

**Telford & Wrekin**  
**C O U N C I L**

Addenbrooke House, Ironmasters Way, TELFORD, TF3 4NT

# **AUDIT COMMITTEE**

**Tuesday 27<sup>th</sup> January 2015**

**at 6.00 p.m.**

**Meeting Room G3, Ground Floor, Addenbrooke House, Ironmasters Way, Telford TF3 4NT**

**Lead Officers:**

**Assistant Director: Law  
Democracy & People  
Services**

**Jonathan Eatough  
(01952) 383200**

**Assistant Director:  
Finance, Audit &  
Information Governance**

**Ken Clarke  
(01952) 383100**

**Democratic  
Services Officer**

**Jayne Clarke**

**(01952) 383205**

**Media Enquiries**

**Nigel Newman**

**(01952) 382403**

## AUDIT COMMITTEE

<b>Membership:</b>		
<b>Cllr R J Sloan – Chair</b>	<b>(Lab)</b>	
Cllr K Austin – Vice-Chair	(Lab)	
Cllr I T W Fletcher	(Con)	
Cllr A Lawrence	(Con)	
Cllr C Mason	(Lab)	
Cllr S A W Reynolds	(Lab)	
Cllr W L Tomlinson	(Lib Dem/I)	

### Terms of Reference

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

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

#### **Internal Audit**

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

#### **External Audit**

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

#### **Governance**

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

## **Treasury Management**

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

## **Statement of Accounts**

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

## **Fraud & Corruption**

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

## **Complaints**

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

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

## **General**

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

The Audit Committee comprises 7 Councillors and has the option to co-opt one or more non voting independent members. A copy of the Agenda and papers are available from the Civic Offices, electronically upon request or by visiting the Borough's Web Site at [www.telford.gov.uk](http://www.telford.gov.uk)

## **Emergency Evacuation Procedure**

**On hearing the fire alarm, please evacuate the building as quickly as possible by the nearest Fire Exit. The Democratic Services Officer will direct you to the assembly point on the car park.**



# Telford & Wrekin

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## C O U N C I L

### AUDIT COMMITTEE

### AGENDA

**Meeting to be held on Tuesday 27<sup>th</sup> January 2015  
at 6.00 p.m. in Meeting Room G3, Ground Floor,  
Addenbrooke House, Ironmasters Way, Telford TF3 4NT**

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|--|-------------------|
| 1. <b>Minutes</b><br>To approve the minutes of the meeting of the Audit Committee held on 16 <sup>th</sup> September 2014.   | <b>Appendix A</b> |
| 2. <b>Apologies for Absence</b>  |                   |
| 3. <b>Declarations of Interest</b>   |                   |
| 4. <b>KPMG Annual Audit Letter 2013/14</b><br>To receive a report from KPMG  | <b>Appendix B</b> |
| 5. <b>Grants Report 2013/14</b><br>To receive a report from KPMG   | <b>Appendix C</b> |
| 6. <b>External Audit Plan 2014/15</b><br>To receive a report from KPMG   | <b>Appendix D</b> |
| 7. <b>Financial Controls Review</b><br>To receive a joint report from Director of Care, Health & Wellbeing, Assistant Director: Adult Social Services and Assistant Director: Family, Cohesion & Commissioning | <b>Appendix E</b> |

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| <p><b>8. 2015/16 Strategy and Treasury Update Report</b><br/>To receive a joint report from Assistant Director:<br/>Finance, Audit &amp; Information Governance; Finance<br/>Manager - Corporate Finance &amp; Customer Services and<br/>Finance Team Leader.</p> | <p><b>Appendix F</b></p> |
| <p><b>9. Internal Audit Update Quarters Two and Three<br/>2014/15 and update of the Internal Audit Charter for<br/>2015/16</b><br/>To receive a report of the Audit and Information<br/>Governance Manager</p>  | <p><b>Appendix G</b></p> |
| <p><b>10. Update on the Annual Governance Statement<br/>2013/14 Action Plan</b><br/>To receive a report of the Audit and Information<br/>Governance Manager</p>   | <p><b>Appendix H</b></p> |

**FOR INFORMATION ONLY**

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| <p><b>11. Audit Commission/KPMG Fraud Report 2013/14</b></p> | <p><b>Appendix I</b></p> |
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## **AUDIT COMMITTEE**

### **Minutes of a meeting of the Audit Committee held on Tuesday, 16<sup>th</sup> September 2014 at 6.00 pm in Meeting Room 7, Ground Floor, Darby House, Telford**

**PRESENT:** Councillors R Sloan (Chair), K Austin, C Mason, S A W Reynolds,  
W L Tomlinson

**Officers:** R Partington (Managing Director), K Clarke (Assistant Director: Finance, Audit & Information Governance), A Astley (Assistant Director: Customer Services), J Marriott (Audit & Information Governance Manager), P Harris (Finance Manager), B Morris (Finance Team Leader), J Power (Delivery & Planning Manager), L Higgins (Benefit Service Delivery Manager) and J Clarke (Democratic Services Support Officer).

#### **IN ATTENDANCE:**

A Bunting – KPMG  
I Pennington – KPMG

The Chair paid tribute to the late Cllr D Davies who had been the first Chair of the Audit Committee following the change in Administration and for all of his hard work which had set the Audit Committee on a good course.

#### **AUC-17      MINUTES**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on 30<sup>th</sup> June 2014 be confirmed and signed by the Chairman.

#### **AUC-18      APOLOGIES FOR ABSENCE**

Cllr I T W Fletcher

#### **AUC-19      DECLARATIONS OF INTEREST**

None

#### **AUC-20      REPORT TO THOSE CHARGED WITH GOVERNANCE 2013/14**

I Pennington gave a brief overview of the current position regarding the Council's accounts.

The accounts were almost complete with some minor tidying up work to be undertaken. They were a weighty document and there had been a huge effort on the part of the Finance Team during the detailed process and with all the necessary disclosures. I Pennington thanked the Finance Team for their hard work and support which he had found very useful being a reasonably new Member to the KPMG Telford Team.

No major adjustments or discrepancies had been found and all the basic numbers were agreed.

It was hoped that once Members had considered both the report and the accounts that the relevant paperwork would be signed off by the Chair during the meeting. KPMG would anticipate being able to issue an unqualified conclusion for both the audit and the Value For Money audit.

KPMG would be unable to issue a Certificate of Completion at present due to two outstanding items:

- Completion of the Whole of Government Accounts
- A question from a Member of the Public

These items were currently being dealt with and once they had been completed the audit would be closed.

A question arose regarding the deadline for issuing the Certificate of Completion and it was confirmed that this did not affect the signing of the Opinion

A Bunting gave a brief overview of the risks identified in respect to the audit which had been identified in the planning of the audit and reported to the Audit Committee in January 2014.

KPMG were happy in principle that the Council were complying with the Code on the changes in policies with regard to borrowing costs and the Minimum Revenue Provision (MRP). This had now been closed off.

With regard to the Local Government Pension Scheme (LGPS), this was a complex issue and KPMG had worked with the Pension Scheme, the Actuary and with the Council and this had now been closed off.

The Value For Money risks had looked at the Council's saving plans and had noted that the plan was in place, it was regularly monitored and it was being delivered. However, the challenges would be ongoing and this would roll on.

KPMG had looked at new projects and contracts in respect of income generation and had also reviewed the feasibility studies of two projects:

- Solar Farm
- New Homes Project

KPMG were satisfied that the costs had come in on budget at present but they had not considered any profits that may be made.

Regarding key risks, there had been a consistent improvement year on year with the quality of the accounts and working papers. There was one area, however, which could be improved being in relation to debtor and creditor working papers. This mainly involved the generation of reports and the Finance Team were continuing to work with KPMG to find a solution that more closely met the audit testing requirements. This would then improve the efficiency of the 2014/15 audit.

A question was raised regarding the determination, validity and expenses incurred with regard to the public questions and how it would be shown on the accounts. This would be dealt with by a separate letter to the elector and would be copied to all members the Audit Committee.

A discussion took place including:

- Single Status
  - Equality
  - Strategic Risk Register
  - Timeline
  - Working with Trade Unions
  - Restructuring

## **AUC-21      ANNUAL STATEMENT OF ACCOUNTS**

P Harris presented the Statement of Accounts 2013/14 which informed members of the outcome of the Audit.

Members of the Audit Committee had attended at a training session on the Accounts prior to the Committee Meeting.

It was proposed that the 106 page document, together with a three page summary would be produced. This would be in a more understandable format and, as per the accounting regulations, these documents would be published on the Council's website, together with the Certified Draft Statement, for public inspection.

The Audit Committee had been granted delegated authority to approve the accounts. There had been no financial adjustments this year although the report needed some presentational changes.

The Audit had gone well and there was a good working relationship between KPMG and the Council.

Members congratulated the work which had been undertaken which was a testament to the staff. It was requested that the Managing Director send a form of thank you to all relevant members of staff for their hard work.

### **RESOLVED – that**

- a) the 2013/14 Statement of Accounts be approved;
- b) delegated authority be granted to the Assistant Director Finance, Audit & Information Governance to make any presentational changes required to the Statement of Accounts prior to publication; and
- c) the updated (for presentational changes) Annual Governance Statement be approved.

## **AUC-22      AUDIT COMMISSION FRAUD SURVEY RESULTS 2013**

A Bunting presented a report on Protecting the Public Purse Fraud Briefing.

This was a survey that had been undertaken by the Audit Commission and the data related to 2012/13.

The national picture captured at that time showed that there were 107,000 total cases detected with a value of £178m (excluding social housing fraud).

This report showed that Telford and Wrekin Council came in at the lower end of the benchmark for cases of fraud being reported which was on the good side of the scale.

The fraud drivers were:

- Opportunity
- Rationalisation
- Pressure

The Council needed to ensure that they continued to have controls in place to prevent fraud as there would be further cuts.

A question was raised with regard to the amount of money the Council had recovered through fraud case. It was suggested that the figures were produced and circulated to members of the Committee.

L Higgins gave a response to the findings and tabled a presentation.

The Benefit Fraud Investigation Team had provided information for the report which used the DWP very narrow definition that fraud must be proved – “beyond reasonable doubt” to have been committed prior to inclusion in the figures.

If there was evidence to prove that a fraud had been beyond reasonable doubt the following action would take place:

- Legal action
- Sanction
- Caution

If the Council was to use a wider definition of fraud it would be able to include other significant amounts of savings or values that had been achieved. As an example, in addition to the 91 cases that had been reported to the Audit Commission, a further 95 cases had led to a reduction of benefit being paid.

With a much broader scope for anti-fraud prevention work this would mean significantly more work.

There had been many thousands of cases identified as a mistake or couldn't be proven to have been done on purpose. As these cases are identified the issues were recorded and loopholes closed, where possible, in order to prevent further cases.

The Council was pro-active with their work and from this year the Fraud Team would report all of the work that they undertook including that of single person discount, council tax support scheme and non-domestic rates.

A discussion took place on the gateway to claiming benefits which included:

- Face-to-face contacts
- Ease of process
- Customer service appointments
- Levels of security
- Annual benefits reviews

A Astley discussed the Crisis Support Line which had been set up. The Team asked claimants probing questions to ascertain if there was a genuine level of need and if it could not be proved that it was an essential need then the claim was rejected and no money would be provided. The staff were very well trained and this had greatly reduced the support that had been given out

A Bunting had recently been working within the Benefits Team and had seen evidence of the staff asking questions and challenging the claimants.

L Higgins explained to the Audit Committee that from June 2015 the DWP would be taking over the Housing Benefit Fraud work which meant that any investigations would only be done by the DWP. The Council's Fraud Team were concerned that currently the Council Tax fraud and Housing Benefits fraud work was undertaken as a joint exercise and that the DWP would not be investigating Council Tax fraud and that the direct link may be lost.

A Astley reported to the Audit Committee that she would be putting forward a business case for the Council to retain some fraud functionality as an invest to save venture in order to keep the level of expertise in the Council and to reduce any risk to the Council in respect to Council Tax fraud. It was hoped that subject to the business case that the current staff may be retained.

#### **AUC-23      CORPORATE ANTI-FRAUD & CORRUPTION POLICY 2013/14 ANNUAL REPORT AND POLICY UPDATE**

J Marriott presented a report on the Council Corporate Anti-Fraud & Corruption Policy and the annual report for 2013/14.

The report contained information from 2013/14 on counter fraud and investigation activities within benefits, Internal Audit and Trading Standards which also included Licensing. The Council's procedures and controls have been designed to minimise any opportunity for fraud to take place and to highlight, where possible, any fraudulent activity that may have occurred. Other areas of fraud had been highlighted by referrals, data matching and overpayments detected. The overpayments that had been detected during the sanction cases in 2013/14 had amounted to £311,244.

A proactive amount of work was undertaken by the staff to prevent cases of fraud and the Council has a statutory responsibility to provide data to the Audit Commission for the prevention and detection of fraud. A full National Fraud Investigation exercise was due to commence from October 2014.

The Council ensure that both Members and Officers are made aware of their responsibilities in respect of the Council's Anti-Fraud and Corruption Policy. All new staff within Revenues and Benefits received Fraud and Awareness Training from the Corporate Training Team and ongoing training was provided to existing staff. During 2013/14 286 fraud referrals came from members of staff.

The Trading Standard and Licensing Services played a significant role in the Council's statutory responsibilities to business related fraud. This helped to improve the local situation of residents. Regional initiatives were also undertaken.

One of the main challenges for 2014/15 would be the reduction in control and supervision of the fraud cases being investigated by the DWP.

The Anti-Fraud and Corruption Policy was reviewed in 2013 and the Committee agreed that the Policy would be reviewed annually to coincide with the annual report. The suggested amendments to the Policy could be found at Appendix B to the report and highlighted minimal changes to policy to reflect organisational changes and to ensure consistency with the Constitution.

A discussion took place including:

- Loan sharks and legal loan sharks
- Referrals

**RESOLVED** - that

- a) the 2013/14 Annual Report on Corporate Anti-Fraud and Corruption Activity be noted;**
- b) the updated Policy be agreed; and**
- c) the updated Policy be recommended for adoption by the Council.**

**AUC-24      CUSTOMER FEEDBACK PERFORMANCE 1<sup>ST</sup> APRIL 2013 TO 31<sup>ST</sup> MARCH 2014**

A Astley presented the Customer Feedback Performance report from 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014.

The key points were:

- 17% increase in compliments
- 9% reduction in complaints

This was against a backdrop of £53m in savings.

There had been a significant reduction in the number of complaints partly or fully upheld which had reduced from 66% in the previous year to 54% during the reporting period.

The highest level of complaints had been received by:

- Neighbourhood & Leisure Services
- Customer Services

Appendix A to the report listed the top 10 areas of complaints that were investigated at Stage 1. The top two areas were Refuse and Kerbside with 283 complaints and Council Tax & Benefits with 195 complaints.

The majority of the complaints received by Council Tax Benefits coincided with the going live of the new welfare reforms and high numbers of the complaints were not upheld.

A Astley suggested that she circulate the full report to the members of the Audit Committee.

The Audit Committee were pleased to note that 87% of the Stage 1 complaints were responded to within 15 working days against a target of 83%.

Adults & Children's Statutory Complaints differed to that of corporate complaints with their response to complaints being

- Adults – 42 days
- Children – 17 days

This area needed to improve and the figures were currently being monitored on a 2 weekly basis. Copies of the reports were circulated to the Senior Management Team and to the Assistant Directors.

MP enquiries over the reporting period had been received as follows:

- David Wright - 152
- Mark Pritchard - 35
- Others - 13

Of the enquiries received by 31<sup>st</sup> March 2014 the Council had responded to 67% within the target of 10 working days and 82% within 15 working days. It was hoped that these figures could be improved.

There had been a considerable drop in Parish enquiries from 1,538 to 752 during the reporting period. Parish Environmental Teams (PET) had been placed in the local areas and this seemed to be a success.

Freedom of Information requests had increased by 25% and 1076 had been received during 2013/14. Requests responded to within the 20 working days was 95%.

There had been no cases of maladministration reported to the Ombudsman during 2013/14.

A discussion took place including:

- PETs
- Quarterly monitoring to prevent a drop in performance
- Refuse & Kerbside complaints
- Report It App

It was suggested that A Astley produce statistics regarding the use of the Report It App and it was also requested that Members use the app as much as possible to highlight areas of concern in their ward areas.

## **AUC-25      REVIEW OF THE STRATEGIC RISK REGISTER – JUNE 2014**

J Power presented a report on the review of the Strategic Risk Register which was undertaken in June 2014.

The Council needed to keep the Strategic Risk Register under constant review in order to reflect the changes affecting the Council, its risks and the effectiveness of the controls implemented to manage these risks. The risks were designed to be clear and strategic in nature.

The Register included:

- Governance Framework
- Business Continuity Plans
- Budget Strategy
- Information Governance Strategy

The Council had been extremely driven in responding to reductions in the Government's Grant and land slippage within the Gorge.

The Register gave details of actions and controls in place to manage the risks identified and the Lead Director.

The risks within the Strategic Risk Register were not prioritised but were strategic in focus. The Register was a live document and would be taken back before Cabinet in October 2014.

There were some existing strategic risks being managed through appropriate significant projects ie Single Status. Others were listed at the end of the report.

A discussion took place including:

- Housing Investment Programme
- Better Care Fund
- Safeguarding of Children and Adults
- Licensing of Taxis

**RESOLVED – that the Strategic Risk Register be noted.**

**AUC-26      PUBLICATION OF INFORMATION ON COUNCILLORS WHO TRADED WITH THE COUNCIL DURING 2013/14**

The Audit & Information Governance Manager presented a report on the publication of information on Councillors who traded with the Council during 2013/14.

The information was collected as part of the 2013/14 final accounts process and this report represented information for 2013/14.

The Information would be reported to Council following the Audit Committee meeting.

**RESOLVED – that**

- a) the Audit Committee note that the report would be published on the Council's website; and**
- b) the report be noted.**

**AUC-27      AUDIT COMMITTEE ANNUAL REPORT 2013/14**

J Marriott presented the Annual Report on the work of the Audit Committee which included the Council's governance and assurance arrangements. This included work on:

- raising awareness on good governance (including risk management)

- demonstrating the objectivity and fairness of financial and other reporting
- reinforcing the importance and independence of the internal and external audit
- providing additional assurance through a process of independent and objective reviews by a cross-party group of elected Members who could and did challenge Cabinet Members and Senior Officers

A summary of the business conducted by the Committee during the reporting period could be found at Appendix A to the report.

There had been a reduction in numbers of meetings of the Audit Committee to 3 per year as part of the Council's continuing wider savings and efficiency programme. This did not appear to have affected the effectiveness of the Committee but had resulted in comprehensive agendas. There was the opportunity to call additional meetings if Members required them between the scheduled meetings in June, September and January.

A discussion took place including:

- Risk Register
- Effective Audit Team
- Cuts
- Encourage Staff to ask for help

**RESOLVED – that the Annual Report 2013/14 be noted.**

**AUC-28      INTERNAL AUDIT UPDATE QUARTER ONE 2014/15 AND PUBLIC SECTOR  
INTERNAL AUDIT STANDARDS INFORMATION GOVERNANCE UPDATE  
AND INFORMATION GOVERNANCE FRAMEWORK**

J Marriott presented the Internal Audit Quarter One report together with the Internal Audit Standards update and the Information Governance Framework.

The report updated Members on the work of Internal Audit during April-June 2014 and the implementation of the Public Sector Internal Audit Standards (PSIAS) Action Plan. The report also provided information on the work of Information Governance (IG) and the Council's Information Governance Framework.

The new structure within Audit and Information Governance (IG) Team had become effective on 1<sup>st</sup> April 2014. There was still currently one vacancy despite two external adverts to recruit a fixed term Auditor post until 2016. The Team were currently looking at options including the use of the framework contract.

The Internal Audit Team had been able to provide Madeley Town Council with an Internal Audit Service at short notice and had now secured this additional work for the next 3 years (2014/15 – 2016/17) which had in turn generated additional income.

The following appendices were attached to the Report:

- Appendix A – List of final report issued in quarter one together with grading
- Appendix B – List of all work undertaken for quarter one for a period of 1 day or more
- Appendix C – Previous graded reports January 2012-March 2014 with their current status

- Appendix D – Summary of the amber reports issued in quarter one

There were 13 reports issued in quarter one. All areas were below their budgeted amount of time, this mainly being due to well-prepared schools.

There were 4 Amber reports issued during quarter one and management actions to implement the recommendations had been agreed and Internal Audit had planned follow up work or this was already in progress. Internal Audit were confident that management would implement the remaining recommendations to provide the appropriate assurance to improve the grading.

Three areas had required the service of Internal Audit over 10 days and these were:

- Advice and Consultancy
- Adult Social Care – Financial Process Review
- Shared Lives - (now transferred to A Astley's area)

J Marriott highlighted the amber reports which remained amber being:

- Abacus System & Concerns – back to Audit Committee January 2015
- Transport Post Implementation Review – slow progress on follow up due to supplier issues
- Moorfield School – had now moved from Red to Amber. There was a new Headteacher in place and it was expected that there would be further progress.

Follow ups were in progress.

Attached at Appendix E to the report was the updated position of the PSIAS Action Plan. The Quality Assurance and Improvement Programme (QAIP) had been delayed slightly due to the restructure and work for the ASS. There was now a new deadline of 31 October 2014. Action 13 on Appendix E had been transferred to the Team Leader due to staff vacancies.

In respect of Information Governance, there had been 399 Freedom of Information requests between April and July. There had been an 89% response rate within the 20 working days against the benchmark of 80%. There had been 22 Subject Access Requests and 100% had been responded to within the 40 calendar day deadline. Responses had been provided together with additional information where required. There had been one complaint to the ICO which had been a premature complaint and one that had been carried forward from the previous year.

There had not been any major data breaches during the reporting period and therefore no reports to the ICO. However, there had been 20 minor data breaches which were self-reported by officers and had resulted in further improvements to the Council's robust systems. Five formal complaints had been received but these had been resolved satisfactorily.

Appendix F to the report gave a picture of the Information Governance Framework and showed the IG Code of Practice that was in place. This had also been put on "Ollie" the Council's on-line learning tool to be shared by the staff.

A discussion took place including:

- MIS – concerns and contingency plans
- ICT – storage and deletion of e-mails

**RESOLVED – that**

- a) the Internal Audit Update for quarter one be noted;
- b) the progress on the implementation of the PSIAS action plan be noted;
- c) the work of the Information Governance Team from April-July 2014 be noted;  
and
- d) the Council's Information Governance Framework be noted.

**AUC-29      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-30      CAPITAL RECEIPTS UPDATE**

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

A schedule for disposal of assets had been drawn up covering 2014/15, 2015/16, 2016/17 and 2017/18. 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:

- Treasury Management
- Shaping Places land allocations
- Improving Market Conditions

The meeting ended at 7.48 p.m.

**Chairman:**

**Date:**



*cutting through complexity™*

# Annual Audit Letter 2013/14

Telford and Wrekin Council

October 2014



The contacts at KPMG in connection with this report are:

**Ian Pennington**

*Director*

KPMG LLP (UK)

Tel: +44 (0)292 046 8087

ian.pennington@kpmg.co.uk

**Adam Bunting**

*Manager*

Tel: +44 (0)121 232 3253

adam.bunting@kpmg.co.uk

**Sophie Whelan**

*Manager*

Tel: +44 (0)121 335 2306

sophie.whelan@kpmg.co.uk

## Report sections

- Headlines

## 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](http://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](mailto: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, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.

This report summarises the key findings from our 2013/14 audit of Telford and 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 2013/14 financial statements and the 2013/14 VFM conclusion.

VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2013/14 on 16 September 2014. 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 a number of significant risks to our VFM conclusion and considered the arrangements you have put in place to mitigate these.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> <li>■ Savings plan - the Authority reported an under-spend of £0.1m in 2013/14 as a result of successful delivery of its savings plans. Whilst there were some directorates which encountered overspends, these were offset by the identification of additional savings opportunities during the year. The positive outturn position has enabled the Authority to contribute £4.6m to reserves to support the 2014/15 budget strategy. The Authority has established savings plans for 2014/15 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. The Authority still faces significant financial challenges into the medium term; and</li> <li>■ Commercial projects - the Authority obtained Cabinet approval to undertake feasibility studies for two commercial projects. The first of these involves the development of new homes for the private rental market whilst the second relates to the proposal to develop a commercial-scale solar farm on Authority-owned land. The costs incurred by the Authority in 2013/14 - £1.0m (new homes) and £0.1m (solar farm) - were in line with values approved by Cabinet.</li> </ul>
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 16 September 2014. 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 are pleased to report that our audit of your financial statements did not identify any material adjustments. We identified a number of non-trivial adjustments of a presentational nature, and the Authority has adjusted these accordingly. There was no impact on the General Fund.</p> <p>One low priority recommendation was raised regarding the preparation of debtor and creditor working papers. This has been discussed with Management and an action plan agreed. We will formally follow up on this recommendation as part of our 2013/14 work.</p>
Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>



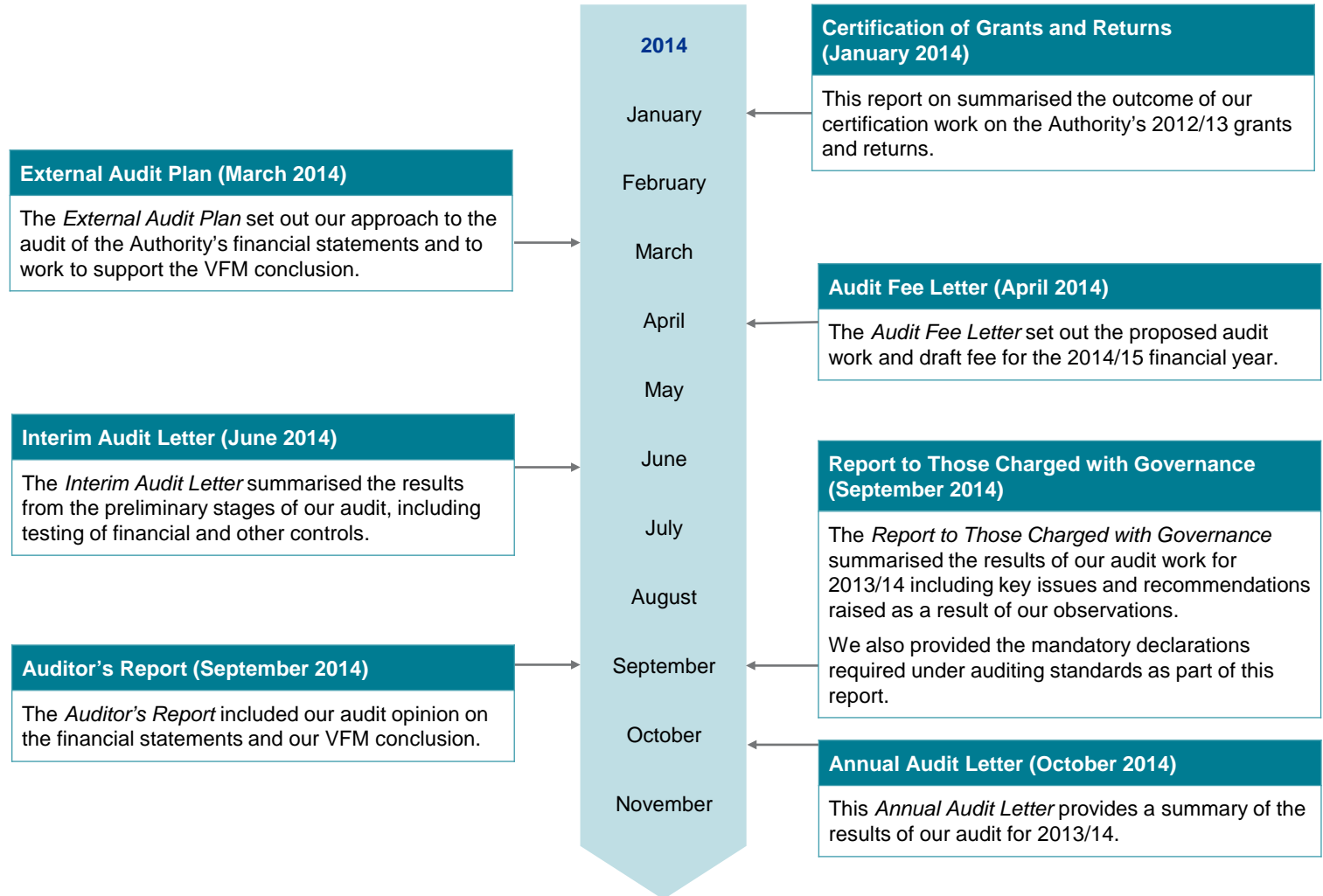
## Section one Headlines (continued)

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

<b>Whole of Government Accounts</b>	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements on 30 September 2014.
<b>Certificate</b>	We have received an elector query which we are currently considering. As a result we have not yet been able to issue our certificate for 2013/14.
<b>Audit fee</b>	<p>Our fee for the 2013/14 financial statements audit was £156,158, excluding VAT. This was £1,070 higher than the planned fee of £155,088. Further detail is contained in Appendix 2.</p> <p>Additional work has also been undertaken during the year as a result of an elector query relating to the development of the Newport area. This will be subject to an additional fee upon completion.</p> <p>The final determination of fees in relation to this additional work is subject to approval by the Audit Commission.</p>

## 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 2013/14.

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 2013/14 planned audit fee.

### External audit

Our final fee for the 2013/14 final statements audit was £156,158 (excluding VAT). This is £1,070 higher than the planned fee of £155,088. This reflects the additional work required on the Collection Fund as a result of the cessation of auditor certification of the NNDR3 return, which had previously provided evidence towards the financial statement audit.

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. Whilst our work relating to this is on-going, we are currently estimating a fee of £6,633.

The fees for the additional work referred to above is subject to final determination by the Audit Commission.

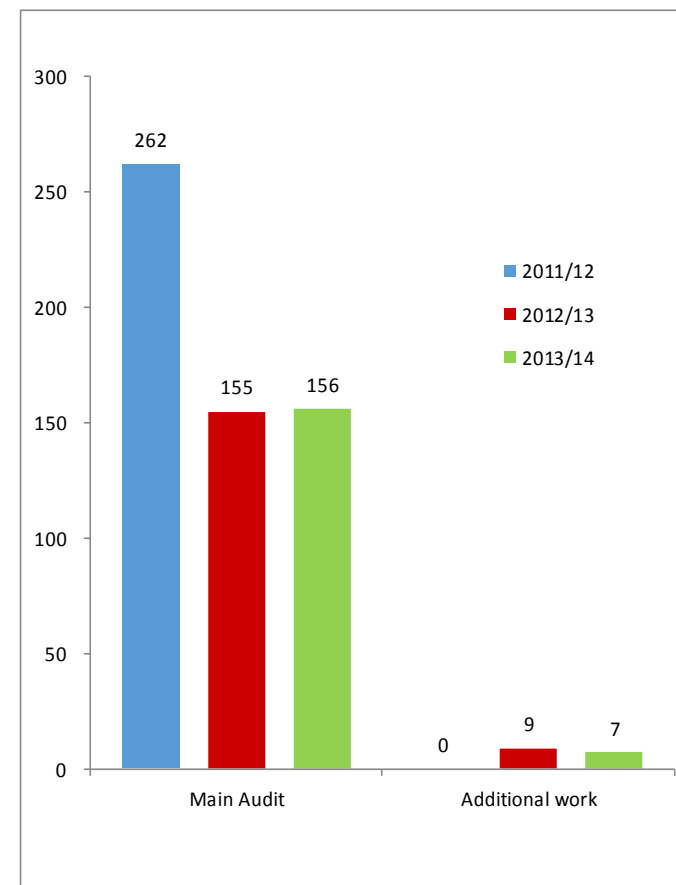
### Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2013/14* which we are due to issue in January 2015.

### Other services

We did not undertake any non-audit work for the Authority this year.

External audit fees 2013/14 (£'000)





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**KPMG LLP**  
**Audit**  
3 Assembly Square  
Britannia Quay  
Cardiff  
CF10 4PL  
United Kingdom

Tel +44 (0) 292 046 8087  
lan.pennington@kpmg.co.uk

a

Mr R Partington  
Managing Director  
Telford & Wrekin Council  
Addenbrooke House  
Ironmaster Way  
Telford Centre  
TF3 4NT

Our ref TWC/1314/CertLetter

15 January 2015

Dear Richard

### **Certification of claims and returns - annual report 2013/14**

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for the certification work we have undertaken for 2013/14.

In 2013/14 we carried out certification work on the Housing Benefit Subsidy Claim (BEN01) which had a certified value of £71,229,693.

### **Matters arising**

Our certification work did not identify any issues or errors with the claim, and we certified the claim unqualified without amendment.

Consequently we have made no recommendations to the Council to improve its claims completion process.

In our 2012/13 Certification Annual Report we raised one recommendation relating to the reconciliation of pension contribution bandings for the Teachers' Pension Return. This return is no longer subject to certification under the Audit Commission regime but we have carried out the work under different arrangements and confirm that the Council had dealt properly with the recommendation from 2012/13.

### **Certification work fees**

The Audit Commission set an indicative fee for our certification work on the BEN01 claim in 2013/14 of £12,319. Our actual fee was the same as the indicative fee, and this compares to the



2012/13 fee for this claim of £9,309. The increase from the prior year fee is in line with the scale fee determined by the Audit Commission.

Yours sincerely

A handwritten signature in black ink that reads 'Ian Pennington'.

Ian Pennington  
Director

cc: Ken Clarke (Assistant Director: Finance, Audit & Information Governance)  
Audit Committee

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# External Audit Plan 2014/15

Telford & Wrekin Council

January 2015



The contacts at KPMG in connection with this report are:



**Ian Pennington**

*Director*

KPMG LLP (UK)

Tel: +44 (0)292 046 8087

ian.pennington@kpmg.co.uk



**Adam Bunting**

*Assistant Manager*

KPMG LLP (UK)

Tel: +44 (0)121 232 3253

adam.bunting@kpmg.co.uk



**Elsa Conaty**

*Assistant Manager*

KPMG LLP (UK)

Tel: +44 (0)7876447150

elsa.conaty@kpmg.co.uk

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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 2014/15* presented to you in April 2014. 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 2014/15.

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 Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/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.

As stated above, the Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

### 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 audit and Value for Money arrangements Conclusion.
- 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 arrangements work and sets out our initial risk assessment for the VFM conclusion.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

### 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.

<b>Audit approach</b>	<p>Our overall audit approach remains similar to last year with no fundamental changes. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Assistant Director: Finance, Audit and Information Governance.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<b>Key financial statements audit risks</b>	<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"> <li>■ Group Accounting – as a result of the Authority’s commercial projects it is possible that a wholly owned subsidiary will have been established, and that transactions will have been entered into, in advance of 31 March 2015. This will create the need for the Authority to produce consolidated group accounts for the first time; and</li> <li>■ Recognition of Schools – recently issued guidance in relation to the accounting requirements relating to school assets (LAAP Bulletin 101) which requires that the Authority assess the control arrangements in relation to Voluntary Aided, Voluntary Controlled, and Foundation schools in order to determine whether the schools’ assets should be recognised on the Authority’s balance sheet.</li> </ul> <p>These matters are described in more detail on pages 12 to 13. We will assess these risk areas as part of our interim work and conclude this work at year end.</p>
<b>VFM audit approach</b>	<p>We have completed our initial risk assessment for the VFM conclusion and have identified the following significant risks at this stage:</p> <ul style="list-style-type: none"> <li>■ Savings Plans – The Authority’s savings programme for 2014/15 totals £17.2m with a significant further savings required in 2015/16 and future years. The current forecast indicates that the Council will deliver the required savings and achieve an underspend of £4.8m for the year ended 31 March 2015; and</li> <li>■ Commercial Projects – As part of the Authority’s response to the reduction in central government funding, investments have been made in a number of commercial projects that are designed to generate additional income. These schemes require significant initial investment from the Authority’s available funds, with returns being spread over a number of years.</li> </ul> <p>The risk assessment process is an on going process. If we identify any new VFM risks during this on going process we will communicate that to you. The risks identified are described in more detail on pages 18 to 19. We will assess these risk areas as part of our interim work and conclude this work at year end.</p>

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

**Audit team, deliverables, timeline and fees**

Elsa Conaty has replaced Sophie Whelan as Assistant Manager this year, but otherwise there are no significant changes to the audit team.

Our main year end audit is currently planned to commence on 6 July 2015. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*.

The planned fee for the 2014/15 financial statements audit is £156,158 which is the same as the fee charged in relation to the audit for 2013/14. This is an increase of £1,070 from the position set out in our Audit Fee Letter 2014/15 as a result of the additional work required in relation to the accounting entries for Non-Domestic Rates as a result of the related return being removed from the Audit Commission's certification regime.

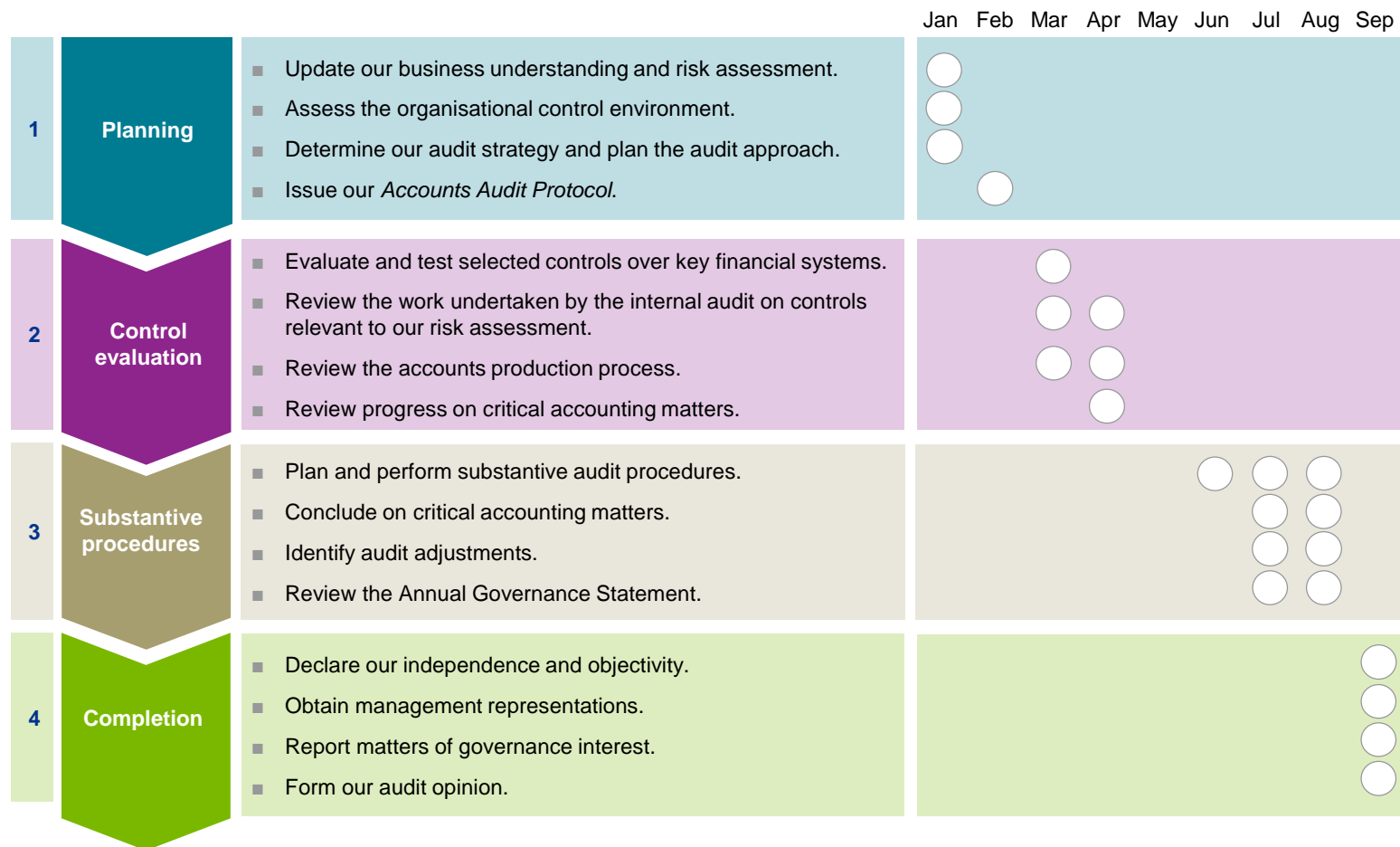
The certification fee for 2014/15 is £9,540 which is a reduction of £2,779 from the fee charged in 2013/14. This reduction reflects the Audit Commission's calculation of the applicable scale fee.

This results in a total fee of £165,698

We undertake our work on your financial statements in four key stages during 2015:

- **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 to February 2015 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.

Our planning work takes place in January and February 2015. This involves the following aspects:

Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue 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, including the risk of fraud 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 year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority 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 relevant 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 professional judgement and is set by the Engagement Lead.

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

Further details on our assessment of materiality is set out on page 6 of this document.

When we determine our audit strategy we set a monetary materiality level for planning purposes.

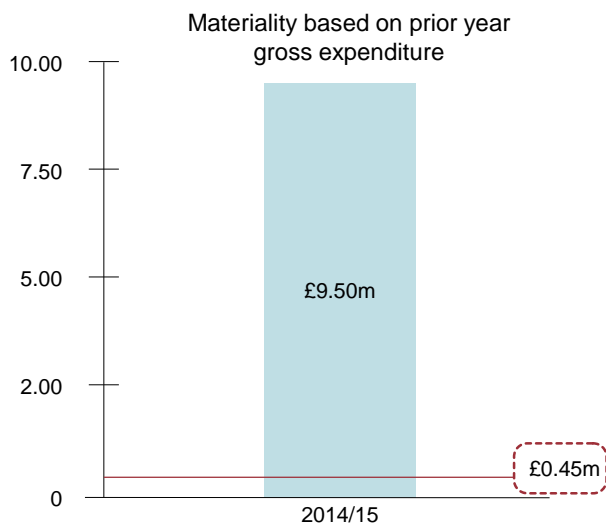
For 2014/15 we have set this at £9.5 million based on the prior year accounts adjusted for known budget movements.

We will report all audit differences over £0.45 million to the Audit Committee.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.



Materiality for planning purposes has been set at £9.50 million for the Authority's standalone accounts which equates to 2 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), 'Evaluation of misstatements identified during the audit', requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.45 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

**In the event that group accounts are required we will report on any significant matters arising from the audit of the subsidiary which we seek to rely on to support our audit of the Authority's group accounts.**

**We will issue our *Accounts audit protocol* following completion of our planning work.**

### **Group audit**

As referred to at page 3 of this report, there is the potential that the Authority will be required to produce group accounts for the year ended 31 March 2015. In the event that this is the case, we will liaise with key officers in order to confirm the audit arrangements and make the necessary preparations.

To support our audit work on the Authority's group accounts, we would seek to place reliance on the work of any firms who are appointed as the auditors to the subsidiary company. We would liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our *ISA 260 Report*:

- any deficiencies in the system of internal controls or instances of fraud which we or the subsidiary auditors identify;
- any limitations on the group audit, for example, where the our access to information may have been restricted; and
- any instances where our evaluation of the work a subsidiary auditor gives rise to concern about the quality of that auditor's work.

### **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 the Corporate Finance Team to discuss mutual learning points from the 2013/14 audit. These will be incorporated into our work plan for 2014/15. We revisit progress against areas identified for development as the audit progresses.

**During March to April 2015 we will complete our interim audit work.**

**We assess if controls over key financial systems were effective during 2014/15. We work with your internal audit team to avoid duplication.**

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

**We will report any significant findings arising from our work to the Audit Committee.**

Our on site interim visit will be completed during 23 March to 2 April 2015. 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 critical 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.

### Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Audit & Information Governance Service Delivery Manager to discuss the principles and timetables for the managed audit process for 2014/15.

Where we intend to rely on internal audit’s specific pieces 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 Audit & Information Governance SDM at the end of our interim visit.

### Accounts production process

We raised no significant recommendations in our *ISA 260 Report 2013/14* relating to the accounts production process.

We will still assess the Authority’s progress in preparing for the closedown and accounts preparation.

### Critical accounting matters

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 2015.

**During July to August 2015 we will be on site for our substantive work.**

**We complete detailed testing of accounts and disclosures and conclude on critical 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 2015.**

Our final accounts visit on site has been provisionally scheduled for the period 6 July 2015 to date 31 July 2015. During this time, we will complete the following work:

### Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical 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.

### Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Assistant Director: Finance, Audit & Information Governance in July 2015, prior to reporting to the Audit Committee in September 2015.

### 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 schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

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 part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

**In addition to the financial statements, we also review 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 pack 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 costs 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 20.

### 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 acting for full council.

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, 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 16 January 2015 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 or other key areas of audit focus of the Authority's financial statements for 2014/15.

For each key risk/significant risk area we have outlined the impact on our audit plan.


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.

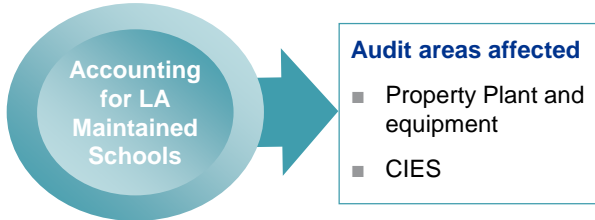
Appendix 3 covers more details on our assessment of fraud risk.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15.

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

Key audit risks	Impact on audit
	<p><b>Risk</b></p> <p>During 2014/15, the Authority has approved investment in a commercial project to develop housing for the private rental market. In order to facilitate this, the Authority will establish a wholly owned subsidiary which will procure the development of the housing units and be responsible for the subsequent maintenance and management.</p> <p>In the event that the subsidiary company has undertaken accounting transactions in advance of 31 March 2015, the Authority will be required to consider whether they are required to produce group accounts for the period.</p> <p><b>Our proposed audit work</b></p> <p>We will work with the key officers to confirm whether or not group accounts will be required for the year ending 31 March 2015. We will also review the way in which transactions have been accounted for and confirm that required consolidation adjustments have been made as part of the preparation of the group accounts.</p>

For each key risk area we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
 <p><b>Accounting for LA Maintained Schools</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Property Plant and equipment</li> <li>■ CIES</li> </ul>	<p><b>Risk</b></p> <p>LAAP Bulletin 101 Accounting for School Assets used by Local Authority Maintained Schools issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could incorrectly omit school assets from, or include school assets in, their balance sheet.</p> <p>Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.</p> <p><b>Our proposed audit work</b></p> <p>As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include :</p> <ul style="list-style-type: none"> <li>■ Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools;</li> <li>■ Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary; and</li> <li>■ Determining whether the basis of valuation of assets which are brought on balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers (if applicable).</li> </ul>

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

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"> <li>the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>information from the Audit Commission's VFM profile tool ;</li> <li>evidence gained from previous audit work, including the response to that work; and</li> <li>the work of other inspectorates and review agencies.</li> </ul>

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"> <li>■ considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ 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.</li> </ul>

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

We have completed our initial risk assessment and have identified two risks to our VFM conclusion at this stage. We will update our assessment at year end.

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"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <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>

We have identified a number of specific 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:

- Savings plans; and
- Commercial projects.


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,

We will report our final conclusions in our *ISA 260 Report 2014/15*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>The Authority is required to make savings of £17.2m in 2014/15 (including additional in year savings), the current forecast shows that the Authority will have delivered these savings and will achieve an underspend of £4.8m.</p> <p>The Authority currently estimates that £5.5m in additional savings will need to be achieved during 2015/16. We are aware the Authority is in the process of developing and agreeing proposals with Members for these savings. Further significant savings will be required in 2016/17 and 2017/18 to principally address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p><b>Specific risk based work required: Yes</b></p> <p>As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration:</p> <ul style="list-style-type: none"> <li>■ funding reductions;</li> <li>■ salary inflation;</li> <li>■ general inflation;</li> <li>■ Demand pressures;</li> <li>■ restructuring costs; and</li> <li>■ sensitivity analysis given the degree of variability in the above factors.</li> </ul>

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>Whilst the Authority has identified, and delivered, savings of £70.1m in response to the central government funding reductions, it has also sought to find additional sources of income. As a result of this, the Authority is pursuing the following commercial projects:</p> <ul style="list-style-type: none"> <li>■ The development of housing units for the private rental market;</li> <li>■ The construction of a solar farm with the resulting excess energy being sold to the National Grid; and</li> <li>■ Investment in a new Ministry of Defence storage and distribution depot.</li> </ul> <p>These projects are expected to generate additional income through additional council tax and non-domestic rates income, new homes bonus receipts, energy tariff proceeds, and profits from a wholly owned subsidiary established to manage the private housing scheme. In order to generate these incomes, the Authority will be required to make significant investments which will need to be recovered over a prolonged period.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p><b>Specific risk based work required: Yes</b></p> <p>We will review the way in which the Authority has obtained approval from members for these projects to be undertaken and the quality of information that was provided to support this decision making process.</p> <p>We will also consider the level of expenditure incurred and the Authority's projections to support the value for money aspect of these investments to ensure that they have been based upon appropriate assumptions.</p>

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outlines our audit approach.</li> <li>■ Identifies areas of audit focus and planned procedures.</li> </ul>	<b>January 2015</b>
<b>Control evaluation and Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details control and process issues.</li> <li>■ Details the resolution of key audit issues.</li> <li>■ Communicates adjusted and unadjusted audit differences.</li> <li>■ Highlights performance improvement recommendations identified during our audit.</li> <li>■ Comments on the Authority's value for money arrangements.</li> </ul>	<b>September 2015</b>
<b>Completion</b>		
<b>Auditor's Report</b>	<ul style="list-style-type: none"> <li>■ Provides an opinion on your accounts (including the Annual Governance Statement).</li> <li>■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2015</b>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>■ Provide our assurance statement on the Authority's WGA pack submission.</li> </ul>	<b>September 2015</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>January 2016</b>

**The fee for the 2014/15 audit of the Authority is £165,698. The fee has increased from that set out in our Audit Fee Letter 2014/15 issued in April 2014 as a result of additional work required as a result of the removal of the Non-Domestic Rates Return from the Audit Commission's certification regime.**

**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 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. As a result of additional work required in relation to the accounting entries for non-domestic rates the fee has increased by £1,070.

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

The total planned audit fee for 2014/15 is £165,698. This reflects a slight reduction in the audit fee for 2013/14 as a result of revised scope of certification work by the Audit Commission.

### 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 2014/15;
- 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 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out 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 continues to achieve 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. In particular, we will need to assess the cost implications of any work on group accounts;
- 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.

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.

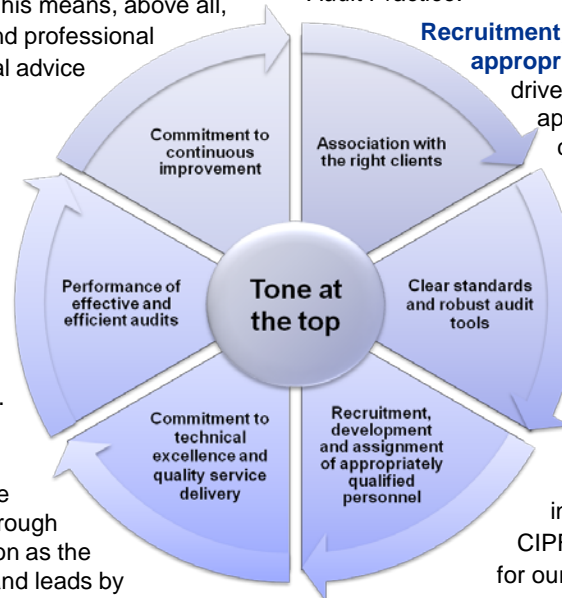
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**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 drives of quality through a focused and consistent voice. Ian Pennington as 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, Accounting Research Online, 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.
- All of our staff have a searchable data base, Accounting Research Online, 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*.
- 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- 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 behaviors 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 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 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

**We are required to consider fraud and the impact that this has on our audit approach.**

**We will update our risk assessment throughout the audit process and adapt our approach accordingly.**

### Members' /Officers' responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

### KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

### KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management./officers

### KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Management override of controls.

## Appendix 4: Transfer of Audit Commission's functions

**The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions' regulatory and other functions.**

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO;
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office; and
- the Commission's counter-fraud function will transfer to the new public sector Counter Fraud Centre established by the Chartered Institute of Public Finance and Accountancy (CIPFA).



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## **Financial Controls Review**

### **Assistant Director response/update for Audit Committee on 27 January 2015**

#### **(a) Potential overpayments to providers**

This is no longer possible given we now have zero tolerance.

The extranet project set up for providers to verify the work they have undertaken and drawdown payment will be completed by the end of March, again avoiding overpayment or at the least giving us the power to recover monies at a later date.

#### **(b) Whether the Council is suffering a financial loss as a result of unassessed clients in respect to financial assessments**

The financial assessment process is automatically triggered via a CareFirst Desk Top activity for every contact assessment that is completed. The time frame during which clients can return their financial declaration is now more rigorously monitored and letters are sent to advise that, because of non return of the form, full cost invoices will be raised until such time the financial assessment has been completed. In the event that the subsequent assessment results in a lower charge then the case is retrospectively reassessed. Following the Phase 1 restructure we are working on improving the turn round time for processing financial assessments.

#### **(c) Unbilled income – from clients in respect to their assessed contribution**

To address the problem of unbilled income the report (linked to contracts on Care First but not on Abacus) provided by the Accountancy team is to be used as a standing item in supervision in order that the cases 'owned' by individual Financial Case Management Officers can be reviewed and the reason for non-assessment established.

There is limited confidence that the revised processes established since September 2014 are operating effectively as we still have double entry processes into Abacus and CareFirst when a care package contract is put in place. Discussions continue around the issue of double entry including system interfaces. A review of processes to identify 'touching points' that could be leading to double entry will feed into the team functions in the pending phase 2 restructure

With phase 2 of the new T&W website this includes a new payment service, similar to Amazon, which will allow customers to create an account, securely register their debit/credit card and pay for a number of council services in a single transaction. It would be prudent to include client contributions in this set up so that when they pay for their Council Tax, for example, they can pay for social care services at the same time.

**TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE – 27 JANUARY 2015**

**CABINET – 26 FEBRUARY 2015**

**COUNCIL – 5 MARCH 2015**

**2015/16 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 2014/15 and details the Treasury Strategy recommended to be adopted for 2015/16

**2014/15 Treasury Management Update**

The treasury portfolio at the end of December showed overall net indebtedness of £100.2m (borrowing: £124.1m less investments: £23.9m). Base rates have remained at 0.5% all year with the next move expected to be upwards, perhaps in the second half of 2015.

The borrowing strategy for 2014/15 is to use maturing investments to reduce borrowing and then start to take new borrowing within shorter maturities before gradually lengthening maturities. To date, one PWLB loan has matured and no new loans have been taken out. Short term borrowing has been used to fund short term cash flow requirements.

The Housing Investment Programme Business Case, approved at Cabinet on 8 January 2015, includes PWLB borrowing of £59.3m and it is anticipated that around £3 m will be required in 2014/15. The impact of commercial schemes on borrowing is identified in the table below.

**Commercial Schemes within External Borrowing**

External Borrowing from 5.1.3	125.583	148.111	193.129	177.306	178.846
Housing Investment programme - Houses	0.000	2.989	39.204	46.548	46.942
Housing Investment programme - PIP	0.000	0.000	3.220	8.830	8.830
PIP	0.000	2.000	2.000	2.000	2.000
External Borrowing excluding Commercial Schemes	125.583	143.122	148.705	119.928	121.074

The investment strategy for 2014/15 is to gain maximum benefit with security of principal sum invested being the primary consideration. In line with our strategy, longer term investments have matured during 2014 and this has naturally led to a reduction in investment returns. However, the weighted average return on internal investments at the end of December 2014 was 0.98% compared to a benchmark return for the period of 0.43% which 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 short-term 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 £45.0m in 2015/16 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 any other commercial projects for example Ministry of Defence. 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, which is primarily expected to be the Public Works Loan Board, but may also include the LGA Municipal bonds Agency or commercial sources..

The strategy for any investments will generally be to reduce investments in order to reduce counter-party risk and to reduce net interest costs as longer-term borrowing rates will tend to be greater than we are able to earn on new investments, but we will 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 whilst recognising that strict investment criteria that the Council applies severely reduces the number of suitable available counterparties and therefore sums with individual counterparties may be up to £20m at any one time.

The report also includes the Council's Minimum Revenue Provision Statement, which although the policy is unchanged from 2014/15, within the existing policy we amended how we calculate the provision from straight line to an annuity basis for Prudential Borrowing in 2013/14. For 2014/15 we have extended this change to Borrowing in relation to Government Borrowing Approvals. This includes backdating of the adjustments back to the start of the prudential regime. This will produce a one off saving in 2014/15 of £1.420m and savings in 2015/16 of £0.290m, 2016/17 £0.255m, 2017/18 £0.248m and 2018/19 £0.257m, these gradually reduce before ultimately becoming a cost. If a net present value calculation is done to the cashflows using the government's green book discount rate, then the annuity cashflow is around 10% lower. This change and saving reflects the time value of money.

The report also sets the Prudential Indicators associated with Treasury for 2015/16.

It should be noted that there may be some changes to the Treasury Strategy before it is presented to Cabinet on 26 February as further information becomes available. The final strategy will be circulated to Audit Committee Members.

**2. RECOMMENDATIONS**

Members are asked to

1. Note the treasury management activities for the first half year,
2. Note the Treasury Management Policy Statement (Appendix A) and
3. Approve the Treasury Strategy, including the Annual Investment Strategy for 2015/16 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. 2014/15 TREASURY MANAGEMENT UPDATE

#### 4.1 CURRENT PORTFOLIO POSITION

	<b>31 March 14</b>	<b>31 Dec 14</b>
	<b>Principal £m</b>	<b>Principal £m</b>
Fixed Rate Borrowing - PWLB	39.521	29.021
Fixed Rate Borrowing - LOBO	60.000	60.000
Variable Rate Borrowing - market	<u>26.062</u>	<u>35.100</u>
<b>Total Debt</b>	<b>125.583</b>	<b>124.121</b>
Investments - in-house	<u>23.510</u>	<u>23.950</u>
<b>Total Investments</b>	<b>23.510</b>	<b>23.950</b>
<b>Net Indebtedness</b>	<b>102.073</b>	<b>100.171</b>

#### 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, some time in late 2015 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 and to undertake new longer term borrowing initially in shorter maturities before gradually extending maturities.

##### **Rescheduling**

During 2014/15 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 one PWLB loan matured in July for £10m.

Between the period 1 June 2014 (previous Member update) and 31 December 2014, £58.1m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.26% to 0.45% - interest rates have remained fairly low during this time. £35.1m of this temporary borrowing was outstanding at 31 December 2014.

## 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 – currently just temporary investments for cash flow purposes. The target return is to achieve at least the 7 day deposit rate.

#### Temporary Investments

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

In total £1,628m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.35% to 0.55% and periods ranged from overnight deposits to 21 days. £23.950m in house temporary investments were held at 31 December 2014.

#### Longer Term Investments

A number of internally managed deposits have been made previously. This has not been added to during 2014/15 and two investments have matured during the year for £5.0m each. We currently hold no longer term investments.

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.

Overall the weighted average return on all internal investments for the year to date was 0.98% compared to a benchmark return for the period of 0.43%.

### 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. At the end of December the greatest exposure with a single counterparty was £14.7m with Svenska Handelsbanken (62% of the total portfolio).

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 2014/15 was completed in October. The drawdown from

JCB Finance totalled £0.229m and funded the purchase of equipment over three and five years at interest rates of 1.22% and 1.57% respectively. A further lease drawdown is anticipated in March.

## **5. TREASURY STRATEGY FOR 2015/16 to 2017/18**

### **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 2015/16
- Annual Investment Strategy for 2015/16
- Prudential Indicators for 2015/16, 2016/17, 2017/18 and 2018/19
- 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 adopted the CIPFA TM Code 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:** There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August Inflation Report.

**Credit outlook:** The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.

**Interest rate forecast:** The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

### 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 2018/19. 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:

	31/03/14 Actual £m	31/03/15 Estimate £m	31/03/16 Estimate £m	31/03/17 Estimate £m	31/03/18 Estimate £m
Capital Financing Requirement	271.107	313.090	352.362	330.429	325.925
Less: Other long term liabilities (e.g. PFI)	-59.723	-58.756	-57.605	-58.052	-56.200
<b>Borrowing CFR</b>	211.384	254.334	294.757	272.377	269.725
Less: External Borrowing	-125.583	-148.111	-193.129	-177.306	-178.846
<b>Internal Borrowing</b>	85.801	106.223	101.628	95.071	90.879
Less: Usable reserves	-54.047	-54.047	-54.047	-54.047	-54.047
Less: Working capital	-55.264	-52.176	-47.581	-41.024	-36.832
<b>Investments</b>	23.510	0.000	0.000	0.000	0.000

#### Commercial Schemes within External Borrowing

External Borrowing from Above	125.583	148.111	193.129	177.306	178.846
Housing Investment programme - Houses	0.000	2.989	39.204	46.548	46.942
Housing Investment programme - PIP	0.000	0.000	3.220	8.830	8.830
PIP	0.000	2.000	2.000	2.000	2.000
External Borrowing excluding Commercial Schemes	125.583	143.122	148.705	119.928	121.074

The table above shows a falling Capital Financing Requirement from 31/03/16 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.

The row relating to debt includes debt associated with funding the Council's proposed Housing Investment Programme together with associated PIP development and other PIP investments in 2014/15. The projected income from these projects will generate a surplus after funding the debt and operational costs. The outstanding debt relating to the Housing Investment Programme will be repaid by the eventual sale of some or all of the properties held by the Council's wholly owned company. The proceeds of any partial disposals will be used to reduce the outstanding debt until the whole amount of debt used to fund the investment has been repaid. If the Council proceeds with an investment to fund a new logistics centre for the Ministry of Defence at Donnington, this debt, which would also be more than offset by income from the scheme, will also be detailed separately in future reports.

#### **5.1.4 Borrowing Strategy**

The Authority currently holds £124.121 million of loans, a slight reduction of £1.462 million on the previous year. The Council also holds £60.442 million of other longer term liabilities (mainly PFI). The balance sheet forecast in the above table shows that the Authority expects borrowing to increase by year end and continue to increase during 2016/17 before starting to 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 £380 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 using 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 1-2 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 2015/16 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 exceptional cash flow shortages.

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

- Public Works Loan Board
- UK local authorities, including Fire and Police 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
- Local Authority Capital Finance Company and other special purpose

companies created to enable joint local authority bond issues.

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.

**LGA Bond Agency:** Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength instead. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

**LOBOs:** 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 2015/16, 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 £3 million and £49 million, and levels are expected to reduce in the forthcoming year now that long term investments have matured and been 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 of 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

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£20m 5 years	£20m 20 years	£20m 50 years	£10m 20 years	£20m 20 years
AA+	£20m 5 years	£20m 10 years	£20m 25 years	£10 m 10 years	£20m 10 years
AA	£20m 4 years	£20m 5 years	£20m 15 years	£10m 5 years	£20m 10 years
AA-	£20m 3 years	£20m 4 years	£20m 10 years	£10m 4 years	£20m 10 years
A+	£20m 2 years	£20m 3 years	£20m 5 years	£10m 3 years	£20m 5 years
A	£20m 13 months	£20m 2 years	£20m 5 years	£10m 2 years	£20m 5 years
A-	£20m 6 months	£20m 13 months	£20m 5 years	£10m 13 months	£20m 5 years
BBB+	£10m 100 days	£10m 6 months	£10m 2 years	£5m 6 months	£10m 2 years
BBB or BBB-	£5m next day only	£5m 100 days	n/a	n/a	n/a
None	£0m 6 months	n/a	£5m 25 years	£1,000 5 years	£0m 5 years
Pooled funds	£10m per fund				

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. The table 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.

**Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank.

**Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a

credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

**Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

**Pooled Funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market 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 pooled funds whose value changes with market prices and/or have a notice period may be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

**Risk Assessment and Credit Ratings:** 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 credit 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. Regard will therefore be given to other available information on the credit quality of the organisations in which it invests as advised by our treasury advisors, 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 our Treasury Advisors have raised 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 or invested in government treasury bills 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:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - 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 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 table 3 below.

**Table 3: Non-Specified Investment Limits**

	<b>Cash limit</b>
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

It should be noted that the authority has an historic investment in Shropshire Waste Management shares totalling £33k which was transferred when the Unitary authority was created in 1998.

**Investment Limits:** The Authority has revenue reserves, which could be used to cover investment losses and are forecast to be £54 million on 31st March 2015 although not all of these are available. In order that no more than 50% of reserves(as recommended by the code) 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:

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 (Appendix G)

### **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 2015/16 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 2015/16: 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 2015/16 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 3 in respect of both supported capital expenditure unsupported capital expenditure.

MRP will be calculated under option 3 on an annuity method as allowed within the guidance. Within the existing policy we amended how we calculate the provision from straight line to an annuity basis for Prudential Borrowing in 2013/14. For 2014/15 we have extended this change to Borrowing in relation to Government Borrowing Approvals. This includes backdating of the adjustments back to the start of the prudential regime. This will produce a one off saving in 2014/15 of £1.420m and savings in 2015/16 of £0.290m, 2016/17 £0.255m, 2017/18 £0.248m and 2018/19 £0.257m, these gradually reduce before ultimately becoming a cost. If a net present value calculation is done to the cashflows using the government's green book discount rate, the annuity cashflow is around 10% lower. This change and saving 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 and an updated report alongside the Treasury Strategy in the last quarter of the financial year.
- 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. Full training will be made available for appropriate new members following the local elections in May 2015.

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. During 2015/16 the Council will re-tender the contract for the provision of this service.

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

## **TREASURY MANAGEMENT POLICY STATEMENT**

### **1. INTRODUCTION AND BACKGROUND**

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

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

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

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

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

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

### **2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES**

2.1 The Council defines its treasury management activities as:

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

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

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

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

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

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

APPENDIX B

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31/3/15 Estimate £m	31/3/16 Estimate £m	31/3/17 Estimate £m	31/3/18 Estimate £m	31/3/19 Estimate £m
<b>External Borrowing:</b>							
Fixed Rate – PWLB	29.0	16	68.5	87.5	86.5	85.5	84.5
Fixed Rate – Market	60.0	32	60.0	60.0	60.0	60.0	60.0
Variable Rate – PWLB	0.0	0	0.0	0.0	0.0	0.0	0.0
Variable Rate – Market	35.1	19	19.6	45.6	30.8	33.3	33.5
<b>Total External Borrowing</b>	<b>124.1</b>	<b>67</b>	<b>148.1</b>	<b>193.1</b>	<b>177.3</b>	<b>178.8</b>	<b>178.0</b>
<b>IFRS Long Term Liabilities:</b>							
PFI	59.7	33	56.9	57.3	55.5	53.3	50.9
Finance Leases	0.7	0	0.7	0.7	0.7	0.7	0.7
<b>Total Gross External Debt</b>	<b>184.5</b>	<b>100</b>	<b>205.7</b>	<b>251.1</b>	<b>233.5</b>	<b>232.8</b>	<b>229.6</b>
<b>Investments:</b>							
<i>Managed in-house</i>							
Short-term monies (Deposits/ monies on call /MMFs)	23.9	100	0.0	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
<b>Total Investments</b>	<b>23.9</b>	<b>100</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>(Net Borrowing Position)/ Net Investment position</b>	<b>(160.6)</b>		<b>(205.7)</b>	<b>(251.1)</b>	<b>(233.5)</b>	<b>(232.8)</b>	<b>(229.6)</b>

## Prudential Indicators 2015/16 – 2018/19

**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 2014/15, 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.

Capital Expenditure	14/15 Approved £m	14/15 Revised £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m
<b>Total</b>	<b>115.650</b>	<b>139.818</b>	<b>104.064</b>	<b>31.743</b>	<b>10.601</b>	<b>2.931</b>

*\*if applicable*

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	14/15 Approved £m	14/15 Revised £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m
Capital receipts	38.252	2.085	30.627	29.992	4.275	0.000
Government Grants	75.018	86.411	24.540	12.849	4.586	3.803
Revenue / External contributions	1.418	5.284	3.879	4.725	0.200	0.000
<b>Total Financing</b>	<b>114.688</b>	<b>93.780</b>	<b>59.046</b>	<b>47.566</b>	<b>9.061</b>	<b>3.803</b>
Supported borrowing	0.658	0.209	1.268	0.000	0.000	0.000
Unsupported borrowing	0.304	45.829	43.750	-15.823	1.540	-0.872
<b>Total Funding</b>	<b>0.962</b>	<b>46.038</b>	<b>45.038</b>	<b>-15.823</b>	<b>1.540</b>	<b>-0.872</b>
<b>Total Financing and Funding</b>	<b>115.650</b>	<b>139.818</b>	<b>104.064</b>	<b>31.743</b>	<b>10.601</b>	<b>2.931</b>

**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	14/15 Approved %	14/15 Revised %	15/16 Estimate %	16/17 Estimate %	17/18 Estimate %	18/19 Estimate %
<b>Total</b>	<b>3.85</b>	<b>3.82</b>	<b>4.78</b>	<b>4.78</b>	<b>5.11</b>	<b>5.10</b>

## 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	14/15 Approved £m	14/15 Revised £m	15/16 Estimate £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m
<b>Total CFR</b>	<b>275.699</b>	<b>313.090</b>	<b>352.362</b>	<b>330.429</b>	<b>325.925</b>	<b>318.850</b>

## 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 31/03/14	£m
Borrowing	125.583
Other Long-term Liabilities	60.461
<b>Total</b>	<b>186.044</b>

## 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	14/15 Approved £	15/16 Estimate £	16/17 Estimate £	17/18 Estimate £	18/19 Estimate £m
Increase in Band B Council Tax	4.07	20.52	18.36	18.33	21.12

7.2 The increase in Band B council tax reflects the increases in the provision for Capital Financing Charges of £1.204m by 2019/20 to undertake additional borrowing of £81.688m arising from the proposed capital programme. These costs include the Housing Company scheme and associated Property Investment Portfolio which are self financing, but don't include any costs relating to the MOD scheme. 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 £20.72.

## 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. Both limits have been set to allow for the commencement of the MOD scheme should it receive approval.

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).

<b>Authorised Limit for External Debt</b>	<b>14/15 Approved £m</b>	<b>14/15 Revised £m</b>	<b>15/16 Estimate £m</b>	<b>16/17 Estimate £m</b>	<b>17/18 Estimate £m</b>	<b>18/19 Estimate £m</b>
Borrowing	170	240	317	298	299	300
Other Long-term Liabilities	64	64	63	62	61	60
<b>Total</b>	<b>234</b>	<b>304</b>	<b>380</b>	<b>360</b>	<b>360</b>	<b>360</b>

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.

<b>Operational Boundary for External Debt</b>	<b>14/15 Approved £m</b>	<b>14/15 Revised £m</b>	<b>15/16 Estimate £m</b>	<b>16/17 Estimate £m</b>	<b>17/18 Estimate £m</b>	<b>18/19 Estimate £m</b>
Borrowing	158	223	299	279	280	281
Other Long-term Liabilities	62	62	61	61	60	59
<b>Total</b>	<b>220</b>	<b>285</b>	<b>360</b>	<b>340</b>	<b>340</b>	<b>340</b>

## 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 2010.

*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.

<b>Gross and Net Debt</b>	<b>14/15 Estimated £m</b>	<b>15/16 Authorised £m</b>	<b>16/17 Authorised £m</b>	<b>17/18 Authorised £m</b>	<b>18/19 Authorised £m</b>
Outstanding Borrowing (at nominal value)	148.111	193.129	177.306	178.846	177.974
Other Long-term Liabilities (at nominal value)	58.756	57.605	58.052	56.200	53.959
<b>Gross Debt</b>	<b>206.867</b>	<b>250.734</b>	<b>235.358</b>	<b>235.046</b>	<b>231.933</b>

### 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...

	<b>Existing level (or Benchmark level) at 31/03/14 %</b>	<b>14/15 Approved %</b>	<b>14/15 Revised %</b>	<b>15/16 Estimate %</b>	<b>16/17 Estimate %</b>	<b>17/18 Estimate %</b>	<b>18/19 Estimate %</b>
<b>Upper Limit for Fixed Interest Rate Exposure</b>	100	100	100	100	100	100	100
<b>Upper Limit for Variable Interest Rate Exposure</b>	30	30	30	30	30	30	30
<b>Local Indicator – Upper limit for net variable rate exposure. (Net principal re gross variable rate borrowing and investments divided by gross borrowing plus investments)</b>	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.

<b>Maturity structure of fixed rate borrowing</b>	<b>Existing level (level at 31/03/14) %</b>	<b>Lower Limit for 15/16 %</b>	<b>Upper Limit for 15/16 %</b>
under 12 months	29 (30)	0	50
12 months and within 24 months	1 (1)	0	30
24 months and within 5 years	2 (2)	0	50
5 years and within 10 years	1 (1)	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	12 (12)	0	100
40 years and within 50 years	15 (14)	10	100
50 years and above	40 (40)	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.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>14/15 Approved %</b>	<b>14/15 Revised %</b>	<b>15/16 Estimate %</b>	<b>16/17 Estimate %</b>	<b>17/18 Estimate %</b>	<b>18/19 Estimate %</b>
	<b>95</b>	<b>95</b>	<b>95</b>	<b>95</b>	<b>95</b>	<b>95</b>

## Appendix D – Arlingclose Economic & Interest Rate Forecast October 2014

### Underlying Assumptions:

- Underlying assumptions:
  - The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.
  - We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.
  - Inflationary pressure is currently low and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.
  - The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
  - Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.
  - However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
  - In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.
  - The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
  - While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.
  - The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

### Forecast:

- Arlingclose continues to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the

economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.

- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Mar-18
<b>Official Bank Rate</b>													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
<b>3-month LIBID rate</b>													
Upside risk	0.05	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.55	0.60	0.65	0.85	1.00	1.15	1.30	1.45	1.60	1.75	1.85	2.05	2.15
Downside risk	0.10	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-1.00
<b>1-yr LIBID rate</b>													
Upside risk	0.10	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.95	1.00	1.05	1.20	1.35	1.50	1.65	1.80	1.95	2.10	2.20	2.40	2.50
Downside risk	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80
<b>5-yr gilt yield</b>													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	1.70	1.75	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.90	2.95
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70
<b>10-yr gilt yield</b>													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	2.40	2.45	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.05	3.10
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
<b>20-yr gilt yield</b>													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	2.90	2.95	3.05	3.10	3.15	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.55
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60
<b>50-yr gilt yield</b>													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.60
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60

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

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

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Council Holding At 31/12/14 £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	20	20	0
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	0
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	20	20	9.25
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	UK	Close Brothers Limited	20	20	0
Term Deposits / CDs / Call Accounts	UK	Goldman Sachs International Bank	20	20	0
Term Deposits / CDs / Call Accounts	UK	Leeds Building Society	20	20	0
Term Deposits / CDs / Call	Australia	Australia and NZ Banking Group	20	20	0

Accounts					
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	20	20	0
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	20	20	0
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	20	20	0
Term Deposits / CDs / Call Accounts	Finland	Pohjola Bank	20	20	0
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	20	20	0
Term Deposits / CDs / Call Accounts	Germany	Landesbank Hessen – Thuringen (Helaba)	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	14.7
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	20	20	0
Term Deposits / CDs / Call Accounts	US	JP Morgan Chase Bank	20	20	0

*\*\*Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened. The counterparty list was correct as at 31 December 2014.*

**SUMMARY OF INVESTMENTS****TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 2014**

	<b>CREDIT RATING</b>				<b>TOTAL £000</b>
<u>Fixed Deposits</u>					
HSBC	UK AAA	F1+AA	B	1	9,250
Svenska Handelsbanken	UK AAA	F1+AA-	B	1	14,700
<b>TOTAL- FIXED TERM AND CASH DEPOSITS</b>					<b>23,950</b>

<b><u>SUMMARY BY SOVEREIGN RATING</u></b>	<b><u>£000</u></b>	<b><u>%</u></b>
UK AAA	9,250	39
Sweden AAA	14,700	61
<b>Total</b>	<b>23,950</b>	<b>100</b>

## **Ethical Investment Framework – Telford and Wrekin Council**

At the current time the Council's treasury activity consists principally of making short-dated loans to the UK Government (through the Debt Management Agency Deposit Facility) and to banks and building societies which adheres to the S-L-Y principles of (Security, Liquidity and Yield, in that order).

The preservation of capital is the Council's principal and overriding priority. The banks and building societies on the Council's lending list are selected only if the institutions and the sovereign meet a minimum credit criteria. In accordance with its social and corporate governance responsibilities, the Council seeks to support institutions which additionally have an ethical and responsible approach to environmental and social issues including employment and global trade. These "ethical" criteria and their basis are described below.

### **1. Environmental and Social Standards**

#### **Equator Principles**

The Equator Principles are a voluntary set of guidelines based on the environmental and social standards practiced by the International Finance Committee when evaluating financing projects. Financial institutions that adopt the Principles agree to use a screening process aiming to ensure that environmental and social assessments help inform decisions to finance development projects. This allows signatories to engage proactively with their stakeholders on environmental and social policy issues.

The Equator Principles (EPs) are a screening framework for determining, assessing and managing environmental and social risk in project finance transactions for major infrastructure and industrial projects. The EPs are adopted voluntarily by financial institutions and are applied where total project capital costs exceed US\$10 million. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. They are based on the International Finance Corporation's performance standards on social and environmental sustainability and on the World Bank Group Environmental Health and Safety Guidelines.

Financial institutions which are signatories to the EPs commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures that implement the EPs.

The following banks relating to institutions on the Council's lending list have adopted the Equator Principles :

- Barclays Bank
- HSBC Bank plc
- Lloyds Banking Group (parent of Bank of Scotland and Lloyds TSB Bank)
- Royal Bank of Scotland
- Standard Chartered
- Banco Santander (parent of Santander UK plc).

<http://www.equator-principles.com/index.php/members-reporting>

### **2. Human Rights, Labour and Environment**

The **UN Global Compact** is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Corporations which sign up to the UN Global Compact are encouraged to themselves embrace and in turn, support and enact, within their sphere of influence, a set of core values which are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

#### Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

#### Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

#### Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The following banks relating to institutions on the Council's lending are participants/stakeholders of the UN Global Compact :

- HSBC
- Royal Bank of Scotland
- Standard Chartered
- Gruppo Santander (ultimate parent of Santander UK plc).

<http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html>

## **Limitations to ethical policies :**

It should be noted here that the individual institutions which have signed up to the Equator Principles and to the Global Compact screen borrowers before lending for infrastructure and industrial projects.

However, financial institutions also engage daily in money market and interbank lending transactions; the criteria for such lending is based primarily on credit risk assessment (i.e. the assessment of their lending being repaid in full and on time when it is due). Being a signatory to the EPs will not necessarily be a critical feature of such credit assessment and the Council is not in a position to monitor interbank lending. The same applies to an individual financial signing up to the UN Global Compact.

It should also be noted that becoming a signatory of voluntary guidelines (Equator Principle or Global Compact) does not guarantee that that institution's policies and practices are of a better standard than those institutions which are not signatories to the voluntary guidelines.

**Activist investment** : The Council does not invest directly in shares or in corporate bonds. Not only are such investments inherently higher risk investments, and requires a distinct and separate set of fund management expertise. Under current legislation (SI 2003 No 3146) the purchase of share capital or loan capital of a body corporate is a capital expenditure investment which, on sale or maturity, becomes a capital receipt and is unsuitable for the Council's treasury investments which are primarily the cash management of its operating surpluses and reserves. Corporate bond and equity investments would however be made by the Council's pension fund (run by Shropshire Council).

Other than through its pension fund, the Council cannot seek to influence decision making at a company by voicing concerns, engaging in a dialogue with management, or lobbying other shareholders for support. Activist investors attempt to purchase sufficient shares or obtain seats on the board with the goal of effecting major change in the company to make the company more valuable financially or socially (for example to change management policies and adopt better governance; optimise shareholder value through acquisitions/divestitures, be more socially responsible etc).

## 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**

<b>Term</b>	<b>Meaning</b>
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 <u>Debt Management Office</u> , 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 <b>borrow</b> money in the London inter-bank market.
LIBOR	London inter-bank offer rate. Interest rate at which prime banks will <b>lend</b> 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 27<sup>th</sup> JANUARY 2015**

**INTERNAL AUDIT UPDATE – QUARTERS TWO AND THREE 2014/15 AND UPDATE OF THE INTERNAL AUDIT CHARTER FOR 2015/16**

**REPORT OF THE AUDIT & INFORMATION GOVERNANCE MANAGER**

### **1 PURPOSE**

- 1.1 For the Audit Committee to approve the Internal Audit Charter for 2015/16.
- 1.2 To update members on the work of Internal Audit during quarters two and three July – December 2014.

### **2 RECOMMENDATIONS**

- 2.1 That members of the Audit Committee approve the Internal Audit Charter 2015/16 (attached as Appendix A).
- 2.2 That members of the Audit Committee note the Internal Audit update information for quarters two and three 2014/15.

### **3 SUMMARY**

- 3.1 Internal Audit has a statutory obligation under the Accounts and Audit (England) Regulations 2011 to follow proper practice – the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The PSIAS requires the Council to have an Internal Audit Charter.
- 3.2 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 updated Internal Audit Charter for 2015/16 (Appendix A) for approval. The 2015/16 Plan will be presented to the June 2015 Audit Committee.
- 3.3 The Audit Committee receives regular updates on the work of Internal Audit. This report provides the update report for 2014/15 in respect to quarters two and three – July – December 2014.

### **4 PREVIOUS MINUTES**

- 4.1 Audit Committee 28<sup>th</sup> January 2014 – Internal Audit Updates Quarters Two and Three 2013/14; Changes to the Internal Audit Charter 2014/15  
Audit Committee 30<sup>th</sup> June 2014 – Quarter Four Update 2013/14 and 2013/14 Internal Audit and Information Governance Annual Report; Internal Audit Plan and Information Governance Work Programme 2014/15  
Audit Committee 16<sup>th</sup> September 2014 – Internal Audit Quarter 1 Update 2014/15

### **5 INTERNAL AUDIT CHARTER 2015/16**

- 5.1 As outlined in paragraphs 3.1 and 3.2 the PSIAS require the Council to have an Internal Audit Charter. The first Charter was approved for 2013/14 and it is reviewed annually as per the

Standards. Minor changes have been included in the 2015/16 Charter attached as Appendix A.

## **6 INTERNAL AUDIT UPDATE INFORMATION**

- 6.1 The report provides information on the work of Internal Audit from 1<sup>st</sup> July – 31<sup>st</sup> December 2014 and provides an update on the progress of previous audit reports issued (April 2012 to June 2014).
- 6.2 The new structure within the Audit and Information Governance (IG) Team was effective from 1<sup>st</sup> April 2014 but one vacancy (for an Auditor post fixed term until September 2016 to cover for a secondment) is currently being covered by the appointment of a casual Auditor and use of our framework contract. Further recruitment will take place in February 2015.
- 6.3 The key focus for the team during quarters 2 and 3 has been the completion of work from the 2014/15 plan with priority being given to the key financial systems audits relied upon by External Audit for their final accounts audits. The Audit & IG Manager concluded the Adult Social Services (ASS) work completed by the end of July/August but has continued to provide advice and support with the implementation of revised processes.
- 6.4 The following internal audit update report appendices are attached:
- i) **Appendix B** – 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 C** – List of all work undertaken for quarters two and three for a period of 1 day or more.
  - iii) **Appendix D** - Previous graded reports from April 2012 to June 2014 with their current status. (Members should note that once reports have reached a green status and have been reported to members they are excluded from future reports).
  - iv) **Appendix E** – Summary of the red and amber reports issued in quarters two and three.
- 6.5 Appendix B shows 19 reports were issued in quarters two and three. For the final reports issued the time taken for the areas shown in the table below varied from the allocated time by more than +/- 10%.

<b>Area</b>	<b>Variance (&gt; +/- 10%)</b>	<b>Reason</b>
Shared Lives	+110%	New area and request from service area so estimate not adequate for work required
Special Guardianship	-72%	Scope reduced when agreed with management
Treasury Management	-22.3%	Well organised and limited investment transactions
Dawley Primary School Follow up	+137%	It was a red report so follow up was a visit which including additional evidence requests. The estimate was therefore too low.
Telford Ice Rink	+99%	Large establishment and in addition estimate did not take account of review of some of the catering arrangements.
Hadley Learning Community School	+25%	Additional time partly attributable to training apprentice in processes.
Voluntary Sector Contracts & Agreements	+98%	Delayed by service area and team but testing across many services so was more complex than had anticipated.
Burton Borough School	-12%	School well prepared
Council tax/NNDR	-40%	Efficiencies due to one IT system.
Direct Payments	+195%	Scope extended to meet requirements of Adult

		Social Services review but estimate not changed.
Adults Safeguarding Policies & Electronic Records	+19%	Testing took longer than included in estimate.
Muxton Primary School	-17.5%	School well prepared.
Randlay Primary School	-12%	School well prepared.
Blessed Robert Johnson RC College	+137%	Additional work undertaken due to record keeping in respect to IT work and income.

The reasons for the variances are as explained above. The positive variances were identified early and managed to ensure added value. The plan was adjusted accordingly and some work has been reallocated to a casual auditor (appointed in October) or covered by the framework contract. Time allocations for future 2014/15 and 2015/16 audits will also be reviewed based on this information.

6.6 From Appendix B there were five Amber and three Red reports issued during quarters two and three. Summary information is provided in Appendix E. For these Amber and Red reports management actions and time scales have been agreed to implement the recommendations. The follow up for Queenswood School is now complete and the grading has moved from Amber to Green. The follow up for Shared Lives is in progress and the work to date demonstrates good improvements. In the other areas follow up work is planned or is about to commence. Internal Audit is confident that management will implement the remaining recommendations to provide appropriate assurance and improved controls.

6.7 Areas of more than 10 days from Appendix C are explained below:

Audit Area	Days	Explanation
Adult Social Care review	16	Support on financial process review
Advice & Consultancy	56	Continued advice and guidance sought due to more commercial approach and staff new to roles and responsibilities due to restructures
Blessed Robert Johnson School	24	Issues with income in respect to ICT work for other schools
Council Tax/NNDR	17	Fundamental system
Housing and local Council tax benefit	22	Fundamental system
Mount Gilbert School	18	Issues with imprest account and income
Purchase Ledger	25	Fundamental system
Personal Budget Support team	11	Scope extended to support ASC review
Sales Ledger	25	Fundamental system
Telford Ice Rink	16	Included catering as well as normal scope

6.8 From Appendix D the position on reports which remain amber are as shown in the table below:

No	Area Audited	Original grade	Revised grade	Current position/comments
1.	Abacus system & concerns	Red/ Amber	Amber	Separate update to be provided to the January 2015 Committee as agreed in June 2014.
2.	Transport Post Implementation Review	Amber	Superseded	Follow up overtaken by issues with the supplier so no longer applicable.
3.	Moorfield Primary School	Red	Amber	Further follow up November 2014 but remains Amber and next follow up due February 2015.

4.	Temporary Accommodation	Amber	Superseded	Restructure has resulted in staff changes and delays to upgrades therefore no further follow up but full audit planned for 2015/16.
5.	Unstructured Data Storage	Amber	Amber	Follow up undertaken November 2014 but progress delayed by restructure so next follow up February 2015 as agreed with ICT.

6.9 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.

## **7 OTHER CONSIDERATIONS**

<b>AREA</b>	<b>COMMENTS</b>
Equal Opportunities	All members of Audit & IG have attended appropriate training. If any such issues arose during an audit review they would be notified to the appropriate manager.
Environmental Impact	All members of Audit & IG 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 (which are the defined proper practice). 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 planning process. Where high risks are identified then Audit Services undertakes work as a priority and maybe 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.

## **8 BACKGROUND PAPERS**

Annual Audit Plan 2014/15 and Charter

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

CIPFA Local Government Application Note - April 2013

Report by Jenny Marriott, Audit & Information Governance Manager 383101

**Internal Audit Charter – 1<sup>st</sup> April 2015 – 31<sup>st</sup> March 2016****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)<sup>1</sup> and the Council.
- 1.2 This charter will be approved by the Audit Committee, after consultation with senior management<sup>2</sup> 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 Manager. The team supports the Co-operative Council in the delivery of services to the community to help 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 services<sup>3</sup> 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.

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<sup>1</sup> 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.

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

<sup>3</sup> 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 Committee<sup>4</sup> 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 arrange at least once every 5 years an external assessment of internal audit by an appropriate person<sup>5</sup> 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 employee cases of suspected financial irregularity, fraud or corruption, except benefit fraud investigations, in accordance with agreed procedures.
- 2.1.12 To provide appropriate assurance 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 records<sup>6</sup>, 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.

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<sup>4</sup> The Audit Committee is the Board as defined in the Public Sector Internal Audit Standards

<sup>5</sup> Qualified, independent assessor or assessment team

<sup>6</sup> 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 strategic risk register, 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, the resources required and which priority it contributes to. 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 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 Chartered Institute of Public Finance Accountants and the Chartered Institute of Internal Auditors. 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 2015/16 the Internal Audit team has a resource of 4.12 full time equivalent (fte) employed staff plus at least 50% of the Audit & IG Manager. In addition there is an external contract<sup>7</sup> which will deliver between 70 and 80 days of specialist IT or general audit work.

2.7.2 The budget for Internal Audit<sup>8</sup> 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.

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<sup>7</sup> 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.

<sup>8</sup> 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*.<sup>9</sup>

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<sup>9</sup> Information can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)

## FINAL REPORTS ISSUED QUARTERS JULY - DECEMBER 2014

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance %
Queenswood Primary School	Amber	October	7.75	7.73	-0.3%
Shared Lives	Red	December	5.50	11.60	+110%
Special Guardianship	Amber	November	15.75	4.43	-72%
Treasury Management	Green	N/A	10	7.77	-22.3%
Dawley C of E Primary School - Follow up	Yellow (moved from red)	November	1.25	2.97	+137%
Town Park review*	N/A requested review	March 2015	n/a	n/a	n/a
Telford Ice Rink	Amber	January 2015	8	15.95	+99%
Hadley Learning Community	Yellow	April 2015	10	12.53	+25%
Voluntary Sector Contracts & Agreements	Amber	January 2015	5	9.92	+98%
Burton Borough Secondary School	Yellow	April 2015	10	8.84	-12%
Council Tax/NNDR	Yellow	2015-16 audit	29.25	17.78	-40%
Direct payments	Amber	April 2015	4.5	13.31	+195%
Adults Safeguarding Policies & Electronic Records	Red	May 2015	16	19.05	+19%
Muxton Primary School	Yellow	June 2015	8	6.6	-17.5%
Randlay Primary School	Yellow	June 2015	8	7.1	-12%
Blessed Robert Johnson RC College	Red	May 2015	9.75	23.09	+137%
Redhill Primary	Yellow	June 2015	8	7.81	-3%
Addenbrooke Safe Review*	N/A – requested review	Part of cash collection audit 2015/16	n/a	n/a	n/a
Sales Ledger 2014/15	Yellow	Part of 2015/16 annual audit	25.25	24.5	-3%

“\*” – taken from contingency

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

Audit Areas	Days
Addenbrooke Safe Review	2
Adult Social Care Review Project	16
Adults safeguarding review - policies/electronic records	10
Advice & Consultancy	56
ASC – Employment Tribunal	2
ASC Complaint	3
Blessed Robert Johnson School	24
Burton Borough School	8
Support for Monitoring officer for Complaint Investigation	4
Cash Collection	2
Halcrow contract	1
Council tax / NNDR (2014 - 2015)	17
Dawley Primary School follow up	3
External Audit Liaison Meetings	4
Follow ups	9
Fraud Response Plan	1
Governance	1
Hadley Learning Community School	5
Housing Benefits (including local Council Tax Benefit Support scheme)	22
HR/Payroll 2014-15	1
ICT audit contract monitoring and file review	2
ICT review	1
Leisure Membership/Swimming lessons issues – referred by Service area	7
Main Accounting 2014-15	2
Mobile Catering	9
Moorfield Primary School follow up	2
Mount Gilbert School	18
Multi storey car park	1
Muxton Primary School	7
National Fraud Initiative	6
P2P - creditor payments (2014 - 2015)	25
Payments work	6
Pension systems & processes (2014 - 2015)	5
Personal Budgets Support Team	11
Randlay Primary School	7
Recruitment	1
Redhill Primary	8
Review of Audit Processes & Procedures	4
Sales Ledger (2014 - 2015)	25
Section 17 payments	8
SEN payments - residential schools	1
Shared Lives	1
Southall Special School	1
Special Guardianship	1

Telford Ice Rink	16
Telford Town Park review following referral from Service area	10
The Place Banking issues – reported by Service area and support provided to help address them	1
Transport Grant (2014-15)	3
Treasury Management (2014 - 2015)	8
Troubled Families Grant	3
Vacant units	1
Voluntary Sector Contracts /Agreements	5
Walsall S29 Request	1

STATUS ON FINAL REPORTS ISSUED APRIL 2012 TO JUNE 2014

APPENDIX D

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.14
Putting People First – Mainstreaming & Developing Personalisation	Yellow	Yellow	Follow up completed in March 2013. No change to grade as insufficient progress evidenced. Further follow up undertaken in December 2013 & January 2014	Regular follow up's have been undertaken however due to changes in follow up process no further follow up to be undertaken.
Abacus system & Abacus concerns	Amber Red	Amber	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/reports to Audit Committee March & September 2013 and January and June 2014.	Further update to January 2015 meeting
Homelessness Threshold	Yellow	Yellow	Follow up undertaken January 2014 but insufficient progress made to change rating.	Further follow up issued June 2014 but not returned. Due to changes in follow up process no further follow up to be undertaken.
Disabled Facilities Grants	Yellow	Yellow	Follow up due June 2014	Follow up undertaken but insufficient progress made to change rating. Further follow up commenced November 2014
Transport Post Implementation Review	Amber	Superseded	Follow up commenced February 2014	Follow up overtaken by issues with the supplier so no longer applicable.
I World	Yellow	Yellow	Follow up undertaken February 2014 but insufficient progress made to change rating.	Following meeting with ICT no further follow up to be undertaken
Telford Snowboarding & Ski Centre	Amber	Yellow	Follow up completed February 2014	Follow up sent October 2014 but not returned so remains Yellow.
Moorfield Primary School	Red	Amber	Follow up completed January 2014	Follow up visit November 14. Remains Amber therefore further follow up due February 2015

**STATUS ON FINAL REPORTS ISSUED APRIL 2012 TO JUNE 2014**

**APPENDIX D**

<b>Audit Area</b>	<b>Original Opinion</b>	<b>Updated Opinion</b>	<b>Comments</b>	<b>Status as at 31.12.14</b>
Temporary Accommodation	Amber	Amber/ superseded	Follow up completed December 2014  2 <sup>nd</sup> follow up completed May 2014 but insufficient progress made to change rating.	Further follow up completed during December 2014. However staffing changes following a restructure has meant a delay in implementing system upgrades so a decision has been taken not to undertake any further follow up's but to undertake a full audit during 2015/16
Service User Journey	Amber	Yellow	Follow up completed March 2014 and opinion changed to Yellow.	2 <sup>nd</sup> follow up has been undertaken during October 2014 and remains Yellow. Due to changes in follow up process no further follow up to be undertaken.
St Mary's Catholic Primary School	Yellow		Follow up due July 2014	Follow up issued but school did not respond, therefore due to changes in audit procedures no further follow up will be undertaken.
Oakengates Children's Centre	Red	Green	Follow up visit undertaken in May 2014. Updated audit opinion to Yellow.	Further follow up completed in October 2014 and sufficient progress had been made to move to Green.
Impulse	Amber	Yellow	Follow up due August 2014	Further follow up completed and moved to yellow. Next review due December 2014.
Contract Management (Revs & Bens)	Yellow	Green	Follow up due August 2014	Follow up undertaken October 2014 and moved to Green
ICT Contract Monitoring	Amber	Green	Follow up due May 2014	Follow up complete and moved to Green.
Minimising Empty Properties	Amber	Yellow	Follow up due July 2014	Follow up complete and moved to Yellow. Further follow up to be undertaken January 2015
Crudgington Primary School	Yellow	Green	Follow up due July 2014	Follow up received September 2014 and moved to Green

**STATUS ON FINAL REPORTS ISSUED APRIL 2012 TO JUNE 2014**

**APPENDIX D**

<b>Audit Area</b>	<b>Original Opinion</b>	<b>Updated Opinion</b>	<b>Comments</b>	<b>Status as at 31.12.14</b>
Education catering	Yellow	Yellow	Follow up due Sept 2014	Follow up completed October 2014 – no further follow up to be undertaken
Cafe Go	Amber	Green	Follow up due June 2014	Follow up undertaken December 2014 and moved to Green.
Dawley Primary	Red	Green	Follow up visit undertaken in June 2014. Updated audit opinion to Yellow.	Further follow up completed in November 2014 and moved to Green.
Family Connect	Yellow	Green	Follow up due Sept 2014	Follow up completed in October 2014 and moved to Green.
School Improvement Traded Services	Yellow	Green	Follow up due Sept 2014	Follow up completed October 2014 and moved to Green.
Wellington Leisure Centre & Cafe	Yellow	Green	Follow up due Sept 2014	Follow up completed September 2014 and moved to Green.
Cash Collection	Yellow	Green/ Yellow	Follow up due Sept 2014	Follow ups completed November 2014. Catering, Gypsy & Traveller Sites, Catering and T.E.N moved to Green. Cash Management remained Yellow but will be reviewed as part of annual audit.
Meadows Primary	Yellow	Green	Follow up due Sept 2014	Follow up completed October 2014 and moved to Green.
Foster Homes Reviews	Amber	Yellow	Follow up complete due July 2014 and next review November 2014	Follow up issued so will report back to next appropriate Committee.
Clarity Live	Amber	Yellow	Follow up due July 2014	Follow up complete and moved to Yellow. Next review January 2015
General ledger including assets	Yellow	n/a	As part of annual audit	Included in 2014-15 audit
Contracts & Payroll	Yellow	n/a	As part of annual audit	Included in 2014-15 audit
ICT Contingency arrangements	Yellow	Yellow	Follow up due October 2014	Completed – no further follow up to be undertaken
MIS Headway	Amber	Green	Follow up due October 2014	Follow up completed in December 2014 and moved to Green.
John Randall School	Yellow	Green	Follow up due November 2014	Follow up completed in October 2014 and moved to Green.

**STATUS ON FINAL REPORTS ISSUED APRIL 2012 TO JUNE 2014**

**APPENDIX D**

<b>Audit Area</b>	<b>Original Opinion</b>	<b>Updated Opinion</b>	<b>Comments</b>	<b>Status as at 31.12.14</b>
Sir Alexander Fleming School	Yellow	Green	Follow up due November 2014	Follow up completed in October 2014 and moved to Green.
Unstructured Data Storage Audit	Amber	Amber	Follow up due November 2014	Follow up undertaken in November 2014 but insufficient progress made so 2 <sup>nd</sup> follow up due February 2015 as agreed with ICT.
Purchase Ledger	Amber	n/a	As part of annual audit	Included in 2014-15 audit
Burton Borough – Catering Review	Yellow	Green	Follow up due December 2014	Follow up completed in December 2014 and moved to Green.
Leisure Central Admin	Yellow		Follow up due December 2014	Follow up issued so will report back to next appropriate Committee.
Southall Special Schools	Yellow		Follow up due December 2014	Follow up issued so will report back to next appropriate Committee.
Ladygrove Primary School	Yellow			Follow up due January 2015

## AMBER REPORTS ISSUED QUARTERS TWO AND THREE

## DIRECT PAYMENTS – ADULT SOCIAL CARE

**1. Introduction and Scope**

- 1.1 An audit review was commenced on 23/6/14, to provide an opinion on the control environment and a level of assurance for Direct Payments. The scope of the audit was agreed by Self Directed Support & Brokerage Team Leader & Assistant Director Family Cohesion & Commissioning.
- 1.2 We would like to thank the following for their help during the audit:
- ⌘ Senior Personal Budget Support Advisor
  - ⌘ Financial Case Management Officer
  - ⌘ Finance Assistant
  - ⌘ Self-Directed Support & Brokerage Team Leader
  - ⌘ Social Worker
  - ⌘ Team Administrator SDS & BT
  - ⌘ Senior Finance Officer
  - ⌘ Senior Research & Information Officer

**2. Good Practice Areas**

- 2.1 During the audit a number of good practice areas within the process for Direct Payments were identified. These included:
- ⌘ The latest client monitoring spreadsheet
  - ⌘ Information packs and guidance issued to service users are informative and provides detailed information on Direct Payments.
  - ⌘ The checklist used when a new direct payment referral is received. .

**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.* The key issues identified are:
- a) Social workers have received insufficient training on direct payments and therefore have inadequate knowledge and confidence to promote them;
  - b) A lack of accurate and up to date information on Care First in respect to care plans (from social workers) and financial assessments (from Financial Case Management Team); and
  - c) Delays in the completion and return of financial assessments affect the start of the direct payment.
- 3.2 Recommendations have been made to strengthen the controls found to require improvement and you have agreed actions. The recommendations are categorised as shown in the table below and in the detailed report a risk rating (High, Medium, and Low) has been included to assist in the prioritisation of their implementation.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation		
Financial Regulation – immediate implementation		
Policy/Procedure – implementation within a month of agreement to the report.	25	100%
Best Practice – implementation at a mutually agreed date		
<b>Total</b>	<b>25</b>	<b>100%</b>

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

## ICE RINK – NEIGHBOURHOOD AND LEISURE SERVICES

### 1. Introduction and Scope

- 1.1 An audit review was commenced on 28<sup>th</sup> July 2014, to provide an opinion on the control environment and a level of assurance for Telford Ice Rink. The scope of the audit was agreed by Telford Ice Rink Team leader.
- 1.2 We would like to thank the following for their help during the audit:
- ✳ Team Leader Telford Ice Rink
  - ✳ Receptionists
  - ✳ Duty Officer
  - ✳ Administration Officer
  - ✳ Finance Officer
  - ✳ Income Management Officer

### 2. Good Practice Areas

- 2.1 During the audit a number of good practice areas within the process for the Ice Rink were identified. These included:
- ✳ Weekly attendance is now being monitored, this data will be used to identify seasonal trends if the need for using the services of St Johns during the whole of the holiday period is then found not to be required services will be reduced this will result in a budget saving
  - ✳ Records of invoices received and passed for payment were comprehensive
  - ✳ Risk assessments had been reviewed and were up to date

### 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 strengthen the controls found to require improvement and you have agreed actions to implement them. The recommendations are categorised as shown in the table below and risk ratings (High, Medium, and Low) for each recommendation have been included in the detailed report to assist in the prioritisation of their implementation.

<b>Recommendation Category &amp; timescale</b>	<b>Number</b>	<b>Percentage</b>
Legal Requirement – immediate implementation	0	0%
Financial Regulation – immediate implementation	3	10%
Policy/Procedure – implementation within a month of agreement to the report.	26	87%
Best Practice – implementation at a mutually agreed date	1	3%
<b>Total</b>	<b>30</b>	<b>100%</b>

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

<b>Recommendation Category</b>	<b>Implemented</b>	<b>Reiterated</b>
Legal Requirement	1	
Financial Regulation	9	
Policy/Procedure	21	2
Best Practice	2	1
<b>Total</b>	<b>33</b>	<b>3</b>

3.4 The implementation of the recommendations made in this report and those outstanding from the previous review will further strengthen the controls and processes at the Ice Rink.

## **QUEENSWOOD PRIMARY SCHOOL**

### **1. Introduction and Scope**

- 1.1 An audit review was commenced on 10<sup>th</sup> June 2014, to provide an opinion on the control environment and a level of assurance for Queenswood Primary School.
- 1.2 We would like to thank the Headteacher and Administrator for their help during the audit.

### **2. Good Practice Areas**

- 2.1 During the audit a number of good practice areas within the process for Queenswood Primary School were identified. These included:
- ❖ Information presented to Governors is detailed and comprehensive
  - ❖ Due to the long term absence of one of the administration staff, the school had recognised the need for contingency arrangements to be put in place. Mentoring had been arranged for the other administrator in the areas in which she was unfamiliar.

### **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 strengthen the controls found to require improvement and you have agreed actions for implementation. The recommendations as shown in the table below are categorised and a risk rating (High, Medium, and Low) for each recommendation has been included in the detailed report to assist in the prioritisation of their implementation.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation		
Financial Regulation – immediate implementation	5	42%
Policy/Procedure – implementation within a month of agreement to the report.	7	58%
Best Practice – implementation at a mutually agreed date		
<b>Total</b>	<b>12</b>	<b>100%</b>

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

Recommendation Category	Implemented	Not Implemented	Superseded
Legal Requirement	3		
Financial Regulation	3		
Policy/Procedure	3		
Best Practice			
DCSF	1		3
Total	10		3

3.4 The implementation of the recommendations made in this report will further strengthen the controls and processes at Queenswood Primary School.

## SPECIAL GUARDIANSHIPS

### 1. Introduction and Scope

1.1 An audit review commenced on 9 February 2014, to provide an opinion on the control environment and a level of assurance for Special Guardianship. The scope of the audit was agreed by Assistant Director Children Safeguarding.

1.3 We would like to thank the following for their help during the audit :

- ✧ Children's Safeguarding & Specialist Services Team Leader
- ✧ Business Support Manager
- ✧ Senior Finance Officer

### 2. Management Summary and Overall Opinion

2.1 On the basis of the work carried out it is 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 strengthen the controls found to require improvement and you have agreed actions to implement them. The recommendations have been categorised as shown in the table below. In the detailed report a risk rating (High, Medium, and Low) for each recommendation is included to assist in the prioritisation of their implementation.

Recommendation Category & timescale	Number	Percentage
Legal Requirement – immediate implementation		
Financial Regulation – immediate implementation		
Policy/Procedure – implementation within a month of agreement to the report.	10	100%
Best Practice – implementation at a mutually agreed date		
<b>Total</b>	<b>10</b>	<b>100%</b>

- 2.3 The implementation of the recommendations made in this report will further strengthen the controls and processes in Special Guardianships processes and procedures.

## VOLUNTARY SECTOR CONTRACTS AND AGREEMENTS

### 1. Introduction and Scope

- 1.1 An audit review was commenced in June 2014, to provide an opinion on the control environment and a level of assurance for Voluntary Sector Contracts and Agreements. The scope of the audit was agreed by the Service Delivery Manager Community Participation.
- 1.2 We would like to thank the following for their help during the audit:
- \*\* Service Delivery Manager Community Participation
  - \*\* Service Delivery Specialist Procurement
  - \*\* Commissioning Contracts Officer
  - \*\* Commissioning Specialist
  - \*\* Service Delivery Manager Health Improvement
  - \*\* Contract Officer Vulnerable People Commissioning

### 2. Good Practice Areas

- 2.1 During the audit a number of good practice areas within the process for Voluntary Sector Contracts and Agreements were identified. These included:
- \*\* Monitoring of the grant in relation to Telford Mind included a variety of reporting mechanisms and was recorded using a set template
  - \*\* Green Gym grant project outcomes / progress reports included within priority plan updates to the Health and Wellbeing Board / the Living Well Board (new Commissioning and Transformation Partnership)

### 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 strengthen the controls found to require improvement and you have agreed actions to implement them. The recommendations are categorised as shown in the table below and in the detailed report we have included a risk rating (High, Medium, and Low) for each recommendation to assist in the prioritisation of their implementation.

<b>Recommendation Category &amp; timescale</b>	<b>Number</b>	<b>Percentage</b>
Legal Requirement – immediate implementation	0	0
Financial Regulation – immediate implementation	0	0
Policy/Procedure – implementation within a month of agreement to the report.	7	100%
Best Practice – implementation at a mutually agreed date	0	0
<b>Total</b>	<b>7</b>	<b>100%</b>

- 3.3 The implementation of the recommendations made in this report will further strengthen the controls and processes for voluntary sector contracts and agreements.

## RED REPORTS ISSUED QUARTERS TWO AND THREE

### ADULTS SAFEGUARDING POLICIES AND ELECTRONIC RECORDS

#### 1. Introduction and Scope

- 1.1 An audit review was commenced on Safeguarding Adults Policies and Electronic Records, to provide an opinion on the control environment and a level of assurance for Adults Safeguarding Policies & Electronic Records. The scope of the audit was agreed by the Service Delivery Manager Adults Safeguarding & Quality.
- 1.2 We would like to thank the following for their help during the audit:
- \*\* Service Delivery Manager Adults Safeguarding & Quality
  - \*\* Senior Adult Protection Officer
  - \*\* Senior Administrator Safeguarding
  - \*\* Team Administrator
  - \*\* Team Leader Business Support

#### 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 **Poor** the system of control is weak and there is evidence of non-compliance with the controls that do exist.
- 2.2 During the audit it was noted that there are procedures and associated templates and standard documents in place to support each stage of the safeguarding process. These procedures were not being followed and documents were not being completed in full but there was no evidence that vulnerable people were put at risk as a result of these failings. Since the audit a dedicated adult safeguarding team has been developed to respond to timescales and procedural requirements.
- 2.3 Recommendations have been made to strengthen the controls found to require improvement and these are categorised as shown below.

<b>Recommendation Category &amp; timescale</b>	<b>Number</b>	<b>Percentage</b>
Legal Requirement – immediate implementation	-	-
Financial Regulation – immediate implementation	-	-
Policy/Procedure – implementation within a month of agreement to the report.	13	87%
Best Practice – implementation at a mutually agreed date	2	13%

Total	15	100%
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## BLESSED ROBERT JOHNSON CATHOLIC COLLEGE

### 1. Introduction and Scope

- 1.1 An audit review was commenced on 16<sup>th</sup> September 2014, to provide an opinion on the control environment and a level of assurance for Blessed Robert Johnson Catholic College.
- 1.2 We would like to thank the following for their help during the audit:
- \*\* Head teacher
  - \*\* School Business Manager
  - \*\* School Finance Assistant
  - \*\* Schools ICT Manager

### 2. Good Practice Areas

- 2.1 During the audit a number of good practice areas within the process for Blessed Robert Johnson Catholic College were identified. These included:
- \*\* That all expenditure is approved by the Head teacher in order to monitor and continue to reduce the deficit budget.
  - \*\* The files of the Finance Assistant are kept neat and tidy and information can be easily found
  - \*\* The understanding of how to treat VAT to ensure the school is reclaiming it correctly on both its imprest account and Government Procurement card.

### 3. Management Summary and Overall Opinion

- 3.1 Our opinion based on the work carried out and evidence provided at the time of the audit in respect to the level of assurance provided by the controls at the school is **Poor** - *The system of control is weak and there is evidence of non-compliance with the controls that do exist.*
- 3.2 During the site visit it was identified that the school have an IT company called Techlab. Following the visit further investigation identified links between this company and another company called Whiting IT Communications (quoted as a sister company on the website and owned/run by the IT Manager). These findings were discussed with the Head Teacher and further testing has been undertaken particularly in respect to the income expected from the school company, its services and its relationship with the other company.
- 3.3 The audit opinion is based on the findings at the time of the audit. However the school during and immediately following the audit have recognised their weaknesses and improvements have been made particularly in respect to the controls around the IT work and collection of income. In addition the school is closing on 31<sup>st</sup> August 2015 to reopen as an academy so some recommendations will not be actioned until the new school is in operation.
- 3.4 Recommendations have been made to strengthen the controls found to require improvement and actions have been agreed for implementation. The recommendations have been categorised as shown in the table below and a risk rating (High, Medium, and Low) for each recommendation has been included in the detailed report to assist in the prioritisation of their implementation.

<b>Recommendation Category &amp; timescale</b>	<b>Number</b>	<b>Percentage</b>
Legal Requirement – immediate implementation	3	11%
Financial Regulation – immediate implementation	8	28%
Policy/Procedure – implementation within a month of agreement to the report.	16	57%
Best Practice – implementation at a mutually agreed date	1	4%
<b>Total</b>	<b>28</b>	<b>100%</b>

3.5 As part of this audit we have also followed up the implementation of recommendations outstanding from the previous audit, which was undertaken in March 2010. The table below shows the action taken since that audit:

<b>Recommendation Category</b>	<b>Implemented</b>	<b>Not Implemented</b>	<b>Agreed future Implementation</b>
Legal Requirement	5	0	0
Financial Regulation	9	0	0
Policy/Procedure	7	1*	0
DfE Requirement	3	1*	0
Best Practice	2	0	0
<b>Total</b>	<b>26</b>	<b>2</b>	<b>2</b>

*\*Reiterated within detailed report*

3.6 The implementation of the recommendations made in this report and those outstanding from the previous review will further strengthen the controls and processes at BRJ.

## **SHARED LIVES**

### **1. Introduction and Scope**

- 1.1 An audit review was commenced on 31<sup>st</sup> March 2014, to provide an opinion on the control environment and a level of assurance for Shared Lives. The scope of the audit was agreed by SDM – Provider Services.
- 1.2 We would like to thank the following for their help during the audit :
- ⌘ Group Specialist
  - ⌘ Service Delivery Manager
  - ⌘ Financial Case Management Assessment Officer
  - ⌘ Finance Assistant

### **2. Management Summary and Overall Opinion**

- 2.1 On the basis of the work carried out and at the time of the audit our opinion based on the level of assurance provided by the controls for this audit area is poor. The system of control is weak and there is evidence of non-compliance with some of the controls that do exist
- 2.2 The audit found that information is being recorded using a number of excel spread sheets and word documents. Provider Services should consider investigating a methodology or package for bringing all information for the service together in one area/place which will facilitate the ability to produce easily all required management information.

2.3 Recommendations have been made to strengthen the controls found to require improvement and actions have been agreed for implementation. We have categorised the recommendations as shown in the table below and have included a risk rating (High, Medium, and Low) for each recommendation in the detailed report to assist in the prioritisation of their implementation.

<b>Recommendation Category &amp; timescale</b>	<b>Number</b>	<b>Percentage</b>
Legal Requirement – immediate implementation		
Financial Regulation – immediate implementation	7	18%
Policy/Procedure – implementation within a month of agreement to the report.	28	78%
Best Practice – implementation at a mutually agreed date	2	4%
<b>Total</b>	<b>37</b>	<b>100%</b>

2.4 The implementation of the recommendations made in this report will assist in the strengthening of the controls and processes in Shared Services.

# TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 27<sup>th</sup> JANUARY 2015

UPDATE ON THE ANNUAL GOVERNANCE STATEMENT 2013/14 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 2013/14 Annual Governance Statement (AGS) action plan for implementation during 2014/15.

## 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

<b>COMMUNITY IMPACT</b>	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	
<b>TARGET COMPLETION/ DELIVERY DATE</b>	<i>Progress on actions as at 30/11/14 from the 2013/14 AGS. Final position will be reported in the 2014/15 AGS which should be agreed by 30<sup>th</sup> June 2015.</i>	
<b>FINANCIAL/VALUE FOR MONEY IMPACT</b>	No	<i>Good governance processes support value for money in ensuring economy, efficiency and effectiveness in the Council's decision making processes.</i>
<b>LEGAL ISSUES</b>	Yes	<i>The requirement for an Annual Governance Statement is in the Accounts and Audit (England) Regulations 2011 (paragraph 4(3)).</i>
<b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b>	Yes	<i>Good governance supports the identification and management of risks and robust control arrangements.</i>
<b>IMPACT ON SPECIFIC WARDS</b>	Yes	<i>Borough-wide impact</i>

## 4 INFORMATION

4.1 Under the Accounts and Audit (England) Regulations 2011 the Council is required to produce an Annual Governance Statement and it is best practice that the statement should include an action plan for further improvement. This report sets out the progress made to the end of November 2014 against the actions agreed in this action plan in June 2014.

## 5 PREVIOUS MINUTES

5.1 Cabinet 30<sup>th</sup> May 2013; Audit Committee 25<sup>th</sup> June 2013  
Cabinet 26<sup>th</sup> June 2014; Audit Committee 30<sup>th</sup> June 2014

## 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

Report by Jenny Marriott, Audit & Information Governance Manager 383101

## 2013/14 ANNUAL GOVERNANCE STATEMENT ACTION PLAN – PROGRESS AS AT 30/11/14

No	Action	Lead Officer	Comments when AGS agreed	Original Target Completion Date	Progress/position as at 30/11/14 & revised completion dates
1.	Continued strategic management of organisational change in respect to revised structures, new ways of working and business approach which links to the continued development and implementation of revised governance framework (encompassing information security, 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. Final Constitution changes to be in place by May 2015.	Ongoing 31/03/15	On-going to meet target re implementation and training following the elections in May 2015 This links closely to item three. Change management processes have been adjusted to reflect the different phase of change which the council is currently in.
2.	Preparations for the revised external audit arrangements.	AD Finance, Audit & IG	Local Audit and Accountability Act 2014 is now statute but secondary legislation and guidance still to be developed. Therefore continued need to respond to any consultations on these.	On going-respond to any consultations during 14/15 as required.	No change – responses made as appropriate to Code of Audit Practice and draft Accounts and Audit Regulations. Comments on fees for 15/16 due by 09/01/15
3.	Complete the review and implementation of Workforce Development priorities and delivery. Continue to review and update the management competencies and skills required in the revised organisation. Review of People Services policies and procedures to support the priorities and organisational change.	AD – Law, Democracy & People Services	Continue the work on workforce development, management competencies and policy and procedures review.	On going as agreed with SMT (31/03/15).	The key leadership, management and workforce requirements have been identified and the Council's development programme reflects these. The programme is revised on a rolling basis. People policies have been prioritised and are being revised and renegotiated in line with these priorities.
4.	Deliver the improved processes and associated governance to deliver savings and service improvements in Adult Social Services alongside the development of the processes and Council governance arrangements for the revised Social Care and Health agendas and changes proposed for 2014/15 and beyond.	Interim Director: Care, Health & Wellbeing; Interim AD – Adult Social Services	Implement control changes and deliver savings targets. Implement appropriate governance arrangements to meet the changes arising from the Care Act.	31/03/15 and on-going	An agreed and consistent process and system for community care financial control has been implemented. (This includes with respect to RAS, outside RAS and for Self Directed Support & Brokerage Team to include 'one off' changes in care and terminations of care). This will ensure accurate data and appropriate financial control, and includes defining clear roles and

					<p>responsibilities of teams and individuals for entering data for all practitioners and SDS&amp;BT, and via agreed communications channels.</p> <p>Cost improvement plan has been developed to deliver savings across 14/15 and 15/16 with robust action plans and ownership in place, which is monitored on a monthly basis. Challenge in place via Members, MD, and Director.</p> <p>Care Act Implementation programme management in place to deliver Care Act compliance as of 1<sup>st</sup> April 2015 and then 2016. Chair – Director. Programme Lead – Clare Hall-Salter.</p>
5.	Implement the governance aspects of the improvement plans arising from external Ofsted and Care Quality Commission (CQC) inspection reports and peer reviews/challenges.	<p>Director: Children &amp; Family Services &amp; Interim Director: Care, Health &amp; Wellbeing</p>	This action plan is particularly focussed on any recommendations that improve the governance arrangements in these areas.	Various dates throughout 2014/15	<p>CQC are responsible for registering and inspecting care providers, including the Council's Registered Care Providers: Downing House &amp; Carwood (Residential Homes), Community Living (Domiciliary Care), Shared Lives. All relevant recent inspections by CQC found that "all standards were being met when we inspected the service".</p> <p>Peer Challenge forms part of a Sector Led Improvement Programme being led locally by West Midlands ADASS, to replace previous national inspection of each local authority's adult social care service led by CQC. Since our Peer Challenge in July 2013 we have progressed actions against recommendations, as well as seeking further external</p>

					<p>challenge from Capita (July 2014) on progress being made and John Bolton, national lead on efficiency in Adult Social Care to spent 2 days in T&amp;W (15/16 December) giving further feedback on our approach and progress.</p> <p>As part of the West Midlands sector led improvement approach we are also signed up to an annual summit, where we will receive external challenge from experts from other LAs, based on balanced scorecard performance approach looking at governance and leadership, performance &amp; outcomes, resources &amp; workforce management, health and wellbeing partnerships (including Care Act &amp; BCF preparedness), culture &amp; challenge, commissioning. This challenge took place at a West Midlands Summit on the 12 December 2014.</p>
6.	Continue to develop and implement appropriate governance arrangements to support commercial projects including the setting up of a company.	Managing Director/ Monitoring Officer/CFO/ Director of Development , Business & Customer Services	Some commercial activities will require a separate company to be set up and appropriate governance within and in relation to the Council will need to be implemented.	Company by 09/14 and others on going during 2014/15	Projects progressing well within existing governance arrangements. Solar Farm will be operational from January 2015. Cabinet Report January 2015 re Housing project and setting up a company including appropriate governance.

# Protecting the Public Purse

## Fraud Briefing 2014

Borough of Telford and Wrekin



# Purpose of Fraud Briefing



Provide an information source to support councillors in considering their council's fraud detection activities



Extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities



Give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed



Be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud

# Understanding the bar charts

Outcomes for the first measure for your council are highlighted in yellow in the bar charts. The results of your comparator authorities are shown in the green bars.



Outcomes for the second measure for your council are highlighted as a green symbols above each bar. The results of your comparator authorities are shown in the white triangles.



A ‘\*’ symbol has been used on the horizontal axis to indicate your council.

All data are drawn from council submissions on the Audit Commission’s annual fraud and corruption survey for the financial year 2013/14.

In some cases, council report they have detected fraud and do not report the number of cases and/or the value. For the purposes of this fraud briefing these ‘Not Recorded’ records are shown as Nil.

# Interpreting fraud detection results



Contextual and comparative information needed to interpret results



Detected fraud is indicative, not definitive, of counter fraud performance (*Prevention and deterrence should not be overlooked*)



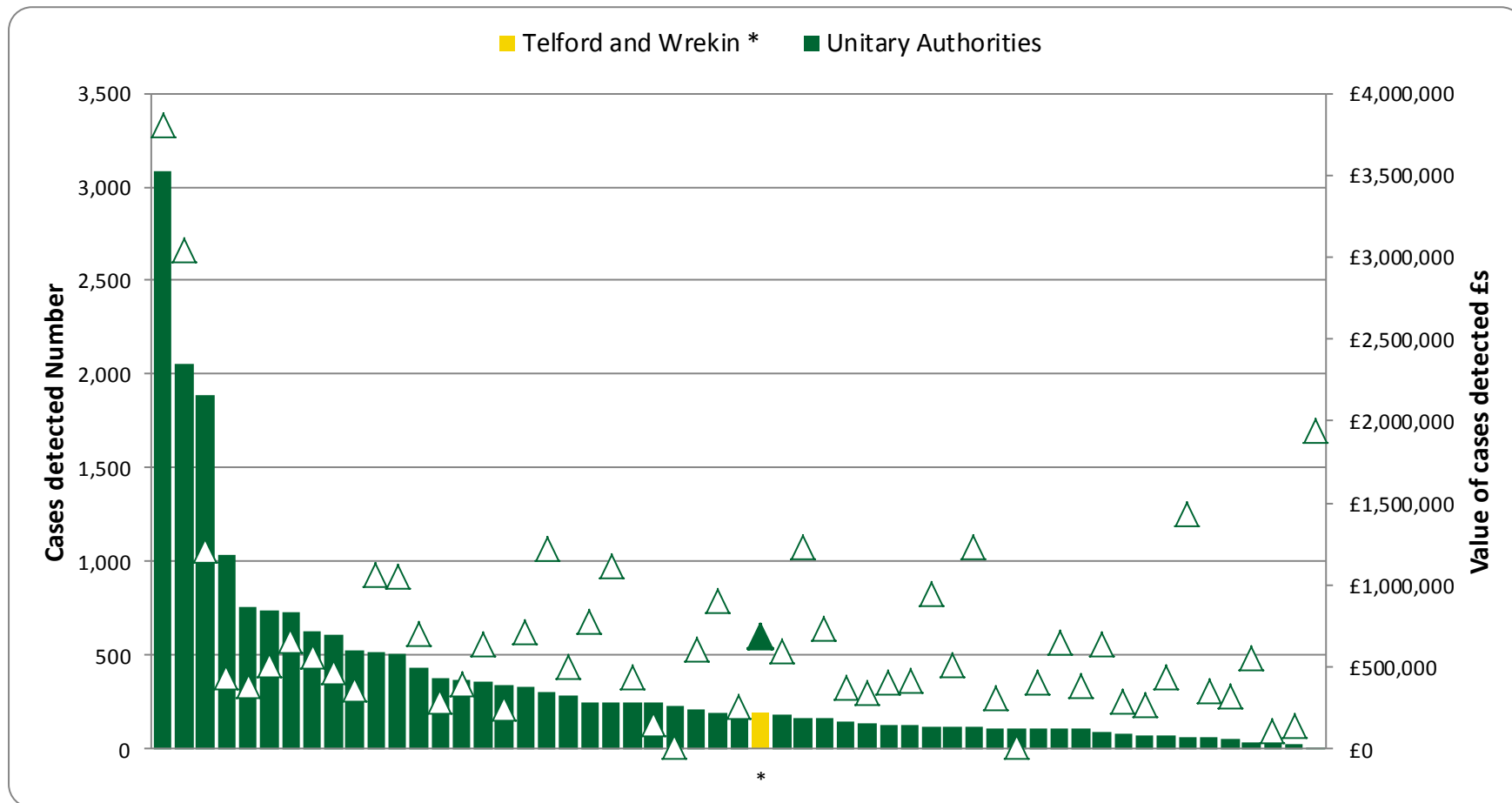
No fraud detected does not mean no fraud committed (*Fraud will always be attempted and even with the best prevention measures some will succeed*)



Councils who look for fraud, and look in the right way, will find fraud (*There is no such thing as a small fraud, just a fraud that has been detected early*)

# Total detected cases and value 2013/14 (Excludes Housing tenancy fraud)

## Telford and Wrekin



Telford and Wrekin detected 187 cases of fraud. The value of detected fraud was £680,717 #.

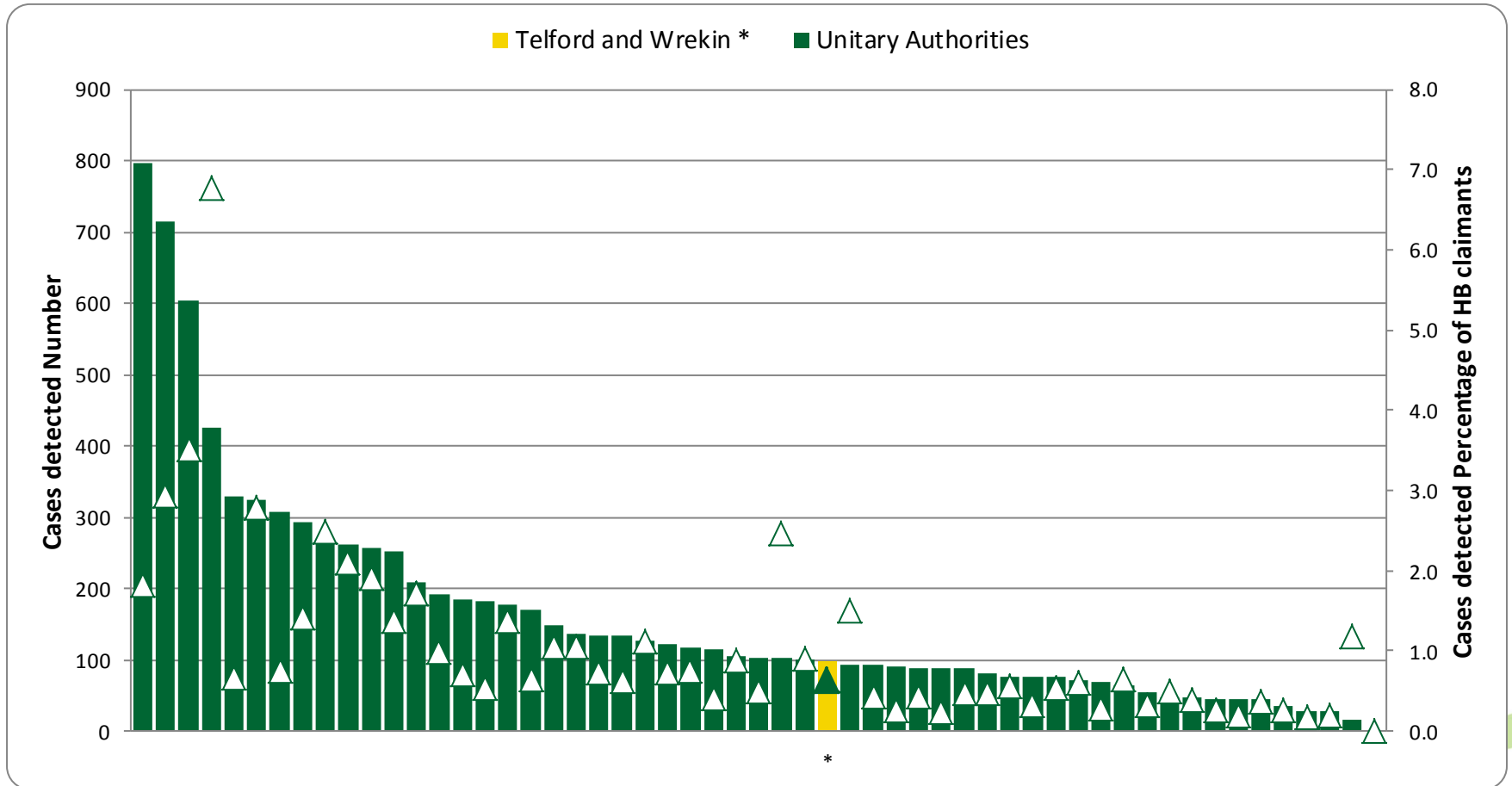
Average for other Unitary Authorities: 373 cases, valued at £694,193



# Housing Benefit (HB) and Council Tax Benefit (CTB) 2013/14

## Total detected cases, and as a proportion of housing benefit caseload

### Telford and Wrekin



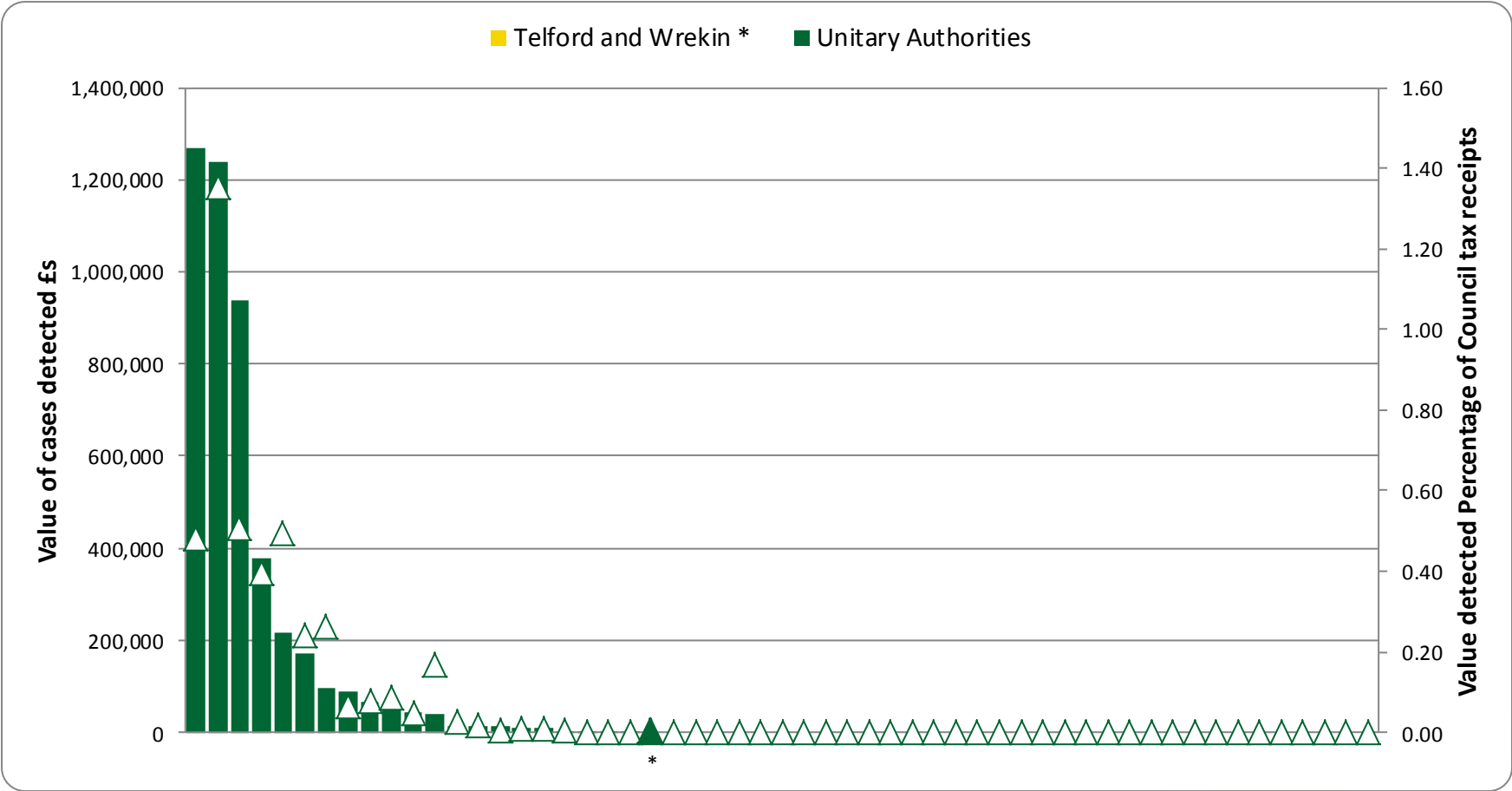
Telford and Wrekin detected 97 cases of this type of fraud. The value of detected fraud was £434,112.

Average for other Unitary Authorities: 164 cases, valued at £547,167

# Council tax discount fraud 2013/14

Total detected value, and value as a proportion of council tax income

## Telford and Wrekin



Telford and Wrekin detected 30 cases #.  
 Average for other Unitary Authorities: 172 cases, valued at £86,424



# Councils without housing stock 2013/14

## Housing tenancy fraud

4 per cent of social housing stock in London and 2 per cent outside London is subject to tenancy fraud

Second largest fraud loss to local government, £845 million

Combined with housing associations the total loss in England, £1.8 billion

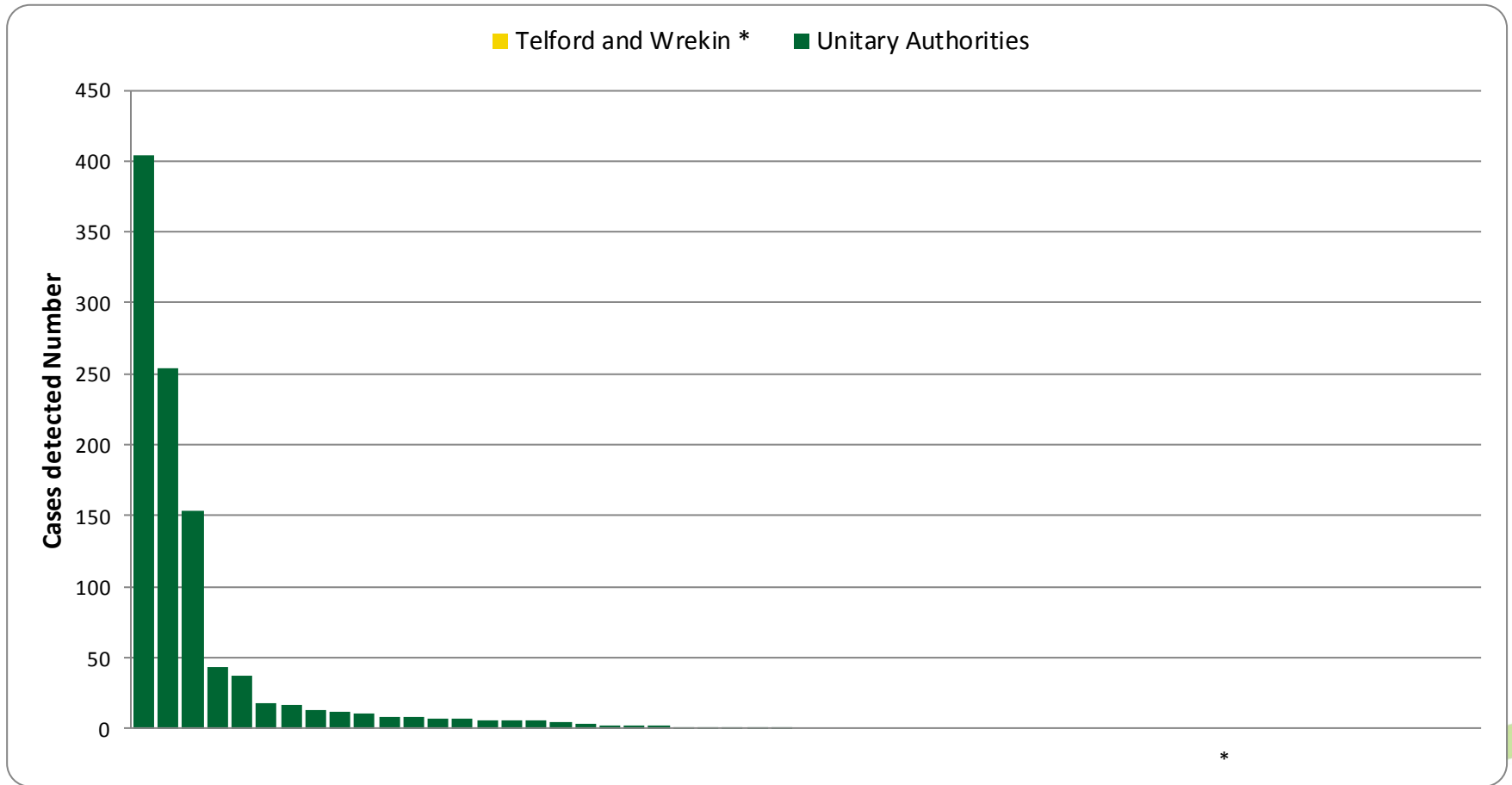
The Prevention of Social Housing Fraud Act 2013: criminalises tenancy fraud

Councils have powers to investigate and prosecute tenancy fraudsters on behalf of housing associations

**Should you be using this legislation and powers to work in partnership with local housing associations?**

# Disabled parking (Blue Badge) fraud 2013/14

## Telford and Wrekin



Telford and Wrekin did not detect any cases of this type of fraud.  
Average for other Unitary Authorities: 19 cases

## Other frauds 2013/14

### Telford and Wrekin

Procurement: Telford and Wrekin did not detect any cases of this type of fraud.  
Total for other Unitary Authorities: 25 cases, valued at £832,190

Insurance: Telford and Wrekin did not detect any cases of this type of fraud.  
Total for other Unitary Authorities: 34 cases, valued at £988,636

Social care: Telford and Wrekin did not detect any cases of this type of fraud.  
Total for other Unitary Authorities: 47 cases, valued at £731,379

Internal: Telford and Wrekin detected 1 case of this type of fraud. The value of detected fraud was £977.

Total for other Unitary Authorities: 319 cases, valued at £1,029,521

*Correctly recording fraud levels is a central element in assessing fraud risk.  
It is best practice to record the financial value of each detected case*

# Questions elected members and decision makers may wish to ask

**Post SFIS**

**Local priorities**

**Partnerships**

**Using information and data**

Are our remaining counter-fraud resources and skill sets adequate after our benefit fraud investigators have left to join SFIS?

Are local priorities reflected in our approach to countering fraud?

Have we considered counter-fraud partnership working?

Are we satisfied that we will have access to comparative information and data to inform our counter-fraud decision making in the future?

# Any questions?

