Borough.

7 BACKGROUND PAPERS

Internal Audit Charter 2013/14

Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013

CIPFA Local Government Application Note - April 2013

Internal Audit Charter – 1st April 2014 – 31st March 2015**1. Introduction**

- 1.1 This charter defines for the Council and the community internal audit activity's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)¹ and the Council.
- 1.2 This charter will be approved by the Audit Committee, after consultation with senior management² and will be reviewed annually.

2. Internal Audit Purpose and Responsibilities**2.1 Internal Audit Purpose**

- 2.1.1 The Audit & Information Governance (IG) Team of which Internal Audit is a part is led by the Audit and IG Manager³. The team supports the Co-operative Council in the delivery of services to the community to help to improve their quality of life and the promotion of Telford & Wrekin as a place of partnership, enterprise and innovation. The team supports the whole Council to deliver economic, efficient and effective services⁴ and achieve the Council's vision, priorities and values.

2.2 Internal Audit Objectives

- 2.2.1 To review the effectiveness of the governance, risk management and control processes of the Council to aid improvement, provide a level of assurance and an opinion on them to the Council.
- 2.2.2 To provide a respected, cost effective and quality internal audit service including the provision of advice and guidance to assist our customers to meet their objectives and improve their services, including the rationalisation of controls, where appropriate.
- 2.2.3 To deliver activity whilst meeting the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Definition of Internal Auditing and the Code of Ethics (see ANNEX I).
- 2.2.4 To work with the external auditor and other review bodies to provide the most effective internal audit service.
- 2.2.5 To value and continuously develop the team.

2.3 Internal Audit Responsibilities

- 2.3.1 To undertake the statutory Section 151 audit for the Chief Financial Officer (CFO), in line with the Accounts and Audit (England) Regulations 2011.
- 2.3.2 To deliver the Council's annual audit plan taking into account the Accounts and Audit (England) Regulations 2011, the management of risk, senior management consultations, comments from the Audit Committee and any requirements of the External Auditor. The plan is regularly reviewed and amended, if required. Any significant changes are reported to senior management and the Audit Committee.
- 2.3.3 To ensure that there are sufficient resources to deliver the statutory requirements and plan above and to report any potential concerns to the CFO and Audit Committee.

¹ PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practice by CIPFA the Internal Audit standard setters for Local Government.

² Senior management is the Senior Management Team comprising the following officers - Managing Director, Directors and Assistant Directors.

³ The Audit & IG Manager is the Council's Chief Audit Executive as defined in the PSIAS.

⁴ By providing advice and guidance on the management of risks, controls and governance processes in service delivery and by supporting service reviews, restructures and reducing bureaucracy

- 2.3.4 To operate as an independent, objective assurance and consulting function designed to add value and improve the effectiveness of the governance, risk management and control processes of the Council.
- 2.3.5 To appropriately manage any potential conflicts of interest in the delivery of internal audit activities and non-audit activities and to periodically rotate the annual audit work between staff.
- 2.3.6 To provide clear and concise internal audit reports to support management in implementing recommendations to improve services and risk management, control and governance processes.
- 2.3.7 To provide responsive, challenging and informative advice and support on risk management, controls and governance to management.
- 2.3.8 To report to the Audit Committee⁵ as defined in their terms of reference.
- 2.3.9 To develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity.
- 2.3.10 To conduct at least once every 5 years an external assessment of internal audit by an appropriate person⁶ from outside the Council. The timing, form of the assessment and the results will be agreed with and reported to the Audit Committee.
- 2.3.11 To investigate all employee cases of suspected financial irregularity, fraud or corruption, except Benefit fraud investigations, in accordance with agreed procedures.
- 2.1.12 To provide appropriate assurances to relevant parties external to the Council.

2.4 Internal Audit Authority

- 2.4.1 The Audit & IG Service Delivery Manager is the Council's Chief Audit Executive as defined in the PSIAS.
- 2.4.2 The Audit & IG Service Delivery Manager is line managed by the Council's Chief Financial Officer but has unfettered access to the Managing Director and all Senior Managers within the Council.
- 2.4.3 The Audit & IG Service Delivery Manager reports to the Audit Committee but also has unfettered access to Cabinet Executives, the Chair of the Audit Committee and the External Auditor.
- 2.4.4 In order for internal audit officers to be independent and objective whilst undertaking Internal Audit activity they have the authority to:
- enter at all reasonable times any Council premises or land;
 - have access to all Council and partner records⁷, documentation and correspondence relating to any financial and/or other transactions or other business of the Council, its employees or members, as considered necessary by the CFO, Monitoring Officer or Audit & IG Manager;
 - have access to records belonging to third parties such as contractors or partners when required;
 - require and receive such explanations as are regarded necessary concerning any matter under examination from any employee, member, partner or third party; and
 - require any employee or member of the Council or any partner/third party to account for cash, stores or any other Council property which is under his/her control or possession on behalf of the Council.

⁵ The Audit Committee is the Board as defined in the Public Sector Internal Audit Standards

⁶ Qualified, independent assessor or assessment team

⁷ Records include business e-mail and internet records

2.5 How the Audit & IG Manager will form and evidence her opinion on the control environment to support the Annual Governance Statement.

- 2.5.1 The Audit & IG Manager prepares an annual audit plan. Internal Audit planning is informed and influenced by the Council's vision, priorities and values, the requirements of the External Auditor, previous Internal Audit work, external networking intelligence, discussions with the CFO and consultations with the Council's service area management teams and senior management.
- 2.5.2 The audit plan outlines the work assignments to be carried out and the resources required. The plan is flexible in order to reflect the changing needs and priorities of the organisation. Work is carried out by the audit team in accordance with the Standards using a risk based audit methodology and each internal audit report provides an opinion on the area reviewed.

2.6 How Internal Audits work will identify and address significant local and national issues and risks

- 2.6.1 The Audit & IG Manager is line managed by the CFO and has quarterly meetings with the Managing Director. Senior Audit staff meet with Assistant Directors and their management teams as required to identify any local and national issues and risks, changes in the service area, and any new areas that require input from Internal Audit.
- 2.6.2 Employees within Internal Audit have access to the CIPFA Audit Panel, West Midlands Internal Audit Group (including Fraud, Contract and Education sub-groups) and other CPD/networking events through CIPFA and the IIA. These support continued professional development and help to identify any issues that may affect the delivery of internal audit services.

2.7 Internal Audit Resources

- 2.7.1 For 2014/15 the Internal Audit team has a resource of 4.55 full time equivalent (fte) employed staff plus at least 50% of the Audit & IG Manager. In addition there is an external contract⁸ which will deliver between 50 and 60 days of specialist IT audit work.
- 2.7.2 The budget for Internal Audit⁹ is approved by the Council as part of the annual service and financial planning strategy following consideration by senior management, scrutiny and the Cabinet.

2.8 Internal Audit and the Audit Committee

2.8.1 Internal Audit will report to the Audit Committee on the following:

- a) Approval of the Internal Audit Charter;
- b) Approval of the risk based Internal Audit Plan;
- c) Quarterly update reports on internal audit activity and performance against the plan;
- d) An Annual report containing an opinion to inform the Annual Governance Statement; and
- e) Any concerns in respect to Internal Audit resources and the level of assurance that can be provided.

⁸ This has been procured through a framework agreement with Staffordshire County Council, Shropshire Council and Worcestershire County Council for the provision of general and specialist IT audit work.

⁹ Including the remuneration of the Audit & IG Manager.

Public Sector Internal Audit Standards

The definition of Internal Auditing within the Standards is:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Code of Ethics - Summary

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

There are 4 principles in the code of ethics:

- 1) Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- 2) Objectivity – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- 3) Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- 4) Competency – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.¹⁰

¹⁰ Information can be found at www.public-standards.gov.uk

PSIAS Action Plan – November 2013

Page	Standard	Action	Officer Responsible	Timescale	Checked
P.10	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	Richard Partington to have input in to Jenny Marriott's PPD in December 2013 and then on-going	Jenny Marriott / Richard Partington	Dec 13 and annually thereafter	
P.10	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?	Chair of the AC to have input in to Jenny Marriott's PPD in December 2013 and then on-going	Jenny Marriott / Chair of the AC	Dec 13 and annually thereafter	
P.11	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	IT Auditor to carry out review of Information Governance and associated activities over a 3 year period and Ken Clarke to oversee	Jenny Marriott	2014 / 15 Audit Plan	
P.12	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	Update Charter section 2.3.5	Jenny Marriott	31 January 2014	
P.16	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	Formalise and document process	Jenny Marriott	31 January 2014	
P.17	Periodic assessments for evaluating conformance with the PSIAS?	Review annually	Wesley France	31 st March 2014	
P.18	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	To determine arrangements for external assessment	Jenny Marriott	31 st March 2015	
P.20	The results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.	Include in annual report to Audit Committee	Jenny Marriott	Follows on from above	

Page	Standard	Action	Officer Responsible	Timescale	Checked
P.21	Has the CAE reported any instances of non-conformance with the PSIAS to the board?	Include in annual report to Audit Committee 2013/14	Jenny Marriott	June 2014	
P.22	Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of: b) How the internal audit service will be developed in accordance with the internal audit charter? c) How the internal audit service links to organisational objectives and priorities?	b) 2014/15 plan will be updated – included in covering report to the plan c) Need to include this detail in the audit plan update 13/14 and include from 14/15 plan onwards	Wesley France	b) April 2014 C) November 2013	
P.30	Has the internal audit activity evaluated the effectiveness of the organisation’s ethics-related objectives, programmes and activities?	JM to talk to CFO and MD to see where we can add value and understand what is required Look to review AGS programme	Jenny Marriott /	End of Dec 2013 End of March 2014	
P.31	Has the internal audit activity evaluated the effectiveness of the organisation’s risk management processes by determining that: a) Organisational objectives support and align with the organisation’s mission ? b) Significant risks are identified and assessed ? c) Appropriate risk responses are selected that align risks with the organisation’s risk appetite? d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities ?	JM to discuss with Ken Clarke	Jenny Marriott	End of December 2013	

Page	Standard	Action	Officer Responsible	Timescale	Checked
P.32	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	Undertake red book checklist – previously covered by Mary?	Wesley France	31 March 2014	
Various	Consulting arrangements – many sections of the PSIAS checklist	Need to formalise how Internal Audit would handle a consulting requirement. i.e. setting scope, objectives, responsibilities etc Draft flow chart process for consulting	Wesley France	End of December 2013	
P.43	Has the CAE developed and implemented retention requirements for all types of engagement records?	Internal Audit to cleanse files to ensure they are not held longer than necessary	Team	End of December 2013 and then annually	
P.48	Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control?	To be included in 13/14 opinion	Jenny Marriott	June 2014	
P.49-50	Does the annual report incorporate the following: g) A statement on conformance with the PSIAS? h) The results of the QAIP? i) Progress against any improvement plans resulting from the QAIP?	To be included in 13/14 annual report	Jenny Marriott	g) June 2014 h) June 2014 i) June 2014	