

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 1st November 2011 at 6.00 pm in the Reception Suite, Civic Offices, Telford

PRESENT: Councillors D G Davies (Chair), R K Austin, I T W Fletcher, R J Sloan, and C R Turley.

Officers: K Clarke (Head of Finance), P Harris (Finance Manager), J Marriott (Audit & Assurance Manager), B Morris (Finance Team Leader), and J Clarke (Democratic Services Officer).

AUC-24 MINUTES

Further to Minute AUC16(b) the Chair requested that only very minor changes had been made to the Statement of Accounts for 2010/11, and that they had received an unqualified opinion from the external auditor.

RESOLVED – that the minutes of the meeting of the Audit Committee held on 20th September 2011 be confirmed and signed by the Chairman.

AUC-25 APOLOGIES FOR ABSENCE

Cllr W L Tomlinson

AUC-26 DECLARATIONS OF INTEREST

None

AUC-27 TREASURY MANAGEMENT UPDATE REPORT

The Finance Manager presented a joint report of the Chief Finance Officer and the Head of Finance which gave an update on Treasury Management activity for the first half of the year.

The treasury portfolio at the end of September had shown overall indebtedness at £59m. Base rates had been at 0.5% all year and the next move upwards was not now expected to be until late 2012 at the earliest.

The Council's capital programme was being supported by using maturing investments to reduce the level of additional borrowing required. Temporary borrowing was used to fund short-term cash flow requirements. The weighted average return on internal investments at 30 September was 3.27% compared to a benchmark return for the period of 0.42%. A schedule of investments held at 30 September was shown at Appendix 1 to the report. Overall, treasury management was generating a net surplus for the 2011/12 budget of £0.445m.

Prudential indicators set at the beginning of the year, shown in Appendix 2 to the report, confirmed that no limits had been breached.

The Council's investments were internally managed with a mix of both temporary investments, for cash flow purposes, and longer term investments.

In relation to one of the longer term investments, the Dexia Bank Group had undergone a structure change, due to the recent financial pressure caused by its exposure to Greek debt. The Belgian Government had taken over 100% state ownership of the part of the bank which currently held the Council's investment. Following advice from the Council's Treasury advisors, the Council had made enquiries about terms for a premature repayment of this existing investment and a response was currently awaited. In response to comments from Members it was agreed that although a quick decision on the investment may be required, the Head of Finance would keep all Members informed as soon as possible of any decisions made.

RESOLVED – that the report be noted.

AUC-28 RESULTS OF THE ASSURANCE REVIEW ON THE 2010/11 ANNUAL GOVERNANCE STATEMENT and HALF YEARLY PROGRESS ON THE 2010/11 AGS ACTION PLAN

The Audit and Assurance Manager presented a report of the Interim Chief Executive which detailed the results of the Assurance Review on the 2010/11 Annual Governance Statement and the half yearly progress on the 2010/11 AGS Action plan.

A review of the AGS certification process was undertaken during July 2011 and a sample of certificates were verified to support the 2010/11 Annual Governance Statement. All service delivery managers completed a certificate and 14 (19%) were examined as part of the review and areas of good practice were identified.

The review identified three key issues:

Greater awareness of key corporate policies and procedures were required.

-Organisational Development were currently looking at this area;

Customer Satisfaction

- This was to be looked at in 2012/13 once the corporate restructure had been completed;

Non-Staffing Savings seemed to be affecting training budgets at a time when new personnel and skills gaps were requiring more training.

- Managers supported by Organisational Development to look at innovative ways of providing training ie e-learning; webinars; shadowing etc.

The results of the review were that overall the governance process was reasonable and service areas were addressing the issues identified which would result in improved governance across the Council.

The 2010/11 Annual Governance Statement (AGS) Action Plan included 5 actions to improve further the key governance arrangements of the Council and details of these were appended to the report at Annex 1. The Senior Management Team and relevant Heads of Service were confident that the actions were progressing and the deadlines outlined would be achieved.

RESOLVED – that the report be noted.

AUC-29 INTERNAL QUARTER 2 2011/12 UPDATE REPORT

The Audit and Assurance Manager presented the Quarter 2 Internal Audit update report for 2011/12.

Internal Audit had focussed on the completion of the audits set out in the Internal Audit Plan during this period as well as work on the new financial management system. The ICT procurement review was near finalisation and would be reported as part of the update to the January 2012 Audit Committee. During the quarter the Internal Audit Team also became responsible for co-ordinating complaints referred to the Ombudsman. There had been minimal impact to date however, due to its unpredictable nature, this work would be kept under review.

Eleven final reports were issued in quarter two and these were shown in Appendix A to the report. Several of these had a variance to their allocated time by more than +/- 5%. The Place, which had +162%, had not been audited for a number of years and had been significantly wider than the original time, but the time spent had added value and all of the recommendations had now been implemented.

Appendix B to the report listed the areas of work which had taken 1 day or longer to complete. The fundamental audit areas, ICT procurement review and performance indicators (including carbon reduction) were the main areas of work of more than 10 days.

Appendix C highlights the progress on previous reports issued. Paragraph 5.8 of the report highlighted the current position in respect to red/amber reports which showed that there were currently two reports that remained amber. Car Parking and Enforcement had been delayed due to the current re-structure and a full review of the revised arrangements would take place in Spring 2012 and then reported back to Members. Children's Placement Costs had recently been escalated following the first phase of the re-structure and it was hoped that it could be re-graded to Yellow. Evidence was still needed to confirm the new arrangements were in place and an update would be brought to the next meeting.

Appendix D to the report contained summary information on amber reports in respect of the Abacus System and ICT Backup and Recovery. Recommendations had been made and actions/deadlines agreed with Management.

During the ensuing discussion, it was agreed that the following items needed further clarification and assurance and that the Heads of Service for these areas would be invited to attend the January meeting:

- ICT Backup and Recovery
- Children's Placement Costs 2010/11

RESOLVED – that the report be noted

AUC-30 **RESULTS OF THE CIPFA BENCHMARKING EXERCISE FOR INTERNAL AUDIT 2011**

The Audit and Assurance Manager presented a report which set out the results of the benchmarking exercise for 2011 compared with the 2008-2010 figures previously reported.

The results demonstrated that Telford and Wrekin generally compared well with other unitary authorities although the 2010/11 results were affected by the restructure. The 2011/12 estimated comparisons reflected the revised structure of Internal Audit and subsequent reduced costs. Appendix A to the report gave a detailed breakdown of the cost analysis.

Benchmarking was considered to be a useful exercise. Although all organisations were unique and had their own individuality, all needed to provide the appropriate assurances to the Council whilst demonstrating value for money

RESOLVED – that the report be noted.

The meeting ended at 6.52 p.m.

Chairman:

Date:

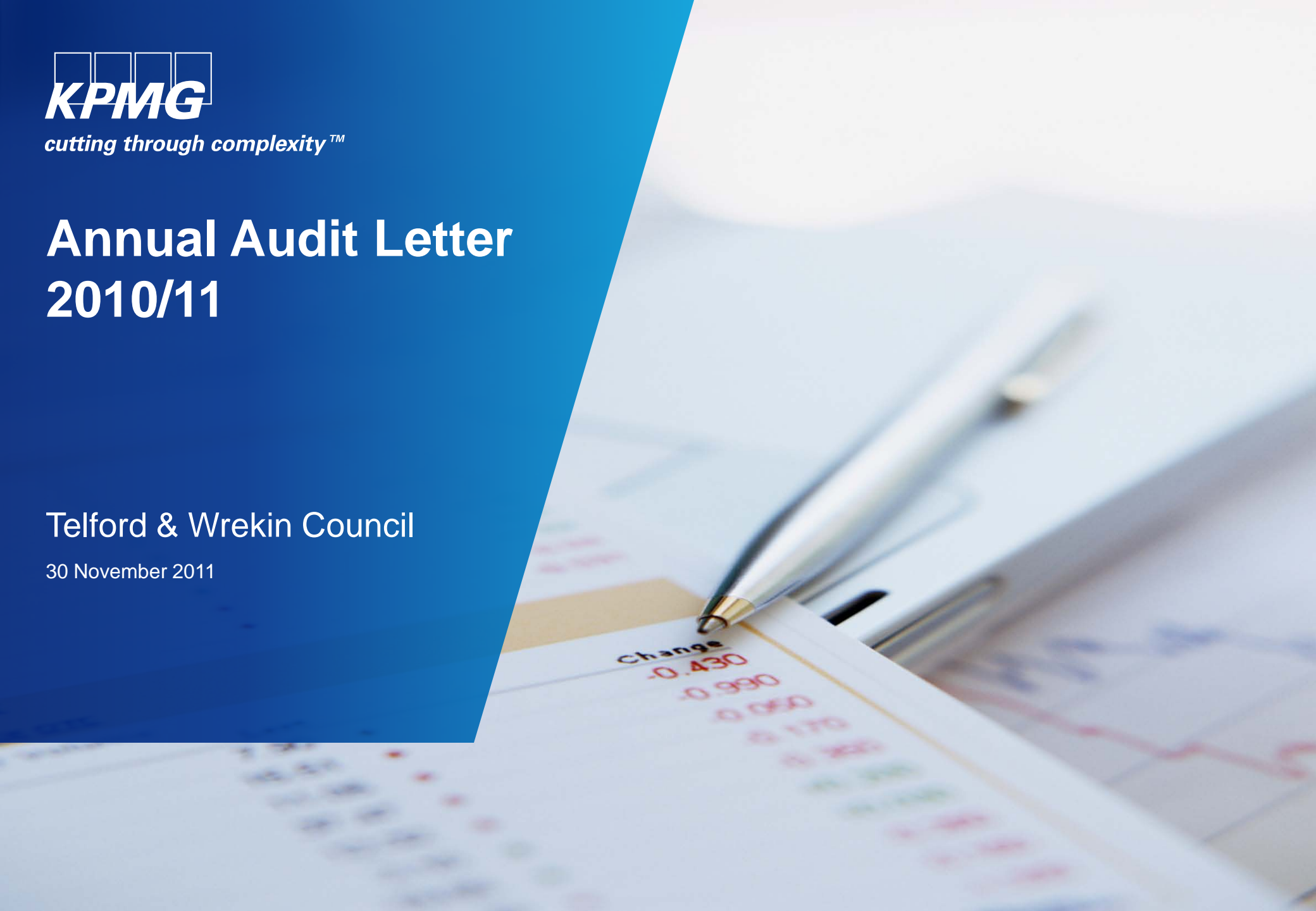


cutting through complexity™

Annual Audit Letter 2010/11

Telford & Wrekin Council

30 November 2011



The contacts at KPMG in connection with this report are:

Michael McDonagh

Partner

KPMG LLP (UK)

Tel: +44 (0)121 335 2440

michael.a.mcdonagh@kpmg.co.uk

Andrew Cardoza

Senior Manager

Tel: +44 (0)121 232 3869

andrew.cardoza@kpmg.co.uk

Heather Garrett

Manager

Tel: +44 (0)161 246 4294

heather.garrett@kpmg.co.uk

Adam Bunting

Assistant Manager

Tel: +44 (0)121 232 3253

adam.bunting@kpmg.co.uk

Report sections

- Headlines

2

Appendices

1. Key issues and recommendations
2. Summary of reports issued
3. Audit fees

4

5

6

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

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

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

This report summarises the key findings from our 2010/11 audit of Telford & Wrekin Council (the Authority).

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

Our audit covers the audit of the Authority's 2010/11 financial statements and the 2010/11 VFM conclusion.

VFM conclusion	<p>We issued an unqualified value for money ('VFM') conclusion for 2010/11 on 29 September 2011.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
VFM risk areas	<p>We identified a number of significant risks to our VFM conclusion and considered the arrangements you have put in place to mitigate these.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ The Restructuring Programme is operating to timetable and the Authority anticipates that it will deliver the desired savings. ■ The implementation of Single Status has been delayed until 2014, with no further contribution to the Single Status accrual being made in 2011/12. ■ The risks related to the Railfreight Terminal are mitigated through the terms of the arrangement meaning that the Authority has no obligation to contribute towards losses incurred by the operator.
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 29 September 2011. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
Financial statements audit	<p>Our work in relation to the financial statements resulted in the following significant findings:</p> <ul style="list-style-type: none"> ■ A total of 11 audit adjustments with an overall gross value of £114.6m. These adjustments impacted upon the surplus on provision of services for both 2009/10 and 2010/11 and also upon the net worth for 2010/11. There was no impact upon the General Fund balance in either year. ■ The Authority is currently operating two deminimis levels in relation to Capital Accounting. The first level allows any qualifying expenditure over £1,000 to be treated as capital expenditure whilst the second level results in any assets with a purchase cost of less than £50,000 being immediately impaired and removed from the Fixed Asset Register. In 2010/11 the value of additions and impairments arising from this approach, post audit differences, exceeded £9m. In relation to such thresholds the Code states that they should be harmonised. Council Officers have reviewed the policy and proposed revised wording which we are currently reviewing. We have agreed to reach a resolution in relation to this by the end of January 2012. ■ There were a large number of presentational errors in the draft financial statements arising from the complexity of implementation of IFRS.

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding. No adjustments were required to the <i>Annual Governance Statement</i>.</p>
High priority recommendations	<p>We raised one high priority recommendation as a result of our 2010/11 work. The recommendation related to the need to undertake a more robust review of the Code and IFRS on an annual basis in order to ensure that any changes are identified and that the technical knowledge of those involved in the preparation of the financial statements remains up-to-date.</p> <p>This is detailed more fully in Appendix 1 together with the action plan agreed by management.</p> <p>We will formally follow up this recommendation, and all other recommendations raised, as part of our 2011/12 work.</p>
Elector questions and objections	<p>During the 2009/10 audit we received a total of four elector questions and objections. We have completed the work in relation to three of these questions and have issued our responses. In relation to the final issue we are in discussions with the Authority and are drafting a Statement of Reasons Letter to the objectors and their representative and will report back to the Authority in due course.</p> <p>No elector questions or objections were raised to date during the 2010/11 audit.</p>
Certificate	<p>We have not yet issued our certificates on in relation to either 2009/10 or 2010/11. The delay in issuing these certificates relates to ongoing work in relation to an elector objection raised during the 2009/10 audit process. We are currently finalising our work in relation this objection. As a result of this we cannot currently issue either certificate.</p> <p>Once we have concluded the objection we will issue both certificates within the appropriate timeframe.</p> <p>The certificates will confirm that we have concluded the audit for 2009/10 and 2010/11 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i>.</p>
Audit fee	<p>Our fee for 2010/11 was £290,700, excluding VAT. This compares to a planned fee of £287,200. The increase in fee reflects additional work undertaken in relation to the audit of the Authority's financial statements. We have also charged a further £37,640 in relation to the ongoing work on elector challenges and questions raised in relation to the 2009/10 financial statements. Further detail is contained in Appendix 3.</p>

Appendix 1: Key issues and recommendations

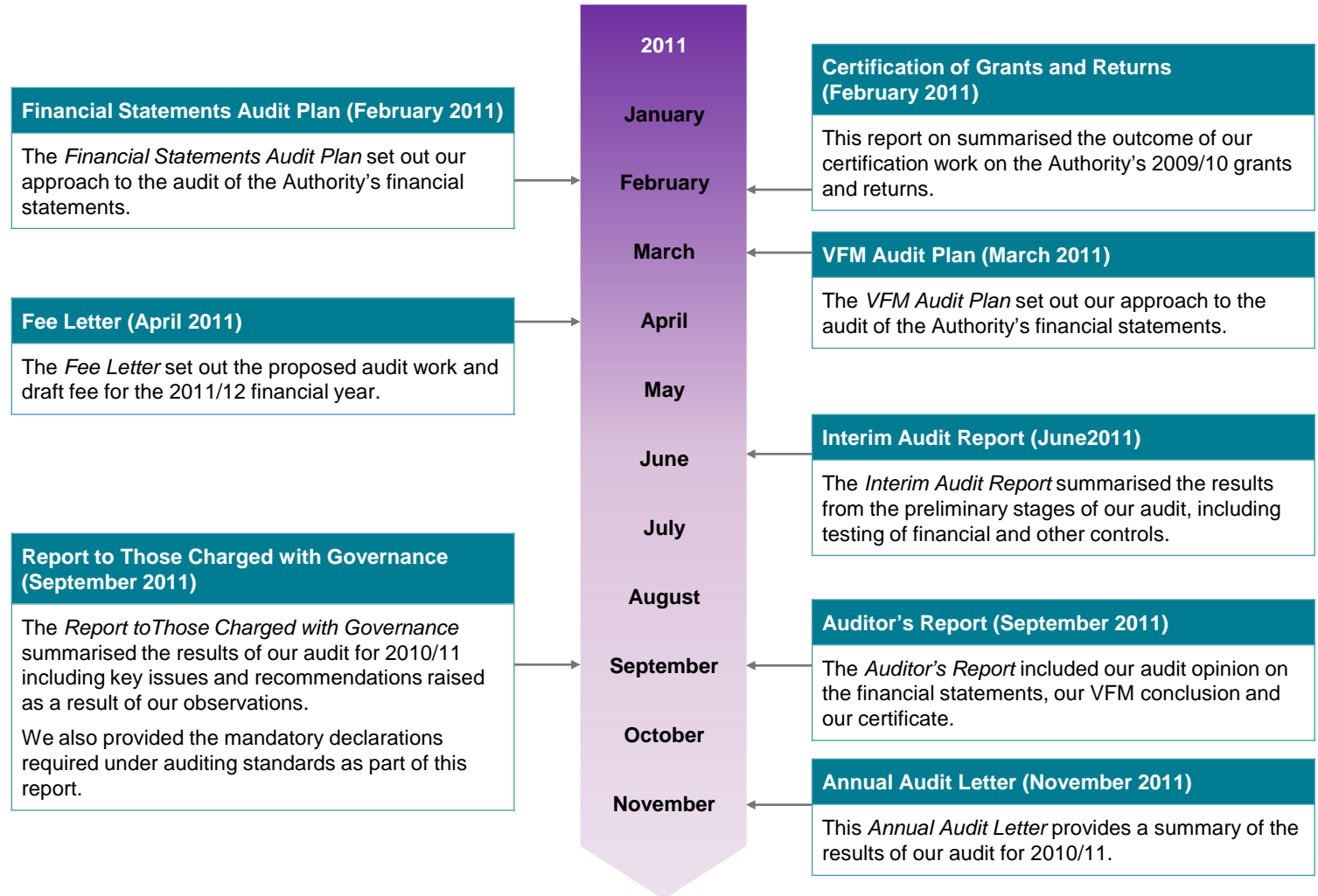
This appendix summarises the high priority recommendation that we identified during our 2010/11 audit, along with your responses to them.

Lower and medium priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	<p>Our audit work highlighted that a substantial portion of the audit differences identified arose due to the changes arising following the move from UK GAAP to IFRS as implemented by the Code.</p> <p>The Authority should undertake a thorough review of the Code and IFRS is undertaken on an annual basis so as to ensure that any changes are identified and actioned in the preparation of the financial statements. In addition, in such key areas, the technical expertise within the Authority may require further improvement and the Authority should identify any knowledge and skill gaps within the team, and implement an action plan which includes provision of further training where required.</p>	<p>As part of the audit fee it had been agreed that KPMG would provide 15 consultancy days specifically to advise and assist with the transition to IFRS. Resources available to complete the Statement of Accounts are limited and the Council was relying on this technical input from KPMG to review working papers and disclosure notes and provide detailed guidance. This was planned to be a separate piece of work prior to the commencement of the audit and a number of documents had been sent to KPMG for review/comment. Whilst 8 days support was provided and was very helpful, 7 of the planned consultancy days were not provided ahead of the audit. Consequently, this meant that there were more findings during the audit. As previously mentioned, the restructure process has allocated additional resource which should assist accounts preparation for 2011/12 which will also be subject to much less change in accounting requirements than 2010/11 which has been an exceptional year.</p> <ul style="list-style-type: none"> ▪ Ken Clarke - Head of Finance ▪ 2011/12 Financial Statements

Appendix 2: 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 2010/11.

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the outturn against the 2010/11 planned external audit fee.

External audit

Our final fee for the 2010/11 audit of the Authority was £290,700. This compares to a planned fee of £287,200.

The reason for this variance is an increased fee for the audit of the financial statements reflecting additional costs incurred in carrying out the 2010/11 final accounts audit of £3,500 over and above our initial estimate as at April 2010.

In addition to the fee for the 2010/11 audit we have charged a £37,640, to date, for additional work which was not allowed for in our initial plan. This was for ongoing work in relation to the resolution of four elector objections and questions, and the review of officer severance payments made during the year raised during the 2009/10 audit.

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 2010/11* which we are due to issue in February 2012.

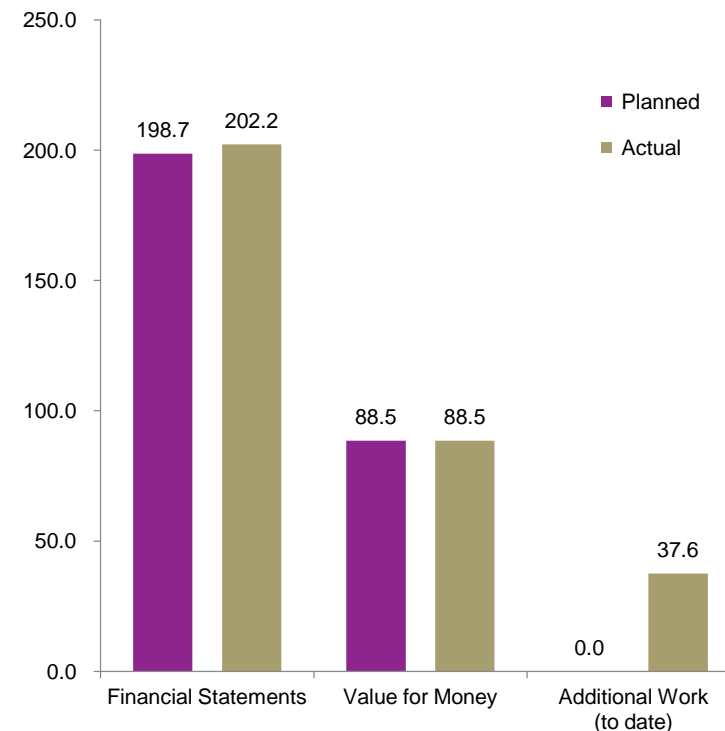
Other services

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

2011/12 Fee

In April 2011 we issued our fee letter for the 2011/12 audit of the Authority. This set out a fee of £258,480 which represents a significant decrease compared to the 2010/11 fee set out above.

External audit fees 2010/11 (£000's)





cutting through complexity™

© 2011 KPMG LLP, a UK public limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).



cutting through complexity™

Certification of grants and returns 2010/11

Telford & Wrekin Council

January 2012



The contacts at KPMG in connection with this report are:

Michael McDonagh

Partner

KPMG LLP (UK)

Tel: +44 (0)121 335 2440

michael.a.mcdonagh@kpmg.co.uk

Andrew Cardoza

Senior Manager

Tel: +44 (0)121 232 3869

andrew.cardoza@kpmg.co.uk

Heather Garrett

Manager

Tel: +44 (0)161 246 4294

heather.garrett@kpmg.co.uk

Adam Bunting

Assistant Manager

Tel: +44 (0)121 232 3253

adam.bunting@kpmg.co.uk

	Page
■ Headlines	2
■ Summary of certification work outcomes	3
■ Fees	5
■ Recommendations	6

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.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, who is the engagement leader to the Authority (telephone 0121 335 2440, e-mail michael.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

<p>Introduction and background</p>	<p>This report summarises the results of work on the certification of the Council's 2010/11 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2010/11 we certified: <ul style="list-style-type: none"> – Three grants with a total value of £85.5 million; and – Two returns with a total value of £71.7 million 	<p>-</p>
<p>Certification results</p>	<p>We issued unqualified certificates for 4 grants and returns, but a qualification was necessary in one case.</p> <ul style="list-style-type: none"> ■ A qualification was required in relation to the certification of the Housing and Council Tax Benefits Scheme as the result of the identification of one case of underpaid benefit entitlement. In accordance with the certification instructions a qualification was mandated as a result of identifying an error of this nature ■ These results are in line with the results for 2009/10 where we also issues one qualified certificate which was also in relation to the Housing & Council Tax Benefit Subsidy claim and arose due to a similar error being identified. 	<p>Pages 3 – 4</p>
<p>Audit adjustments</p>	<p>Minor adjustments were necessary to four of the Council's grants and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ There were a number of minor adjustments required to four of the grants and returns certified during 2010/11. As a result of these errors the value claimed in relation to two of the grants was amended by a non-significant amount; and ■ These results are also in line with the results for 2009/10 where minor amendments where required in relation to four grants and returns but had no significant impact upon the amounts claimed. However, through our grant audit work we helped the Council claim an extra £8.5k on its sure Start claim. 	<p>Pages 3 – 4</p>
<p>The Council's arrangements</p>	<p>The Council has adequate arrangements for preparing its grants and returns and supporting our certification work but some improvements are required in some areas.</p> <ul style="list-style-type: none"> ■ Grants and returns were submitted on a timely basis and had been correctly identified as requiring certification in line with the Certification Instruction Index issues by the Audit Commission. ■ In general the records kept in relation to grants and returns were accurate and sufficient. Delays and difficulties were encountered however in relation to two areas of work due to the records not being easily accessible for audit. These difficulties arose where the records were not limited to the current year (i.e. Staff records) or where grants funded programmes in a variety of council departments. 	<p>Page 6</p>
<p>Fees</p>	<p>Our overall fee for the certification of grants and returns was in line with the original estimate of £35k.</p> <ul style="list-style-type: none"> ■ This represents a decrease of £23k when compared to the fee charged in 2010/11. This decrease arises due to the inclusion of eight Single Programme Grants for certification as part of the 2009/10 work. No such grants required certification during 2010/11. ■ The Council can ensure that future fees are kept to a minimum by ensuring that accurate records are maintained in relation to all grants and returns and that such records are readily accessible for audit. 	<p>Page 5</p>

Overall, we certified five grants and returns:

- One was unqualified with no amendment;
- Three were unqualified but required some amendment to the final figures; and
- One required a qualification to our audit certificate.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2010/11 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

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

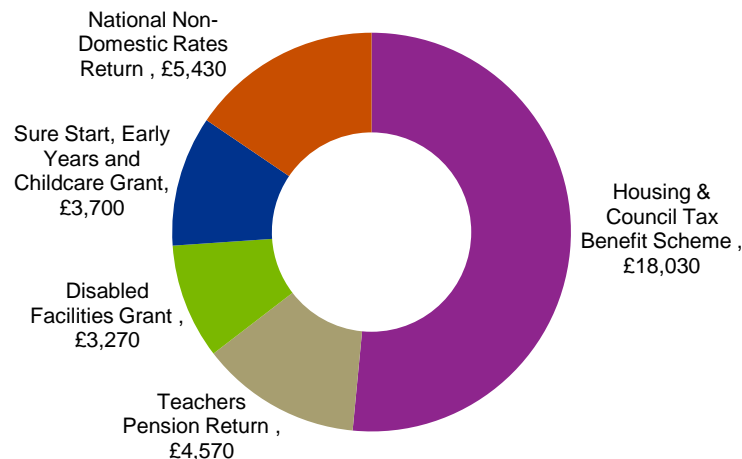
	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing & Council Tax Benefit Scheme	1			x2	
Teachers Pension Return	2				
Disabled Facilities Grant	3				
Sure Start, Early Years and Childcare Grant	4			x4	
National Non-Domestic Rates Return					
		1	0	8	4

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p>Housing and Council Tax Benefit Scheme</p> <ul style="list-style-type: none"> The grant was qualified due to the identification of one case being underpaid benefit entitlement. Under the certification instructions applicable to this grant the issuing of a qualification as a result of such an issue being identified was mandatory. Non-significant adjustments were required to the grant due to errors identified in the compilation of the report. These errors arose due to compilation guidance being issued after the grant had been compiled. This grant was also qualified as a result of the 2009/10 certification work. The 2009/10 qualification also arose, in part, due to the identification of an underpayment. 	- £87
2	<p>Teachers Pension Return</p> <ul style="list-style-type: none"> A minor amendment was required in order to correct a misclassification of additional pension contributions paid by employees. The correction of this error did not result in a change to the total value of the return. 	No Impact on Value Claimed
3	<p>Disabled Facilities Grant</p> <ul style="list-style-type: none"> A non-significant amendment was required in relation to non-financial data relating to case numbers. The error arose due to the categories reported by the Council's systems differing slightly from those required for the grant form. The amendment had no impact upon the total value of the Grant claimed. 	No Impact on Value Claimed
4	<p>Sure Start, Early Years and Childcare Grant and Aiming High for Disabled Children Grant</p> <ul style="list-style-type: none"> Amendments were required to a number of cells in order to account for eligible expenditure which had not been included in the original calculations for the grant form and also to remove some non-eligible expenditure originally included. The inclusion of the non-eligible expenditure arose due to clarification of the certification instructions confirming that such expenditure could not be claimed. 	+ £8,478

Our overall fee for the certification of grants and returns was in line with the original estimate.

Breakdown of certification fees 2010/11



Breakdown of fee by grant/return		
	2010/11 (£)	2009/10 (£)
Housing & Council Tax Benefit Scheme	18,280	17,430
Teachers Pension Return	4,570	4,360
Disabled Facilities Grant	3,270	3,415
Sure Start, Early Years and Childcare Grant and Aiming High for Disabled Children Grant	3,700	3,840
National Non-Domestic Rates Return	5,430	5,350
Single Programme Grants	-	24,000
Total fee	35,250	58,395

Our initial estimated fees for certifying 2010/11 grants and returns was £35,000. The actual fee charged was generally in line with that estimate. The reduction in fee from that charged in 2009/10 relates to the inclusion of eight Single Programme Grants in the certification work for 2009/10. No such grants or returns required certification during 2010/11.

We recommend the Council takes the following steps to improve its support for our certification work, which should help minimise certification fees in the future:

- Review the process for maintaining records in relation to grants and returns in order to ensure that they are readily available for audit. Records should be maintained for the full length of the grant or return involved and should, ideally, be stored in a central location so as to facilitate the grant management and audit process.

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

Priority rating for recommendations

<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
--	---	---

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and target date
Grant & Return Management					
<p>Record Maintenance</p> <p>We encountered difficulties in relation to two grants and returns as a direct result of records not being available for review.</p>	<p>The unavailability of records resulted in delays to the audit process. In one instance an extension to the certification deadline was required from the awarding body.</p> <p>Where records are consistently unavailable over a number of years it becomes necessary to consider qualification of the grant or return in question. In addition, some certification instructions mandate that qualification occurs where records are not available upon request.</p>	<p>1</p> <p>The Council should review its processes for maintaining records in relation to grants and returns in order to ensure that they are readily available for audit.</p> <p>Records should be maintained for the full length of the grant or return involved and should, ideally, be stored in a central location so as to facilitate the grant management and audit process</p>	<p>1</p>	<p>The importance of retaining records and these being available will be re-iterated to Service areas and specifically the need to have backing documents to support all grant claims.</p>	<p>Ken Clarke 29 February 2012</p>



cutting through complexity™

© 2011 KPMG Audit Plc, a UK public limited company, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).



cutting through complexity™

External Audit Plan 2011/12

Telford & Wrekin Council

January 2012



The contacts at KPMG in connection with this report are:

Michael McDonagh

Partner

KPMG LLP (UK)

Tel: +44 (0)121 335 2440

michael.a.mcdonagh@kpmg.co.uk

Andrew Cardoza

Senior Manager

Tel: +44 (0)121 232 3869

andrew.cardoza@kpmg.co.uk

Heather Garrett

Manager

Tel: +44 (0)161 246 4294

heather.garrett@kpmg.co.uk

Adam Bunting

Assistant Manager

Tel: +44 (0)121 232 3253

adam.bunting@kpmg.co.uk

Report sections

	Page
■ Introduction	2
■ Headlines	3
■ Our audit approach	4
■ Key financial statements audit risks	9
■ VFM audit approach	13
■ Audit team, deliverables, timeline and fees	17

Appendices

1. Balance of internal controls and substantive testing	21
2. Independence and objectivity requirements	22
3. Quality assurance and technical capacity	23

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

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

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

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

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

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

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

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

Scope of this report

This document describes how we will deliver our financial statements audit work for Telford & Wrekin Council. It supplements our *Audit Fee Letter 2011/12* presented to you in April 2011.

We also set out our approach to value for money (VFM) work for 2011/12.

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.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- 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.

We have identified a number of key risks that we will focus on during the audit of the 2011/12 financial statements.

These are described in more detail on pages 9 to 12.

The remainder of this document provides information on our:

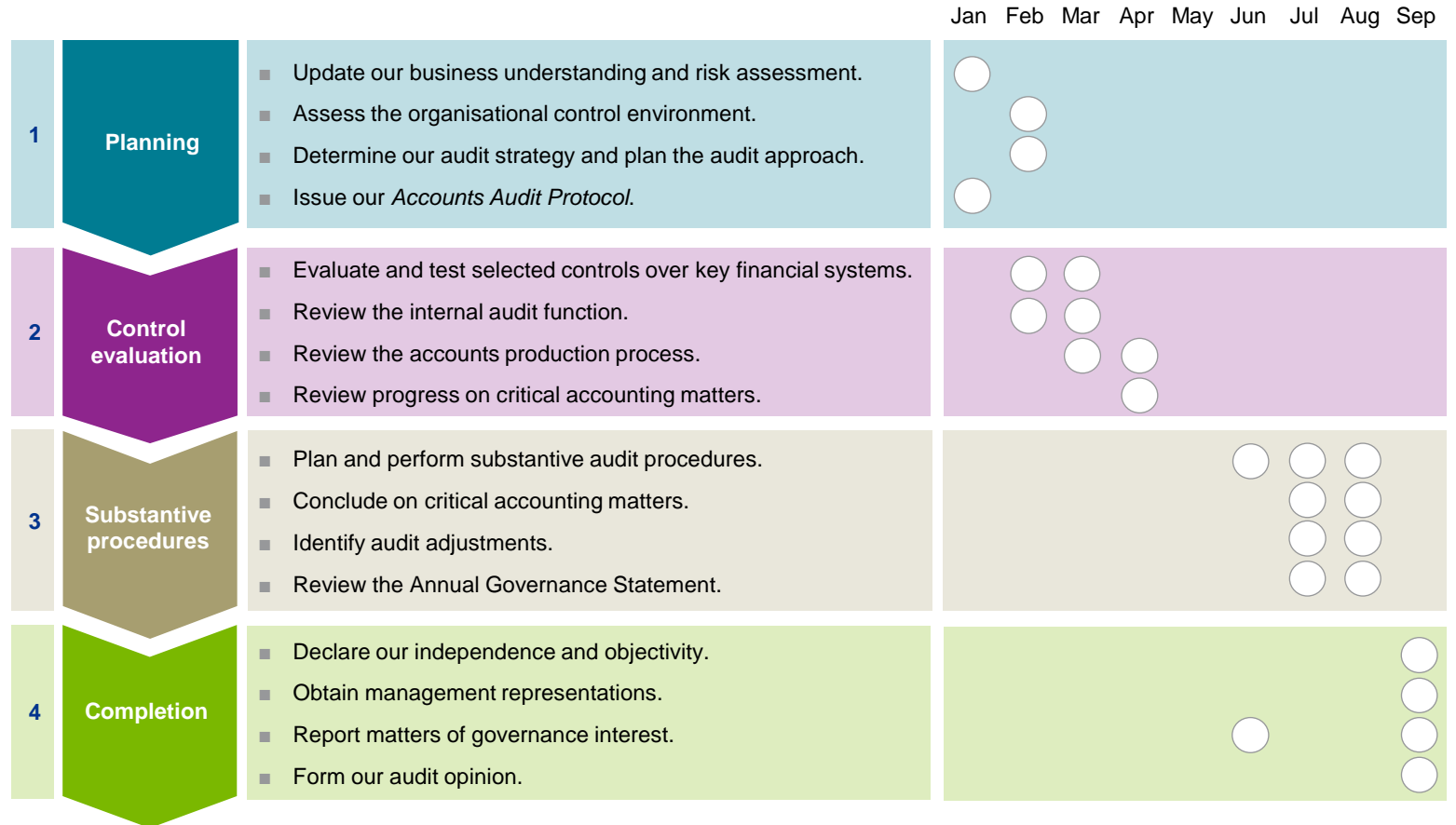
- Approach to the audit of the financial statements;
- Approach to VFM work; and
- Audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
Savings plans	<p>The Council is forecasting that it will deliver its 2011/12 budget which includes a savings programme totalling £13.2m. The Council currently estimates that it will need to deliver £19.2 million in savings during 2012/13 to address further reductions to local authority funding and continued cost pressures.</p> <p>The Council will need to establish and manage its savings plans as to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2011/12 financial statements as appropriate.</p>	In conjunction with our VFM work we will critically assess the controls the Council has in place to ensure a sound financial standing and review how the Council is planning and managing its savings plans. We will also review the Council's assessment of potential liabilities and any provisions in its 2011/12 financial statement.
Component Accounting	We reported in our 2010/11 <i>Annual Audit Letter</i> that the Council had implemented a policy in relation to the IFRS requirements for component accounting. This policy was based upon the application of a series of thresholds relating to the asset's value and useful economic life. The application of this policy to additions and revalued assets in 2010/11 resulted in no componentisation being undertaken.	We will review the impact of the Council's componentisation policy in relation to the 2011/12 Financial Statements and in the event of no componentisation being required, consider the potential need to adjust the thresholds applied.
Capital Accounting Thresholds	In our 2010/11 <i>Annual Audit Letter</i> we also reported that the Council had historically operated two de minimis thresholds in relation to Capital Accounting resulting in capital expenditure between £1k and £50k being capitalized but then immediately impaired to nil net book value. The Council has proposed a revised policy which will be implemented in relation to the 2011/12 Financial Statements.	We are currently reviewing the revised capital accounting policy to ensure that it complies with the requirements of the Code and resolves the issues identified as part of our 2010/11 Financial Statements Audit. During our 2011/12 Financial Statements Audit we will review the practical application of the revised policy and its impact upon the impairment and depreciation charges for the year.
Code changes	The Council will need to review and appropriately address the changes introduced by the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ('the Code')</i> . These include a new requirement to obtain valuations for certain 'heritage assets'.	We will discuss and review the Council's proposed accounting treatments in the affected areas.

We undertake our work on your financial statements in four key stages during 2012:

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

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



During January and February 2012 we complete our planning work.

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

We assess if there are any weaknesses in respect of central processes, including the Council's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Council to support the financial statements.

Our planning work takes place in January and February 2012. This involves the following aspects:

Planning

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

Business understanding and risk assessment

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

We identify the key risks affecting the Council's financial statements. These are based on our knowledge of the Council, our sector experience and our ongoing dialogue with Council staff. The risks identified to date 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 Council's responsibility to adequately address these issues. We encourage the Council 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. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular, the areas risk management, internal control and ethics and conduct have implications for our financial statements audit.

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

Audit strategy and approach

The External Audit Engagement Partner sets the overall direction of the external audit and decides the nature and extent of our audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Partner.

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 Council to provide during our interim and final accounts visits.

We met with the Head of Finance, Senior Finance Manager, and Finance Team Leader on 13th October 2011 to discuss mutual learning points from the 2010/11 audit. These will be incorporated into our work plan for 2011/12. We revisit progress against areas identified for development in our regular meetings with the Corporate Finance Team.

During February to March 2012 we complete our interim work.

We assess if controls over key financial systems were effective during 2011/12. 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 present our *Interim Report to the Audit Committee* in June.

Our interim visit on site will be completed during February and March 2012. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Council's key financial processes where these are relevant to our final accounts audit. 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.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

We work with the Council's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2011/12.

Review of internal audit

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

Accounts production process

We raised a number of recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2010/11* relating to the accounts production process. The most significant of these were to:

- ensure that implementation of single status progresses so as to achieve full implementation by April 2014 and that any further slippage in implementation is avoided;
- ensure that a robust review of the draft financial statements is undertaken so as to ensure that presentational, casting and internal agreement issues are identified and addressed; and
- ensure that a thorough review of the Code and IFRS is undertaken on an annual basis so as to ensure that any changes are identified and actioned in the preparation of the financial statements;

We will assess the Council's progress in addressing our recommendations and 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.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Audit Committee meeting on 26 June 2012.

Our audit approach – substantive procedures

During July and August 2012 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.

Our final accounts visit on site has been provisionally scheduled for the period 2 July 2012 to 3 August 2012. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify 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 Partner based on various factors such as our overall assessment of the Council'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 the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

Audit adjustments

During our on site work, we will meet with the Head of Finance, Finance Manager, and 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 key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to Audit Committee in September 2012.

In addition to the financial statements, we also audit the Council'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.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Electoral 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 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 Corporate Finance Team and the Audit Committee. Our deliverables are included on page 18.

Independence and objectivity confirmation

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

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

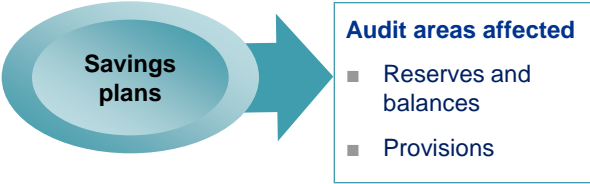
KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, 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.

Confirmation statement

We confirm that as of January 2012 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

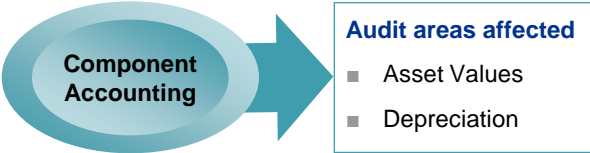
For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Council is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
 <p>Savings plans</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Reserves and balances ■ Provisions 	<p>Risk</p> <p>As at December 2011, the Council is forecasting that it will deliver its 2011/12 budget in overall terms. This includes a savings programme totalling £13.2 million. The Council currently estimates that another £19.2 million in savings will need to be achieved during 2012/13 rising to a total of between £28 million and £35 million by 2014/15 as part of the General Fund strategy to address the reductions to local Council funding. Against a backdrop of continued demand pressures in Adult Social Care and Children’s Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>If there are any related liabilities at year end, these will need to be accounted for in the 2011/12 financial statements as appropriate</p> <p>Our audit work</p> <p>In conjunction with our VFM work we will critically assess the controls the Council has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Council can continue to provide services effectively. We will also review how the Council is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the Council's assessment of any potential liabilities arising from its savings plans against the <i>Code</i>. If applicable, we will review the Council's provision, including the methodology, assumptions and calculations.</p>


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

We will provide an update on how the Council is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
 <p>Component Accounting</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Asset Values ■ Depreciation 	<p>Risk</p> <p>We reported in our 2010/11 <i>Annual Audit Letter</i> that the Council had implemented a policy in relation to the IFRS requirements for component accounting. This policy was based upon the application of a series of thresholds relating to the asset's value and useful economic life. The policy was designed to ensure that componentisation was applied so as to account for all material asset components.</p> <p>The application of this policy to additions and revalued assets in 2010/11 resulted in no componentisation being undertaken in relation to the 2010/11 Financial Statements.</p> <p>Should the application of the policy in 2011/12 again result in no componentisation being undertaken then the Council will need to review the policy it has implemented in order to ensure that the cumulative effect of non-componentisation is not material.</p> <p>Our audit work</p> <p>We will review the impact of the Council's componentisation policy in relation to the 2011/12 Financial Statements and in the event of no componentisation being required, consider the potential need to adjust the thresholds applied.</p> <p>We will assess the impact of non-componentisation of assets under the policy, both in terms of the depreciation charged and the resulting asset values. Such assessment will consider both the in-year impact and the cumulative effect on asset values over the life of the assets.</p> <p>We will test a sample of additions and valuations to ensure that these are correctly accounted for in line with component requirements set out in the 2011/12 Code.</p>

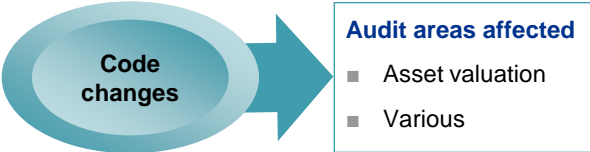
For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Council is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
 <p>Capital Accounting Thresholds</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Asset Values ■ Depreciation ■ Impairment 	<p>Risk</p> <p>In our 2010/11 <i>Annual Audit Letter</i> we reported that the Council had historically operated two de minimis thresholds in relation to Capital Accounting resulting in capital expenditure between £1k and £50k being capitalized but then immediately impaired to nil net book value.</p> <p>The Council has proposed a revised policy which will be implemented in relation to the 2011/12 Financial Statements. This policy makes use of a single threshold of £10k in all except a limited number of exceptions.</p> <p>The previous policy resulted in £9m of asset additions being recognised in the 2010/11 Financial Statements which were then fully impaired as a result of the policy rather than as the result of a specific impairment issue.</p> <p>Our audit work</p> <p>We are currently reviewing the revised capital accounting policy to ensure that it complies with the requirements of the Code and resolves the issues identified as part of our 2010/11 Financial Statements Audit.</p> <p>During our 2011/12 Financial Statements Audit we will review the practical application of the revised policy and its impact upon the impairment and depreciation charges for the year.</p> <p>We will specifically review the treatment of any assets which are capitalised and then fully impaired as a result of the application of the revised policy.</p>

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

We will provide an update on how the Council is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
 <p>Code changes</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Asset valuation ■ Various 	<p>Risk</p> <p>The 2011/12 <i>Code</i> includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 <i>Code</i> also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 <i>Code</i>.</p> <p>The Council needs to review and appropriately address these changes in its 2011/12 financial statements.</p> <p>Our audit work</p> <p>As part of our interim work we will review the Council's approach to addressing the <i>Code</i> changes.</p> <p>As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.</p>

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

Background to approach to VFM work

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

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

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

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

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

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

Overview of the VFM audit approach

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



Each of these stages are summarised further below.

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

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

We will then form an assessment of residual audit risk to identify the 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 Council's organisational control environment, including the Council'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 likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria.</p> <p>This work will involve a range of interviews with relevant officers, and review of documents such as policies, plans and minutes. We will also refer to any self assessment the Council 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. 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.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Council, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we will be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> local savings review guides based on selected previous Audit Commission national studies; and update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council'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>We will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and 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 Council's arrangements for securing VFM), which forms part of our audit report.</p> <p>If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.</p>

Our audit team were all part of the Telford & Wrekin audit last year. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Mike McDonagh
Partner

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and the Managing Director.”



Andrew Cardoza
Senior Manager

“I will direct and coordinate the value for money audit and provide strategic direction to the audit team. I will work closely with Mike to ensure we add value. I will liaise with the Managing Director and other Executive Directors with respect to our value for money audit “



Heather Garrett
Manager

“I am responsible for the management, review and delivery of the financial statements audit and providing quality assurance for any technical accounting areas. I will be the main contact for the Head of Finance with respect to our audit of the financial statements.”



Adam Bunting
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will be the main contact for the Senior Finance Manager and Finance Team Leader, and will liaise with the Corporate Finance Team. I will also supervise the work of our audit assistants.”

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

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

We will discuss and agreed each report with the Council's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outline audit approach. ■ Identify areas of audit focus and planned procedures. 	31 January 2012
Control evaluation		
Interim Report	<ul style="list-style-type: none"> ■ Details and resolution of control and process issues. ■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit. 	26 June 2012
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Council's value for money arrangements. 	25 September 2012
Completion		
Auditor's report	<ul style="list-style-type: none"> ■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	25 September 2012
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	29 January 2013 (issued to the Council in December 2012)

We will be in continuous dialogue with you throughout the audit.

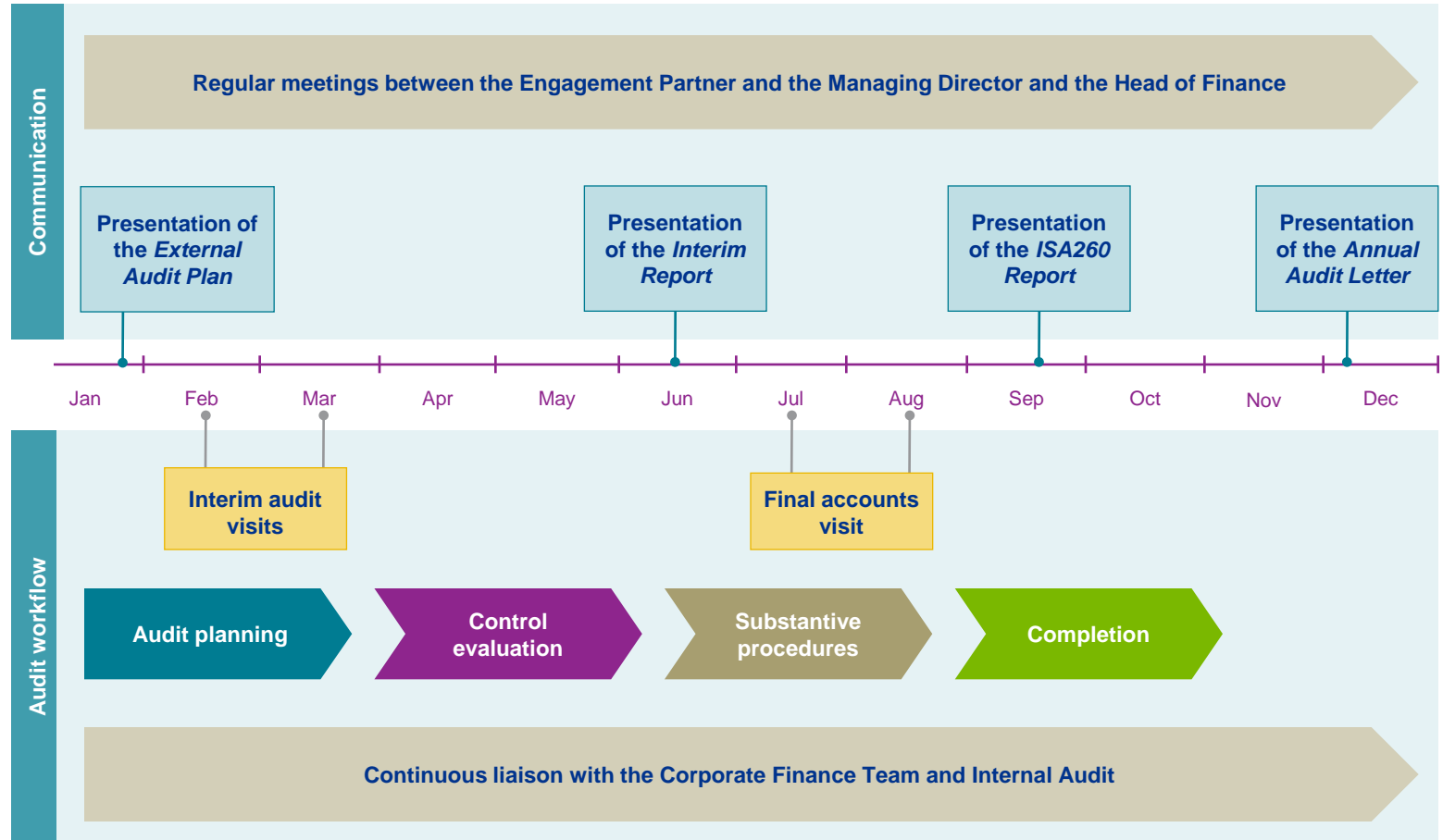
Key formal interactions with the Audit Committee are:

- March– Financial Statements Audit Plan;
- June– Interim Report;
- September – ISA 260 Report;
- December – Annual Audit Letter.

We work with the Corporate Finance Team and Internal Audit throughout the year.

Our main work on site will be our:

- Interim audit visits during February and March.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The net fee for 2011/12 audit of the Council is £237,802. The gross audit fee has not changed from that set out in our *Audit Fee Letter 2011/12* issued in April 2011, but now reflects the Audit Commission rebate which has subsequently been confirmed.

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.

The fee for our grants work will be confirmed through our summary report on the certification of grants and returns which will be issued in February 2012.

Audit fee

Our *Audit Fee Letter 2011/12* presented to you in April 2011 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees.

Element of the audit	2011/12 (planned)	2010/11 (actual)
Gross audit fee	£258,480	£290,700
Less: Audit Commission rebate	-£20,678	-£17,237
Total	£237,802	£273,463

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The Audit Commission continues to issue rebates to local authorities and the rebate for 2011/12 is £20,678.

The net fee for 2011/12 is £237,802. This is a reduction of 13% compared to the 2010/11 net fee. This reflects a reduced volume of work in relation to the VFM conclusion and IFRS accounting.

Audit fee assumptions

The audit fee is indicative and based on you meeting our expectations. 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 2010/11;
- 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 2011/12* within your 2011/12 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.

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 reduce the audit fee. Future audit fees can be kept to a minimum if the Council achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

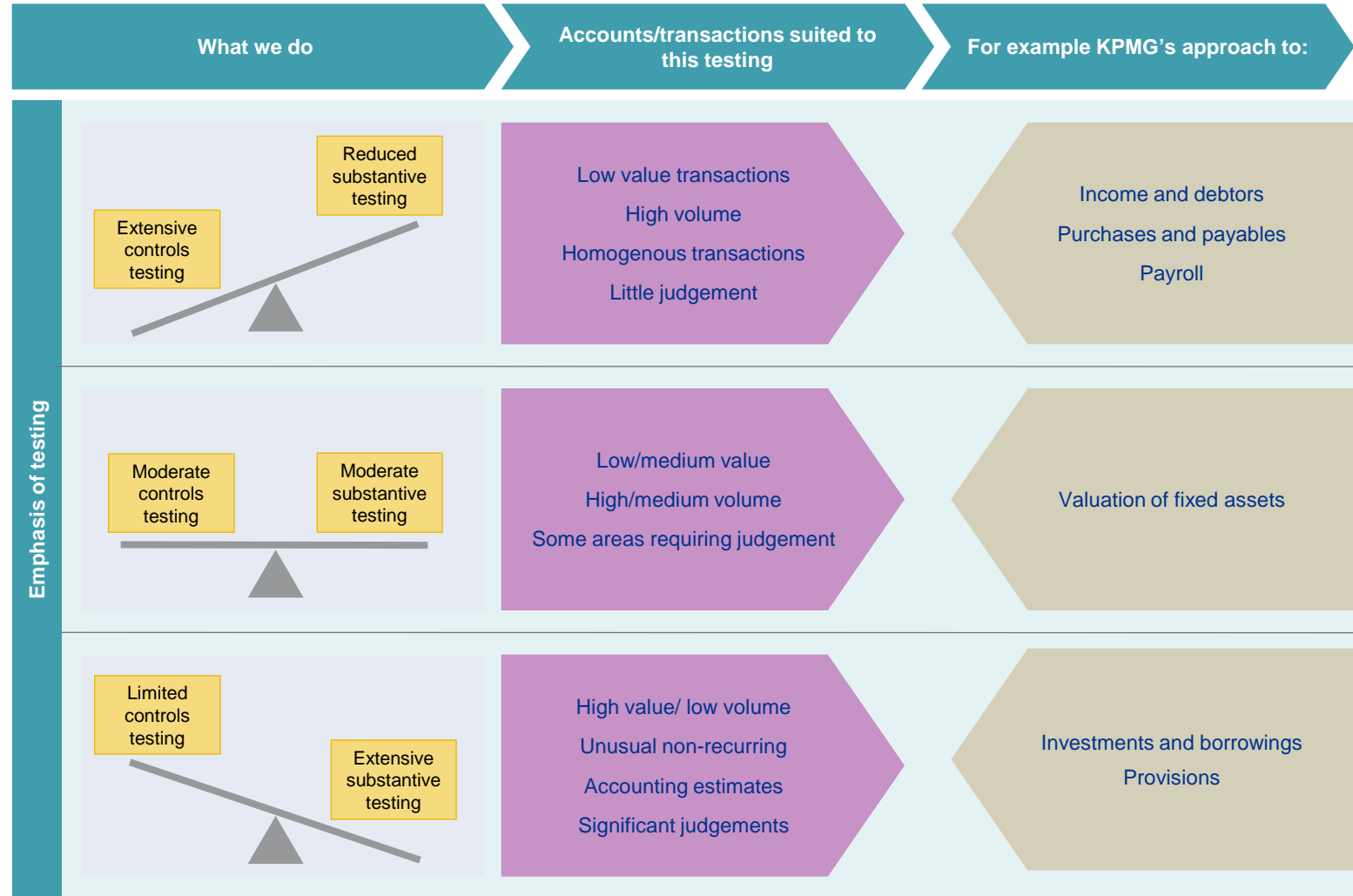
Changes to this plan and the audit fee may be necessary if:

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Finance.

Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



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 Council 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:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- 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 each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

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.

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

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (www.audit-commission.gov.uk/reports). The latest report dated October 2011 showed that we performed highly against all the Commission's criteria.



Resolving accounting and financial reporting issues

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 (based in our London office) 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 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 bi-monthly technical training.

When dealing with the Audit Commission, as you would expect, we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our local Council clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.



cutting through complexity™

© 2012 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

The report updates members on Treasury Management activities during 2011/12 and details the Treasury Strategy to be adopted for 2012/13

2011/12 Treasury Management Update

The treasury portfolio at the end of December showed overall net indebtedness of £68m (borrowing: £130m less investments: £62m). Base rates have been 0.5% all year with the next move expected to be upwards but not until late 2014.

The borrowing strategy for 2011/12 is to use maturing investments to reduce borrowing where possible. To date, two PWLB loans have matured and one entered into to take advantage of favourable interest rates. Short term borrowing has been used to fund short term cash flow requirements.

The investment strategy for 2011/12 is to gain maximum benefit with security of capital being the primary consideration. The weighted average return on internal investments at the end of December was 3.3% compared to a benchmark return for the period of 0.45%. A schedule of investments is shown at Appendix F.

TREASURY STRATEGY

The Council's Treasury Management Strategy is set within the parameters of the relevant statute, guidance and accounting standards which include the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code. In compliance, the Treasury Management Policy statement has been updated with additional statements in relation to borrowing and investments.

The Council will be required to borrow up to £30.7m in 2012/13 and will adopt a flexible approach to borrowing. In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing debt, interest rate and refinancing risk as well as borrowing source.

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

The report also includes the Council's Minimum Revenue Provision Statement,

which is unchanged from 2011/12 and sets the Prudential Indicators associated with Treasury for 2012/13.

2. **RECOMMENDATIONS**

Members are asked to note the treasury management activities for the first half year, agree the updated Treasury Management Policy Statement (Appendix A) and approve the Treasury Strategy, including the Annual Investment Strategy for 2012/13 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 Efficient Community Focussed Council

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 Head of Finance and (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Head of Finance 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. 2011/12 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

	<i>31 March 2011</i>	<i>31 Dec 2011</i>
	Principal £m	Principal £m
Fixed Rate Borrowing - PWLB	70.905	57.023
Fixed Rate Borrowing - LOBO	55.000	55.000
Variable Rate Borrowing - LOBO/market	<u>5.000</u>	<u>17.747</u>
Total Debt	130.905	129.770
Investments - in-house	75.678	61.643
- with external managers	<u>0.000</u>	<u>0.000</u>
Total Investments	75.678	61.643
Net Indebtedness	55.227	68.127

4.2 INTEREST RATES

Base rates began the year at 0.5% and have remained there all year. The Bank of England extended its Quantitative Easing programme in October by £75bn to £275bn. The next move in the base rate is expected to be upwards, but not until late 2014 and will be strongly linked to how the economy recovers.

4.3 BORROWING & RESCHEDULING

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

Rescheduling

During 2011/12 no rescheduling has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

New Borrowing

During the year 2 PWLB loans have matured one in May for £5m and one in November for £10m. In August a new PWLB loan was taken for £10m for a period of 3 years with repayment of principal at maturity. This was to partially replace the loan that matured in May and the £10m maturity in November given the level of capital programme funding required. The borrowing was undertaken to take advantage of favourable rates.

Between the period 1 June 2011 (previous Member update) and 31 December 2011, £48.8m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.20% to 0.50% - interest rates have remained fairly low during this time. £12.7m of this temporary borrowing was outstanding at 31 December 2011.

4.4 INVESTMENTS

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

4.4.1 In-House Investments

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

Temporary Investments

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

In total £977m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.25% to 0.80% and periods ranged from overnight deposits to 99 days. £6.643m in house temporary investments were held at 31 December 2011.

Longer Term Investments

A number of internally managed deposits have been made previously as an alternative to fund managers. This has been added to during 2011/12 with a £5m 14 month investment at 2.65%, a £10m one year investment at 2.17% and a £5m three month investment at 1.40%. A full list of longer term investments is shown below.

		£m	%
Fixed Deposit	02/10/08 – 02/10/13	5.0	6.80
Variable Deposit	30/07/08 – 30/07/12	10.0	1.00
Fixed Deposit	03/08/09 – 01/08/14	5.0	6.32
Fixed Deposit	06/03/09 – 06/03/14	5.0	6.31
Fixed Deposit	31/03/09 – 31/03/14	5.0	6.37
Fixed Deposit	22/04/09 – 22/04/14	5.0	6.35
Fixed Deposit	27/05/11 – 27/07/12	5.0	2.65
Fixed Deposit	08/08/11 – 06/08/12	10.0	2.17

Fixed Deposit	04/11/11 – 31/01/12	5.0	1.40
Total		55.0	

It should be noted that under the current guidance from our Treasury Advisors our investment policy would mean that investments should not be placed for longer than 3 months. However the majority of these investments were placed before the start of the financial crisis which resulted in recommended periods for maximum duration being shortened. The council is benefiting from very attractive rates of interest that are no longer available.

Overall the weighted average return on all internal investments for the year to date was 3.30% compared to a benchmark return for the period of 0.45%.

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 maximum exposure is £20.0m with any one counterparty which was agreed when we had 3 fund managers, Counterparty limits will be reviewed when our long term investments mature in 2014. At the end of December the greatest exposure with a single counterparty was £20.0m with Barclays (32% of the total portfolio).

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

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

4.5 **LEASING**

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

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

5.	<u>PREVIOUS MINUTES</u>
	Audit Committee 1 February 2011 Council 3 March 2011 Audit Committee 27 June 2011 Audit Committee 1 November 2011 Audit Committee 31 January 2011

6. TREASURY STRATEGY FOR 2012/13 to 2014/15

6.1 BACKGROUND

6.1.1 The CIPFA Treasury Management Code of Practice

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

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

- Treasury Management Strategy for 2012/13
- Annual Investment Strategy for 2012/13
- Prudential Indicators for 2012/13, 2013/14, 2014/15 and 2015/16
- MRP Statement.

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

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

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

CIPFA have made some changes to the Treasury Management Policy Statement to include 2 additional statements in relation to borrowing and investments (Appendix A, 2.4 and 2.5). These emphasise that the Council's primary objective in relation to investments is security of capital and also that when borrowing consideration will be given to the management of interest rate risk and refinancing risk. It is recommended that the revised statement is approved.

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 and the outlook for interest rates (Appendix C).

6.1.2 Context

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

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

The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current

cost and risks associated with investing the proceeds until the borrowing was actually required.

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

6.1.3 Balance Sheet and Treasury Position

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

	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m	31/03/2016 Estimate £m
Capital Financing Requirement	246.424	272.187	242.758	223.106	217.702

6.1.4 Interest Rate Forecast

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

6.1.5 Borrowing Strategy

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

The Authority has a gross and net borrowing requirement and will be required to borrow up to £30.7m in 2012/13. The Authority will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

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

6.1.6 Sources of Borrowing and Portfolio implications

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

- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Money markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

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

The Authority has £60m exposure to LOBO loans (Lender's Option Borrower's Option) of which £45m of these can be "called" within 2012/13. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan, at which point the Borrower (i.e. the Council) can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion.

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

6.1.7 Debt Rescheduling

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

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

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

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

6.2 Annual Investment Strategy

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

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

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

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

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

Table 2: Specified and Non-Specified Investments

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

A number of changes have been implemented to investment strategy for

2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

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

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) – this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.

Minimum Long Term Rating	Minimum Short Term Rating	Minimum Individual Rating	Minimum Sovereign Rating
A-	F1	C	AA+

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

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

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

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

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

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

6.3 Investment Strategy

With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

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

Money market funds (MMFs) can be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

6.4 Ethical Investment

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

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

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

6.5 The Use of Financial Instruments for the Management of Risks

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

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

6.6 Balanced Budget Requirement

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

6.7 2012/13 MRP Statement

6.7.1 The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

6.7.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method
NB This does not preclude other prudent methods.

6.7.3 MRP in 2012/13: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

6.7.4 The MRP Statement will be submitted to Council before the start of the 2012/13 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

6.7.5 The Council will apply Option 1 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.

And

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

6.8 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

The Head of Finance will report to the Audit Committee on treasury management activity / performance and Performance Indicators as follows:

- in June, November and February against the strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

7 Other Items

7.1 Training

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

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

7.2 Investment Consultants/Treasury Advisors

The Council uses Arlingclose as its external treasury management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

8. BACKGROUND PAPERS

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

Report prepared by
Bernie Morris, Finance Manager (01952) 383702
Ken Clarke, Head of Finance (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 Head of Finance, 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	%	31/3/12 Estimate £m	31/3/13 Estimate £m	31/3/14 Estimate £m	31/3/15 Estimate £m	31/3/16 Estimate £m
External Borrowing:							
Fixed Rate – PWLB	57.0	30	57.0	51.0	40.0	29.0	28.0
Fixed Rate – Market	55.0	28	55.0	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	17.7	9	18.9	25.6	0.3	0.0	0.0
Total External Borrowing	129.7	67	130.9	136.6	100.3	89.0	88.0
IFRS Long Term Liabilities:							
PFI	63.4	33	63.4	62.4	61.0	59.7	58.0
Finance Leases	0.7	0	0.7	0.7	0.7	0.7	0.7
Total Gross External Debt	193.8	100	195.0	199.7	162.0	149.4	146.7
Investments: <i>Managed in-house</i>							
Short-term monies (Deposits/ monies on call /MMFs)	36.6	59	25.0	15.0	10.0	10.8	8.7
Long-term investments (maturities over 12 months)	25.0	41	25.0	10.0	0.0	0.0	0.0
Total Investments	61.6	100	50.0	25.0	10.0	0.0	0.0
(Net Borrowing Position)/ Net Investment position	(132.2)		(145.0)	(174.7)	(152.0)	(138.6)	(138.0)

Appendix C
Prudential Indicators 2012/13 – 2015/16

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. Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing 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 Head of Finance reports that the authority had no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

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

Capital Expenditure	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Total	105.470	84.269	95.219	71.575	33.865	29.464

**if applicable*

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital receipts	8.399	6.731	17.190	37.390	20.343	13.900
Government Grants	43.463	50.964	45.158	55.979	26.018	14.047
Revenue / External contributions	0.436	1.040	0.212	0.040	0.000	0.000
Total Financing	52.298	58.735	62.560	93.409	46.361	27.947
Supported borrowing	0.462	4.662	0.138	0.000	0.000	0.000
Unsupported borrowing	52.710	20.872	32.521	-21.834	-12.496	1.517
Total Funding	53.172	25.534	32.659	-21.834	-12.496	1.517
Total Financing and Funding	105.470	84.269	95.219	71.575	33.865	29.464

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	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Total	2.60	2.25	3.15	3.40	3.30	3.15

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	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Total CFR	284.390	246.424	272.187	242.758	223.106	217.702

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 31/03/2011	£m
Borrowing	130.905
Other Long-term Liabilities	65.590
Total	196.495

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	2011/12 Approved £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £m
Increase in Band B Council Tax	-0.96	-0.32	4.03	4.80	10.99

7.2 The increase in Band B council tax reflects the increases in running costs and/or increases in the provision for Capital Financing Charges of £0.645m by 2019/20 to undertake additional borrowing of £8.579m arising from the proposed capital programme. In the short term there are savings due to the rephasing of existing planned borrowing, but once complete the overall increase in Band B is £9.77. This fall from the £10.99 for 2015/16 shown above is as a result of further capital receipts by 2019/20.

8. Authorised Limit and Operational Boundary for External Debt:

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

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

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

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

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

Authorised Limit for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Borrowing	330	240	250	210	180	180
Other Long-term Liabilities	6	6	6	6	6	6
Total	336	246	256	216	186	186

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

Operational Boundary for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Borrowing	310	220	230	190	160	160
Other Long-term Liabilities	4	4	4	4	4	4
Total	314	224	234	194	164	164

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 and Net Debt:

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

Gross and Net Debt	2011/12 Estimated £m	2012/13 Authorised £m	2013/14 Authorised £m	2014/15 Authorised £m	2015/16 Authorised £m
Outstanding Borrowing (at nominal value)	131.439	139.098	102.264	79.768	81.285
Other Long-term Liabilities (at nominal value)	64.155	63.100	61.742	60.432	58.756
Gross Debt	195.594	202.198	164.006	140.200	140.041
Less: Investments	50.000	25.000	10.000	0.000	0.000
Net Debt	145.594	177.198	154.006	140.200	140.041

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 (*select as appropriate*) net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments))

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

Guidance note on quantum of acceptable volatility...

	Existing level (or Benchmark level) at 31/03/11 %	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	25	25	25	30	30	30	30
Local Indicator – Upper limit for net variable rate exposure. (Net principal re gross variable rate borrowing and investments divided by gross borrowing plus investments)	80	80	80	80	60	60	60

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

12. Maturity Structure of Fixed Rate borrowing:

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

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

Maturity structure of fixed rate borrowing	Existing level (level at 31/03/11) %	Lower Limit for 2012/13 %	Upper Limit for 2012/13 %
under 12 months	14 (19)	0	25
12 months and within 24 months	9 (5)	0	25
24 months and within 5 years	10 (10)	0	50
5 years and within 10 years	3 (3)	0	75
10 years and within 20 years	0 (0)	0	75
20 years and within 30 years	0 (0)	0	75
30 years and within 40 years	0 (0)	0	100
40 years and within 50 years	25 (25)	10	100
50 years and above	39 (38)	15	100

13. Credit Risk:

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

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

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

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

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

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

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

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
	95	95	95	95	95	95

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

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Official Bank Rate													
Upside risk					0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40	2.40
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50	2.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Momentum in economic growth is scarce.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.
- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.
- The MPC's decision to embark on a further £75 billion of QE – which the Minutes showed was unanimously supported – demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.

- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

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

- **Group Limits** - For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.

Instrument	Country/ Domicile	Counterparty	Maximum Counterpar ty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Council Holding At 31/12/11 £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	20	20	5
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	10
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	20	20	20
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	20	20	0
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	20	20	7
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	20
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	20	20	0
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	20	20	0
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	20	20	0

Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	20	20	0
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	20	20	0
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	20	20	0
Term Deposits / CDs / Call Accounts	France	BNP Paribas	20	20	0
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	20	20	0
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	20	20	0
Term Deposits / CDs / Call Accounts	France	Société Générale	20	20	0
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	20	20	0
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	20	20	0
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	20	20	0
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	20	20	0
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	20	20	0
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	20	20	0
Term Deposits / CDs / Call Accounts	US	JP Morgan	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.*

TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 2011

	CREDIT RATING		TOTAL £000
<u>Fixed Deposits</u>			
Barclays	UK AAA	F1+AA- B 1	20,000
HSBC	UK AAA	F1+AA B 1	6,643
Lloyds Bank	UK AAA	F1+AA- C 1	15,000
Royal Bank of Scotland	UK AAA	F1+AA- C/D 1	5,000
Santander	UK AAA	F1+AA- B 1	5,000
TOTAL- FIXED TERM AND CASH DEPOSITS			51,643
<u>Variable Deposits</u>			
Royal Bank of Scotland	UK AAA	F1+AA- C/D 1	10,000
TOTAL VARIABLE DEPOSITS			10,000
<u>Total</u>			<u>61,643</u>

<u>SUMMARY BY SOVEREIGN RATING</u>	<u>£000</u>	<u>%</u>
UK AAA	61,643	100
Total	61,643	100

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.

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 favorable economic conditions to meet its commitments
- **CC** : highly vulnerable, very speculative bonds
- **C** : highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
- **D** : has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
- **NR** : not publicly rated

Short-term credit ratings

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

- **F1+** : best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1** : best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2** : good quality grade with satisfactory capacity of obligor to meet its financial commitment
- **F3** : fair quality grade with adequate capacity of obligor to meet its financial commitment but near term adverse conditions could impact the obligor's commitments
- **B** : of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions

- **C** : possibility of default is high and the financial commitment of the obligor are dependent upon sustained, favourable business and economic conditions
- **D** : the obligor is in default as it has failed on its financial commitments.

Bank Individual Ratings

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

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

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

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings

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

Timeliness and Effectiveness Requirements

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

Obligations and Financial Instruments Covered

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

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

Definitions:

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

GLOSSARY

Term	Meaning
Affordable Borrowing Limit	The amount the authority would normally borrow at any point of time in the year. This boundary might be exceeded temporarily but only in exceptional circumstances. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Authorised Borrowing Limit	The maximum amount the authority can borrow at any point of time in the year. This limit should never be exceeded. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Capital Financing Requirement (CFR)	This represents the underlying need for the authority to borrow and represent 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 your are conducting your business with.
Debt Management Account Deposit Facility	Provided by the Debt Management Office , users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.
Derivative Instruments	A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common

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

	creditor), as a result of borrowing or issuing bonds.
Premia	The 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

SPEAK UP POLICY DECEMBER 2011

1. INTRODUCTION

- 1.1 Employees, members, volunteers, school governors, partners, contractors and suppliers¹ are often the first to realise that there maybe something wrong within the Council. However, they may not express their concerns because they may feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances, they may feel it easier to ignore their concerns rather than report what may just be a suspicion of malpractice.
- 1.2 The Council prides itself on having an open and honest culture and is committed to the highest possible standards of probity, accountability and transparency. In line with that commitment we encourage people raising concerns about any aspects of the Council's work to come forward and voice those concerns internally. The Council will take steps to try and minimise any difficulties experienced as a result of raising a concern (see paragraphs 4.7 and 5.3).
- 1.3 This policy supports the Council's Anti-Fraud and Corruption policy and makes it clear that concerns can be raised without fear of reprisals. It is intended to encourage and enable people raising concerns to raise them within the Council, irrespective of seniority, rank or status, rather than overlooking a problem or reporting the matter externally.
- 1.4 This policy operates alongside other specific "Whistleblowing" investigation procedures developed for example in Child Protection.

2. WHO DOES THIS POLICY APPLY TO?

- 2.1. The Council's Speak Up Policy applies equally to all of the following groups:
- Council employees (including part time and temporary staff).
 - Agency staff working for the Council.
 - School governors
 - Council contractors and suppliers.
 - Organisations working with the Council under partnership arrangements.
 - Volunteers

3. AIMS OF THIS POLICY

- 3.1 This policy is intended to provide you with an avenue to raise concerns **within** the Council. The policy aims to:
- * Encourage you to feel confident in raising concerns and to question and act upon concerns about malpractice
 - * Encourage you to raise these concerns as soon as they arise so that appropriate action can be taken
 - * Provide avenues for you to raise those concerns within the Council and receive feedback on any action taken;

¹ Defined for the rest of this policy as "people raising concerns".

- * Allows you to take the matter further if you are dissatisfied with the Council's response; and
- * Reassure you that we will endeavour to protect you from reprisals or victimisation for speaking up in good faith.

3.2 There are existing procedures in place to enable employees to lodge a grievance relating to their employment. As Local Government employees, each member of staff has a responsibility to report wrongdoing using the procedures designed to manage such information. It is important that employees recognise the distinction between work related issues and those external to their employment. Whilst the Speak Up process can be used to raise possible wrongdoing outside the employees immediate work area, it should not be used to promote particular campaigns. Similarly, if the process is activated employees should not publicise allegations to other elected members or officers as this may restrict investigation or be viewed as a malicious act.

3.3 If your concern relates to any internal procedure or act which affects your employment directly, then this should be raised through the Council's grievance procedure.

4. AREAS COVERED BY THE POLICY

4.1 This policy is intended to cover concerns that fall outside the scope of other procedures as outlined in 1.4, 3.2 and 3.3. The types of concerns include:

- * Conduct which is an offence or a breach of the law
- * A failure to comply with a statutory or legal obligation (e.g. Race Relations (Amendment) Act, Data Protection Act etc.)
- * Improper unauthorised use of public funds or other funds
- * A miscarriage of justice
- * Maladministration, misconduct or malpractice
- * Endangering of an individuals health and safety
- * Damage to the environment
- * Possible fraud and corruption
- * Sexual, physical or verbal abuse of clients/pupils
- * Any other unethical conduct or improper conduct (including bullying or harassment).
- * evasion of data/information security procedures
- * Discrimination of any kind
- * Deliberate concealment of any of the above

4.2 The overriding concern should be that it would be in the public interest for malpractice to be corrected and, if appropriate, sanctions applied. Therefore, you can report any concerns that you have about any aspect of service provision or the conduct of officers or members of the Council or others acting on behalf of the Council under the Speak Up Policy. This may be about something that:

- Makes you feel uncomfortable in terms of known/established standards or the standards you have experienced and believe the Council subscribes to.
- Is against the Council's Constitution and policies.
- Amounts to improper conduct.

4.3 The policy is subject to any relevant legislation (including the Public Interest Disclosure Act 1998) and specifically will operate within the requirements of the Data Protection Act 1998, the Human Rights Act 1998, and the Regulation of Investigatory Powers Act 2000.

4.4 This policy provides a general outline of the governing legislation in this area for guidance purposes only and should not be regarded as a complete or authoritative statement of the law.

5. HOW TO RAISE A CONCERN

5.1 Employees, volunteers and partners should raise concerns within the Council with either:-

- Your Line Manager/Service Delivery Manager/appropriate member of the Senior Management Team
- Your Head of Establishment or Headteacher
- The Audit and Assurance Manager
- the Council's Monitoring Officer²
- Trade Union representative

5.2 School Governors should raise concerns with the Director of Children's Services, Assistant Director: Education & Skills, the Audit and Assurance Manager or the Monitoring Officer.

5.3 Contractors and suppliers should raise concerns with the Strategic Procurement Specialist, Audit & Assurance Manager or the Monitoring Officer.

5.4 Members' should raise concerns with the Monitoring Officer. If the concern is in respect to the action of a member under the Code of Conduct for Members, the concern raised may be referred to the Standards Committee.

5.5 If the concern is in respect to professional conduct then the personnel outlined in 5.1, 5.2 and 5.3 should be contacted, as appropriate.

5.6 If the concern is connected with your direct line manager/supervisor your HR Officer will, if appropriate, be able to provide advice as to whom to direct your concerns.

5.7 Concerns are better raised in writing³. You will need to set out the background and history of the concern giving names, dates and places where possible, and the reason why you are particularly concerned about the situation. If you do not feel able to put your concern in writing, you can telephone or meet an appropriate officer. The appropriate officer will make notes of any conversations with you in order that, if required, a proper investigation can be undertaken.

5.8 Alternatively, you can leave a message on the 24 hour Audit & Assurance answer phone (telephone number 383115). This service is confidential. You will not be asked to give your name if you do not wish to. This answer phone is kept in the Audit & Assurance Office and messages are checked by specified Audit staff.

5.9 The earlier you inform us of your concern and the more detail you give us; the easier it will be for action to be taken.

5.10 At this stage you are not expected to prove the allegation but you will need to demonstrate to the person contacted that there are sufficient grounds for your concern.

5.11 Advice and guidance on how matters of concern may be pursued can be obtained from:

² The Council's Monitoring Officer is the Assistant Director: Law, Democracy & Public Protection

³ This can be written or by e-mail. If using e-mail you must consider the security and confidentiality aspects of this method.

- * Your line manager, headteacher
- * Human Resources
- * Audit & Assurance
- * Trade union/professional association
- * The Council's Monitoring Officer

5.12 You may prefer, in order to protect yourself or to maintain your anonymity, to invite your trade union or representative to raise a matter on your behalf. Your representative may be required to obtain additional information from you in order that a proper investigation can be undertaken.

5.13 Whilst anonymous allegations will be considered and action taken where appropriate, it is much more difficult to properly investigate matters raised anonymously. The Speak Up Policy is designed to protect those raising genuinely held concerns and the policy encourages them to identify themselves. Obviously, feedback relating to any investigation which has been undertaken can only be provided where contact details are known.

6. HOW THE COUNCIL WILL RESPOND

6.1 The action taken by the Council will depend on the nature of the concern. The matters raised may:

- * Be investigated internally by an appropriately skilled and experienced officer, knowledgeable in the area concerned e.g. Manager, Audit & Assurance, Benefits Investigation Team, Human Resources, the Council's Monitoring Officer;
- * Be referred to the Police;
- * Be referred to the external Auditor or Ombudsman;
- * Form the subject of an independent inquiry.

6.2 In order to protect individuals and the Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations that fall within the scope of specific procedures (for example, child protection or discrimination issues) will normally be referred for consideration under those procedures.

6.3 Some concerns may be resolved by agreed action without the need for further investigation.

6.4 Within ten working days of a concern being received (excluding anonymous concerns), the individual with whom you raised the matter will confirm in writing:

- a) Acknowledging that the concern has been received;
- b) Indicating how it is proposed to deal with the matter;
- c) Confirmation that further investigations will take place and an estimate as to how long it will take to provide a final response; and
- d) If the matter is not to be investigated the reason why.

6.5 The level of contact between the officer(s) considering the issues and yourself will depend upon the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information may be requested from you. We will attempt to do this in as discreet a manner as possible.

6.6 When any meeting is arranged, you have the right, if you wish, to be accompanied by a trade union or other representative. The meeting can be off site, if requested.

- 6.7 The Council will take steps to minimise any difficulties, which you may experience as a result of raising a concern and provide any appropriate support including the Council's confidential Counselling Service. For instance, if you are required to give evidence in disciplinary or criminal proceedings, the Council will advise you about the procedure. Within internal proceedings you will have the option of asking someone else to represent you.
- 6.8 The Council accepts that you need to be assured that the issues you have raised have been properly dealt with. We will therefore try, subject to any legal constraints, to keep you informed in connection with the outcome of any investigation. In addition you will be informed as to any action taken to rectify working practices where irregularities have been identified as a consequence of an investigation.
- 6.9 You may withdraw from the process at any stage, although your involvement may still be required in certain circumstances such as ongoing disciplinary or legal proceedings relating to the matter concerned. If you do wish to withdraw you or your representative must inform the person with whom you raised the initial concern and the investigating officer. You will be requested to provide a reason/(s) for your withdrawal.
- 6.10 If you withdraw from the process on-going investigations into the issues arising from your concern may continue dependent on the nature of the issues and the results of the investigation findings at that time.
- 6.11 The person against whom the concern has been raised will be informed following the initial investigations if it is considered that there is an issue to be investigated further, subject to current HR procedures. This person will be supported in an appropriate manner and will be informed, as appropriate, of the progress of the investigation.

7. SAFEGUARDS

Harassment or Victimisation

- 7.1 The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible. The Council will not tolerate harassment or victimisation as outlined in its "Dignity at Work Policy" and will take action to protect you when you raise a concern in good faith.
- 7.2 This does not mean that if you are already the subject of disciplinary, capability or redundancy procedures, that those procedures will be halted as a result of speaking up. Equally any investigation into allegations of potential malpractice will not influence or be influenced by any disciplinary or redundancy procedures that already affect you. There will be no come back if a disclosure has been made in good faith and the individual reasonably believes that the information disclosed is substantially true. Individuals will be listened to and, where necessary, given support.

Confidentiality

- 7.3 The Council will endeavour to maintain confidentiality where possible, but this cannot be guaranteed. Depending on the nature of the concern in order to undertake ~~a proper~~ proper investigation confidential information may have to be shared with a third party, including the party or parties' subject of the concern. You will be informed if this is necessary.
- 7.4 In addition, depending on the nature of the concern the police or a regulator may need to be involved. Any statement made by you may be required as part of the evidence in internal or

external proceedings and there may be circumstances where this could be submitted anonymously, if requested.

Anonymous Allegations

- 7.5 The best way to raise a concern is openly and this policy encourages you to put your name to your concern. Generally we would recommend that concerns are not raised anonymously because:
- It is harder to investigate the concern effectively if follow up questions cannot be asked; and
 - It is easier for the Council to provide appropriate support, and if appropriate to get protection under the Public Interest Disclosure Act 1998, if the concern is raised openly.
- 7.6 However, concerns which are expressed anonymously will be considered.
- 7.7 In such circumstances the Council will take the following factors into account when establishing the scope and depth of the investigation:-
- * The seriousness of the issues raised;
 - * The credibility of the concern; and
 - * The likelihood of confirming the allegation from recognised sources and information available.

Untrue Allegations

- 7.8 If you make an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against you.
- 7.9 If, however, as an employee, volunteer or partner you make malicious or vexatious allegations, action (including disciplinary⁴) may be taken against you.
- 7.10 Malicious or vexatious allegations made by contractors and suppliers will be dealt with by the appropriate member of the Senior Management Team and Procurement, in conjunction with the Council's Legal Advisors.
- 7.11 Malicious or vexatious allegations made by an elected member will be considered by the Monitoring Officer and will be dealt with under the appropriate procedures.
- 7.12 In addition, where an allegation is not confirmed, the employee(s) against whom the concern was raised will be supported by their manager and/or Human Resources. The employee(s) will also be able to use the Council's confidential Counselling Service if they wish to do so.

8. HOW THE MATTER CAN BE TAKEN FURTHER

- 8.1 This policy is intended to provide you with a mechanism by which you can raise your concerns **within** the Council. The Council hopes you will be satisfied with the response you receive. If you are not satisfied with the response you receive you should contact the Managing Director with the reasons why.

⁴ If disciplinary action is taken then dependent upon the circumstances of the malicious/vexatious allegation a charge of gross misconduct may be deemed appropriate.

8.2 If you feel it is right to take the matter outside the Council you should be aware of not disclosing confidential information⁵. The following are possible contact points:

- * Your local Council member (if you are an employee or volunteer and live in the area of the Council) – if you are not sure who it is, you can contact Member Services on 380110 or use the Council's internet site.(www.telford.gov.uk)
- * The external auditor (KPMG) on 0121 335 2440
- * Relevant professional bodies or regulatory organisations
- * The Ombudsman – 01203 695999 (www.lgo.org.uk)
- * The Health & Safety Executive
- * Your solicitor
- * The Police
- * Public Concern at Work* - 020 7404 6609 (www.pcaw.co.uk)
- * Trade Union/Professional Association – details are available from Human Resources

* - Public Concern at Work is an independent charity which provides free advice for persons who wish to express concern about fraud and other serious malpractice.

9. THE RESPONSIBLE OFFICER

- 9.1 The Managing Director has overall responsibility for the maintenance and operation of this policy and will report, as necessary, through the Audit Committee, to the Council.
- 9.2 Other useful contacts with respect to this policy are the Audit and Assurance Manager, Monitoring Officer, your HR officer and your Trade Union or other representative.

⁵ Advice can be obtained from Information Governance or the Monitoring Officer.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE – 31st JANUARY 2012

REVIEW AND UPDATE TO THE SPEAK UP POLICY

REPORT OF THE HEAD OF GOVERNANCE

1 PURPOSE

1.1 To obtain approval from the Audit Committee for the updates to the Speak Up Policy.

2 RECOMMENDATIONS

2.1 That the Audit Committee approves the:

- a) revised Speak Up Policy attached as Appendix A incorporating the changes as outlined in paragraph 5.4; and**
- b) delegation to the Monitoring Officer as set out in paragraph 5.6**

and recommends its adoption by the Council.

3 SUMMARY

- 3.1 The Standards & Audit Committee in January 2008 approved a revised Speak Up Policy incorporating a new name, the inclusion of contractors, suppliers and partners within the Policy and a few other changes to make it current within the Council at that time.
- 3.2 Since this review the policy has been in operation supporting the Anti-Fraud and Corruption Policy and was due for a review in 2010. This review was delayed due to restructuring and has now been undertaken.
- 3.3 The changes proposed reflect best practice from other local authorities/Public Concern at Work and the Council's revised senior management arrangements.
- 3.4 Following agreement of the policy it will be promoted internally on posters around Council buildings and through a leaflet on the intranet. This leaflet also forms part of the induction pack for new employees. The policy will also be promoted appropriately with those external parties covered by the policy – partners, school governors, contractors and volunteers.

4 PREVIOUS MINUTES

- 4.1 Standards Committee 13th April 2005
Standards and Audit 11th September 2007
Standards and Audit Committee 29th January 2008

5 INFORMATION

- 5.1 The Council introduced a Corporate Confidential Reporting ("Whistle blowing") policy in 2002 and this has been updated as outlined in paragraph 3.1 above including renaming to the Speak Up Policy in January 2008.
- 5.2 The policy has always outlined that although confidentiality will endeavour to be maintained there maybe investigative, disciplinary or legal reasons why this is not possible.

- 5.3 Previous changes have been made to clarify where the Council’s grievance procedure applies in the context of this policy, the secure position of the hotline telephone, further information on the limitations of anonymous reporting and that if the person raising the concern withdraws from the process that the investigation may continue dependent on the concerns and progress of the investigations at that date.
- 5.4 The current review and update has confirmed that the policy is still fit for purpose and has resulted in minor changes to simplify/clarify the policy and to reflect the revised senior management arrangements.
- 5.5 A revised version of the updated “Speak Up Policy” is attached as Appendix A to this report.
- 5.6 The policy refers in paragraphs 5.4 and 6.1 to concerns raised about Members under the Code of Conduct and that they maybe referred to the Standards Board for England. The arrangement for Member complaints and their Code of Conduct is being revised under the Localism Act. Whilst some initial amendments have been made the Committee is asked to agree a delegation to the Monitoring Officer to amend these paragraphs, following consultation with the Chairman of the Audit Committee, when the new ethical standards framework for Councillors is in place.
- 5.7 This policy has been reviewed by the Senior Management Team prior to presentation to this Committee.
- 5.8 The Council will continue to protect all those providing information under this policy but will take appropriate action against those making malicious or vexatious allegations.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	The policy supports the Council’s policies of equality and diversity. All appropriate concerns will be treated equally.
Environmental Impact	Any concerns raised of an environmental nature will be investigated to ensure that the Councils sustainability and environmental policies have not been breached.
Legal Implications	The policy, although not a legal requirement, reflects good practice. Paragraph 2.7 of the policy document confirms that the operation of the policy will be in accordance with all relevant legislation. In respect of Councillor code of Conduct issues, the current local assessment framework is still in place but it is due to be replaced by 1 st April 2012. As there has not yet been a decision made as to how the new regime under the Localism Act 2011 will operate at the authority it is not possible to be specific in referring to how the Speak up Policy will fit in to the new process. Accordingly some initial changes are proposed but these will need to be reviewed at a later stage hence the request for a delegation to the Monitoring Officer to clarify the position in the policy at the appropriate time.
Links with Corporate Priorities/Community Ambitions	The Co-operative Council values of fairness, honesty, consistency and transparency means that high standards and practices should be followed. This policy allows concerns to be raised to ensure these values are maintained.

Financial Implications	There are no financial implications arising from this policy as any costs associated with its implementation are contained within existing budgets.
Opportunities and Risks	This policy mitigates the reputation risk to the Council of adverse publicity by providing channels for concerns to be raised internally and addressed rather than publicised outside the Council prior to proper investigation
Ward Implications	None

7 BACKGROUND PAPERS

Speak Up Policy 2008

Anti-Fraud & Corruption Policy 2011

Information from other Local Authorities and Public Concern at Work

**Report Prepared by: Jenny Marriott, Audit & Assurance Manager: 383101:
jenny.marriott@telford.gov.uk**

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 31 JANUARY 2012

INFORMATION GOVERNANCE UPDATE REPORT TO 1st APRIL to 31st DECEMBER 2011

REPORT OF THE HEAD OF GOVERNANCE

1 PURPOSE

- 1.1 To present to the Audit Committee an update on the Council's Information Governance activities for the period 1st April – 31st December 2011.

2 RECOMMENDATIONS

- 2.1 That Members of the Audit Committee note the contents of this update report.

3 SUMMARY

- 3.1 The Council's Information Governance (IG) function forms part of the responsibilities of Audit & Assurance within the Finance, Audit and Information Governance service delivery unit (see paragraph 4.1.2). IG is a key component of good governance and consists of several aspects:

- Data Protection & Privacy
- Freedom of Information
- Information Security
- Information Sharing & Confidentiality
- Information & Records Management
- Information Quality & Assurance

IG has continued during 2011/12 to support senior managers and service delivery managers with the management of their information governance arrangements.

- 3.3 This update report follows on from the first annual report presented to the Audit Committee in September and contributes to the Council's assurance framework and good governance.

4 UPDATE INFORMATION

4.1 Background

- 4.1.1 There are a number of pieces of legislation and good practice standards that govern the IG arrangements of the Council. The work of IG is primarily based on the requirements of the Local Authority Data Handling guidelines, ISO27001 (standard for information security), Data Protection Act 1998, Freedom of Information Act 2000¹ and Environmental Information Regulations 2004.

¹ Full provision of FOI Act 2000 powers were not fully introduced until 1 January 2005

4.1.2 The Local Authority Data Handling Guidelines (stated above) recommend that each local authority should appoint a Senior Information Risk Owner (SIRO). The SIRO should be a representative at senior management level and has responsibility for ensuring that management of information risks are weighed alongside the management of other risks facing the Council such as financial, legal and operational risk. At Telford & Wrekin the nominated SIRO for the period covered by this report was the Head of Governance with the Audit & Assurance Manager designated as the Deputy SIRO. With effect from 4th January 2012 the SIRO responsibility has transferred to Head of Finance (Ken Clarke). Following the consultation on the proposed senior management restructure the SIRO should be confirmed as the Assistant Director – Finance, Audit & Information Governance (Ken Clarke).

4.2 Information Rights

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

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

4.2.2 The IG Team has continued to play a key role in providing assurance that the Council complies with information rights legislation during the period. From April to the end of September IG advised on the application of relevant exemptions in respect to requests received under information rights legislation. From 1st October 2011 it took over responsibility for the administration of all information rights requests on behalf of the Council.

4.2.3 IG also plays a prominent part when the Council receives a subject access request (someone requesting their personal information) or a request to access social care records, e.g. a parent asking to view the contents of their child's records. The Council's Data Protection Officer (part of IG Team) gives guidance on what records should or should not be released under the Data Protection Act 1998.

4.2.4 The ICO has set a benchmark of 80% for responding to FOI requests within the 20 day statutory deadline for responding to requests.

4.2.5 For the period April – end of September 2011 450 FOI requests were received, an average of 75 requests per month. 86% of these requests were answered within the 20 working day statutory deadline with the average time to respond to each request being 12 days.

4.2.6 For the period October – end of December 2011 198 FOI requests had been received, an average of 66 requests per month. 83% of these requests were answered within 20 days with the average time to respond to each request being 10 days.

4.3 Data Security Incidents

4.3.1 IG investigates all instances of alleged data breaches that are identified and referred to them. A data breach can cover a number of different incidents from a member/employee

reporting a lost Blackberry to confidential/sensitive information being communicated to an unauthorised and/or incorrect recipient.

4.3.2 Between 1 April and 31 December 2011 there were 46 reported instances of possible data breaches. IG investigated all of these and has as at 6th January 2012 confirmed that 20 data breaches had occurred. These are shown below categorised by type of breach.

	Number of cases	Number of Data Subjects
Information accidentally sent to the incorrect recipient	15	17
Accidental release of personal information verbally	3	3
Documents containing sensitive information left in an insecure location	1	15
Documents containing sensitive information disposed of inappropriately	1	115
Total	20	

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

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

4.3.5 In November 2011 Big Brother Watch issued a report compiled from responses to an FOI request – Local Authority Data Losses July 2008 – July 2011. They received a response rate of 91% to the request (395 authorities) and one third reported data losses (132) with two thirds reporting no data losses (263). T&W reported 30 data losses² during this period which resulted in us being 9th out of the 132 authorities who reported data losses. Although in comparison with other authorities this may appear high, there are positives to be taken in that the Council has demonstrated an open culture where staff feel comfortable in reporting information security incidents. Also given the recent changes in organisational structure and level of staffing the risks around information security have increased. To help to address this during 2010/11 and continuing into 2011/12 the Council has restructured and expanded the Information Governance function and is continuing the implementation of improved processes, training and awareness across the Council.

4.3.6 Any lessons that should be learnt from data security incidents are shared locally with appropriate employees and across the Council where these lessons apply to all services.

² Further analysis of some of the cases submitted found that they had not eventually been confirmed as data breaches. There were 20 confirmed data breaches

4.4 Audit of Information Governance (IG)

4.4.1 An internal audit of the Councils arrangements for IG was completed in March 2011. The report gave the following opinion of the IG arrangements at that time:

*‘On the basis of the work carried out it is our opinion that the level of assurance provided by controls for this audit area is Reasonable; **there is a sound system of control but there is evidence of non compliance with some of the controls. There are Policy/Procedure recommendations and many best practice recommendations that Audit Services are confident that management will implement.**’*

An action plan has been agreed as a result of this audit report. IG has, or is in the process of, implementing actions agreed within the timescales set.

4.5 Information Governance Work Programme

4.5.1 The IG team in addition to the administration of information rights legislation, the investigation of data security breaches set down a work programme to further improve the information governance framework of the Council. Progress to date is shown below:

Action	Progress
Production of a fit for purpose publication scheme	Scheme due for full implementation in January 2012.
Development of a FOI disclosure log	Disclosure log now posted on Councils website and updated monthly
Review of Corporate Information Security Policy (CISP)	The policy has been reviewed and a current pilot taking place re: the online acceptance of this policy.
Follow up of the implementation of the actions from the 2010/11 Safeguarding review	During 2010/11 a review was undertaken in respect to the file/record management arrangements implemented by Safeguarding at The Mount. Actions were agreed with management some of which were implemented by 31 st March 2011. A review of the progress to implement the outstanding actions was undertaken during September-October 2011. Implementation is progressing according to agreed timetables with only long term actions still to be implemented.
Developing training and awareness	A number of actions have taken place on this including: Attended SMT to launch awareness programme September 2011 The IG & Risk Team Leader attending a number of Heads of Service management meetings to raise awareness. Current pilot of e learning package intended for full roll out and completion by all council officers

	Targeted training undertaken in higher risk areas such as Safeguarding. New posters currently being developed and due for distribution by the end of January 2012. Members sessions in November 2011 Presentation to all Finance officers in December 2011.
Online agreement to abide by requirements of the CISP	See above.
Guidance on undertaking Privacy Impact Assessments	Guidance now complete and communicated to Project Officers in ICT.

4.5.2 The next update to the Audit Committee on Information Governance will be the 2011/12 Annual report, incorporating activity during January – March 2012 which will be presented to the June Audit Committee.

5 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of the IG Team have attended equal opportunities/diversity training. If any such issues were highlighted as part of IG work they would be notified to the appropriate manager.
Environmental Impact	All members of the IG Team are environmentally aware and if any issues were highlighted as part of IG work they would be notified to the appropriate manager.
Legal Implications	Compliance with the legislation mentioned in this report is mandatory. When assessing compliance, the ICO will consider approved policies and procedures of the authority.
Links with Corporate Priorities	IG is a key component of good governance and links to all corporate priorities.
Risks and Opportunities	The role of IG includes reviewing information security arrangements in place to manage IG risks within service areas. IG reports produced assist the Council in improving systems and controls (reducing IG risks) and therefore the delivery of services and achievement of objectives. If the Council does not comply with the information rights legal requirements there is the risk of the Council being issued with a fine by the ICO of up to £500,000. Service areas supported by the IG Team have and are continuing to implement mitigation to avoid this but there is still risk associated with this.
Financial Implications	IG operated within the Audit & Assurance budget for 2010/11 and is on target to do the same for 2011/12. However if the ICO found that the Council was not complying with the information rights legal requirements and a fine was imposed there is no budget allocation identified to meet this.
Ward Implications	IG is responsible for the IG arrangements all the Council's activities and at all Council locations. They therefore operate within all Council Wards.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 31st JANUARY 2012

INTERNAL AUDIT QUARTER 3 2011/12 UPDATE REPORT

REPORT OF THE AUDIT & ASSURANCE MANAGER

1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarter three – October – December 2011.

2 RECOMMENDATIONS

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

3 SUMMARY

- 3.1 The Audit Committee receives a quarterly update of the work of Internal Audit. This report includes the update report for quarter three – October - December 2011.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 22nd March 2011 – Internal Audit Annual Plan and Strategy 2011/12
Audit Committee 20th September 2011- Internal Audit Quarter 1 2011/12 Update Report
Audit Committee 1st November 2011 - Internal Audit Quarter 2 2011/12 Update Report

5 INTERNAL AUDIT – QUARTER THREE UPDATE (OCTOBER - DECEMBER 2011)

- 5.1 The report provides information on the work of Internal Audit during October to the end of December 2011 and provides an update on the progress of previous audit reports issued (April 2009 to September 2011).
- 5.2 Internal Audit activity during this period was as set out in the plan. The work has focussed on the fundamental audits for the Council and the External Auditor. During this period these have been general ledger, purchase ledger, sales ledger and benefits.
- 5.3 The following appendices are attached to the report:
- i) Appendix A – List of final reports issued in quarter three with our grading – red, amber, yellow or green. This report also includes budgeted time, actual time and percentage variance.
 - ii) Appendix B – List of all work undertaken for quarter three of 1 day or more.
 - iii) Appendix C - Previous graded reports from April 2009 to September 2011 with their current status. (Members should note that green reports have now been excluded from this report).
- 5.4 Appendix A shows that 13 final reports were issued in quarter 3.
- 5.5 The audit areas shown in the table below were different to their allocated time by more than +/- 5% for the reasons highlighted below:

Area	Variance (> +/- 5%)	Reason
The Grange Primary School	-6%	Slightly under due to school being very well organised and limited purchase order sample testing completed due to implementation of Agresso
The Woodlands Primary School	12%	Additional time spent at the school due to large amounts of cash found at time of audit visit (and having to count / record processes)
Lightmoor Primary School	-22%	Under due to school being very well organised and limited purchase order sample testing completed due to implementation of Agresso
ICT Procurement	50%	Initial scope extended and the initial audit also highlighted significant control weaknesses within the service area which meant that additional testing was required as agreed with Head of Service. Please see 5.6 and 5.7 below.
Wombridge primary school	-8%	Slightly under due to school being very well organised and limited purchase order sample testing completed due to implementation of Agresso
Donnington Wood Jnr	-26%	Under due to school being very well organised and limited purchase order sample testing completed due to implementation of Agresso
St Peter's C of E Primary school	-11%	Slightly under due to school being very well organised and limited purchase order sample testing completed due to implementation of Agresso
Council Tax / NNDR	27%	Initial scope extended to include an application review and additional checks following the notification of potential risk of fraud highlighted by Coventry Council.

Future time allocations will be reviewed based on these experiences

5.6 When we completed the ICT Procurement audit in September 2011 we were concerned about the audit findings and as a result we could not give any assurance that the expenditure that was being paid to ICT suppliers was correct, valid and in accordance with any contract conditions. These concerns were highlighted to, the Head of Property & ICT and the Infrastructure & Operations Service Delivery Manager and they took urgent action to address the control weaknesses identified. At the time they were part way through the restructure of the ICT unit. They allocated two members of staff to look at all ICT contracts and an Action Plan was put in place to implement the recommendations made in the draft report. This team also worked closely with the Corporate Procurement Team to ensure that the appropriate procurement rules and procedures were being adhered to.

5.7 Significant progress has been made by ICT since the audit and our revised opinion is reasonable with the direction of travel positive. As part of the Property & ICT restructure the Head of Service provided further emphasis and control by introducing an Asset & Documentation Team Leader. The Asset & Documentation Team Leader has recently been appointed with an early task of a revised ICT Contract Register which contains the details recommended in respect to ICT contracts which is being developed and managed. There is still work in progress with 80% complete with the remaining 20% to be completed by the target date of 31 March 2012.

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

- a) Advice and Guidance including organisational change – continuing requests for advice due to organisational and systems/process changes.
- b) Integrated Benefits - key Council system and allocation was 40 days
- c) Main accounting, Purchase ledger and sales ledger – normal key Council systems audits which are at least 20 days each but additional time due to the implementation of the Councils new financial management system (Agresso).
- d) Supplier query – review of some contractors including repairs and maintenance.

5.9 From Appendix C the position on the original red/amber reports that remain amber or require highlighting to members are as follows.

No	Area Audited	Original grade	Revised grade	
1.	Car Parking and enforcement	Amber	Amber	Follow up is still in progress due to restructuring so no change to grade. We have been advised that new systems and contracts are being put in place. Full review of revised arrangements to be undertaken Quarter 1 2012/13 therefore there will be a new update to members then.
2.	Children's Placement Costs 2010-11	Amber	Yellow	Work has been undertaken by the service area to change the grading to yellow. Following a reorganisation within this service area a full review will be carried out during 2012-13
3.	ICT Back up and Recovery	Amber	Yellow	Follow up completed and further review due April 2012. HOS and Service Delivery Manager (SDM) attending Audit Committee to provide a further update.
4.	Abacus system	Amber		Follow up due February 2012

5.10 The table shows that car parking and enforcement is revising systems and processes and that a further review will take place in April – June 2012. Children's Placement costs have improved to yellow and the Head of Service has addressed this Committee on today's agenda to update members on this area. ICT Back Up and Recovery follow up is complete and the grading has improved to yellow but a further review will be undertaken in April 2012. The Head of Service and SDM have attended this Committee to update members on this area. The Abacus system follow up is scheduled for February 2012.

5.11 All other areas previously audited are either improving or the follow ups are in progress or planned. Internal Audit is confident and it has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of Audit & Assurance have attended equal opportunities/ diversity training. If any such issues arose during an audit or risk review they would be notified to the appropriate manager.

Environmental Impact	Such issues would be notified to the appropriate manager during or immediately following the audit review.
Legal Implications	The Accounts and Audit (England) Regulations 2011 states that the Council shall maintain an adequate and effective system of 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 give consideration to CIPFA's Code of Practice for Internal Audit in Local Government. Undertaking the audits as set out in the report and providing an update to this Committee contributes towards meeting these requirements. 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 via the risk management process. Where high risks are identified then Audit Services undertakes work on a more regular basis.
Risks and Opportunities	The role of internal audit includes a review of the controls in place to manage the risks within service areas. The reports produced assist the Council in improving systems and controls (reducing risks) and therefore the delivery of services and achievement of objectives.
Financial Implications	There are no financial implications arising from this report. Where recommendations are made by Audit Services, if possible, cost implications are identified.
Ward Implications	Internal Audit is responsible for the internal audit of all the Council's activities and at all Council locations and therefore operates within all Council Wards.

7 BACKGROUND PAPERS

Annual Audit Plan 2011/12

Report by Jenny Marriott, Audit & Assurance Manager 383101

APPENDIX A

FINAL REPORTS ISSUED QUARTER THREE – OCTOBER – DECEMBER 2011

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance
Agresso Go Live Checkpoint	Yellow	Agresso Audit Qtr ¾	*		
Newport Junior Primary school	Yellow	April 2012	7.5	7.56	-
The Grange Primary School	Green	N/A	7.5	7.05	-6%
Information Governance	Yellow	April 2012	*		
The Woodlands Primary School	Green	N/A	7.5	8.38	12%
Lightmoor Primary School	Yellow	May 2012	8.5	6.62	-22%
Cash Collection	Yellow	Annual audit	23	22.15	-4%
ICT Procurement	Yellow	March 2012	17.5	26.30	50%
Fraudulent Credit Card Payment review	Green	n/a	Unplanned**	3.77	n/a
Wombridge primary school	Yellow	May 2012	7.5	6.91	-8%
Donnington Wood Jnr	Yellow	May 2012	7.5	5.50	-26%
St Peter's C of E Primary school	Green	n/a	7.5	6.69	-11%
Council Tax / NNDR	Yellow	Annual audit	40	50.65	27%

* = Work undertaken by Audit Partners Deloitte under ICT Audit Contract

** = time taken from contingency

QUARTER 3 - AREAS WHERE WORK UNDERTAKEN HAS BEEN FOR MORE THAN 1 DAY

Areas	Days
AGS assurance & certification	3
Advice and Guidance including organisational change	15
Agresso Interfaces with other systems	8
Cash Collection – general	1
Council Tax / NNDR	6
Discharge process - Acute Hospitals & Mental Health Units	3
Donnington Wood Junior School	2
Education liaison	1
Email & Internet reviews	2
External Audit Revised arrangements	1
Agresso System development advice	5
Follow ups	3
ICT Procurement	1
Integrated Benefits System	38
Lightmoor School	3
Main Accounting	14
Member & Team Leader Training	2
Ombudsman Complaints	10
Purchase Ledger	27
Reporting To Members	7
Safeguarding Recommendations Follow Up	1
Sales Ledger	24
School Funds	1
Speak Up Policy Update	2
St Peters Bratton	7
Statutory Complaints procedures	1
Transparency Agenda	4
Wombridge	6
Woodlands	3
Press release review	5
Infrastructure Contract review	5
Inspection by IOCCO	1
Income and Subsidies	5
Social Care Service Improvement	1
Supplier Query	11
Youth Service review	3

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO SEPTEMBER 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.11
Business Continuity	Amber	Yellow	Follow up completed in March 2011, Service Area to advise when recs are implemented	Update will appear in future report to members.
Safer Stronger Communities Partnership (SSCP)	Yellow	Yellow	Follow up complete. Some recommendations are outstanding with a further follow up due in February 2012.	Update to appear in future report to members
Children in transition	Yellow		Follow up carried out in October 2010. Where possible actions have been implemented. However the restructure process will have an impact on some of the recommendations made.	A system review will be carried out in 2012-13 following the completion of the reorganisation process.
ICT Release Management	Yellow	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Recommendations in relation to this audit are in progress	Update will appear in future report to members.
ICT Security of Data Transfer	Amber	Yellow	Information sharing agreement for the Council and major partners has been agreed. Phase 2 on information sharing due to commence in early 2012. Other work such as updating IG intranet page with data sharing advice is still outstanding – due to be completed by end of January 2012.	Update will appear in future report to members.

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO SEPTEMBER 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.11
Confirm System	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit remain in progress	Update will appear in future report to members
CVS Transport Review	Amber	Yellow	2 nd follow up completed grade remains Yellow. Service Area to advise when recommendations have been implemented.	No further information to be provided to members but Voluntary sector will be part of 2012/13 plan.
Asset Management Plan & Voids	Yellow	Yellow	Recommendations still outstanding. Recommendations responsibility of management to implement, audit will not be undertaking further follow up as per revised arrangements.	No further updates to members.
ICT Capacity & Performance Management	Amber	Green	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Two best practice recommendations outstanding	
Car Parking and Enforcement	Amber	Refer to comments and status column.	Follow up is still in progress due to restructuring so no change to grade. We have been advised that new systems and contracts are being put in place.	Full review of revised arrangements to be undertaken Spring 2012 therefore there will be a new update to members then.
ICT Governance	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. One policy & procedure recommendation outstanding.	Update will appear in future report to members
Review of 'I Can 2' Project	Amber	Yellow	Follow up completed September 2011 but further review commenced late December 2011 and is still in progress.	Update will appear in future report to members

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO SEPTEMBER 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.11
Protocol System Review	Amber	Yellow	Follow up work completed but some recommendations still outstanding. Further follow up to be completed in March 2012.	Update will appear in future report to members
IT Asset Management	Amber	Green	Satisfactory follow up	
External FMSis Assessment – Charlton Secondary school	Yellow	Yellow	Recommendations still outstanding. Recommendations responsibility of management to implement, audit will not be undertaking further follow up as per revised arrangements.	Update will appear in future report to members
Windmill Primary School	Yellow		Email from headteacher stating school wish to remain yellow as they are appointing a new School Business Manager & they will be following up the outstanding recommendations.	Update will appear in future report to members
ICT Change management	Amber	Yellow	Follow up of all outstanding ICT recommendations is undertaken on a monthly basis. Some recommendations in relation to this audit are in progress	Update will appear in future report to members
Enterprise & Employment (One Telford)	Yellow	Yellow	Management are now responsible for the implementation of the recommendations. No further follow up as per revised arrangements.	No further update to members.

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO SEPTEMBER 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.11
Review of storage arrangements at Stafford Park 2010-11	Yellow	Green	Satisfactory Follow up	
Children's Placement Costs 2010-11	Amber	Yellow	Work has been undertaken by the service area to change the grading to yellow.	HOS attending 31/01/12 Committee to provide an update. Following a reorganisation within this service area a full review will be carried out in 2012-13
St George's Primary School	Yellow	Green	Satisfactory Follow up	
Information Governance	Yellow		Follow up due March 2012	Update will appear in future report to members
Community Centres	Yellow		Follow up in progress	Update will appear in future report to members
Absence Management	Yellow		Follow up due June 2012	Update will appear in future report to members
Millbrook Primary school	Yellow		Follow up in progress	Update will appear in future report to members
Redundancy payments	Yellow	Green	Satisfactory Follow up	
Putting People First – Mainstreaming & Developing Personalisation	Yellow		Follow up due in April 2012.	Update will appear in future report to members
Taxi Licensing compliance review 2011	Yellow		Follow up due March 2012	Update will appear in future report to members

STATUS ON FINAL REPORTS ISSUED APRIL 2009 TO SEPTEMBER 2011

APPENDIX C

Audit	Original Opinion	Updated Opinion	Comments	Status as at 31.12.11
Newport Pool	Yellow	Green	Satisfactory Follow up	
Children's Statutory Complaints	Yellow		Follow up in progress	Update will appear in future report to members
Payment Card Industry Standard	Yellow		Follow up in progress	Update will appear in future report to members
Software Licensing	Yellow		Follow up in progress	Update will appear in future report to members
ICT Back up and Recovery	Amber	Yellow	Follow up completed and further review due April 2012.	HOS and Service Delivery Manager attending Audit Committee 31/01/12 to provide an update.
Server Virtualisation	Yellow		Follow up in progress	
Waste management Contract review	Yellow		Follow up due January 2012	
Risk management	Yellow		Annual audit	
Travel Link	Yellow		Follow up due March 2012	
Frozen Meals Contract	Yellow		Follow up due March 2012	
Website management	Yellow		Follow up due April 2012	
P2 Net	Yellow		Follow up due Feb 2012	
Abacus system	Amber		Follow up due Feb 2012	

Effectiveness of the Audit Committee 2011/12 - Survey

Assessment scores:

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

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

Assessment scores:

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

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

Skills Audit for Audit Committee Members 2012

Please complete this form based on your knowledge, skills and experience to date and whether you feel that your current level of understanding is adequate to enable you to fulfil your roles and responsibilities as a member of the Audit Committee.

* - Please make appropriate comments here including information on any additional training requirements or skills required of yourself or a co-opted member.

No.	Skill	Competent	Developing	Not yet developed	Additional Comments*
1.	Do you consider that you have sufficient understanding of the Council's priorities and significant issues it faces to undertake your Audit Committee responsibilities?				
2.	Do you consider that you have sufficient understanding of the Council's structure including key relationships and major partners to undertake your Audit Committee responsibilities?				
3.	Do you consider that you have sufficient knowledge and understanding of the general legislation, rules, regulatory and compliance frameworks governing the Council so that you can undertake your Audit Committee role?				

No.	Skill	Competent	Developing	Not yet developed	Additional Comments*
4.	Do you have an understanding of the democratic, accountability and decision making processes of the Council?				
5.	Do you have sufficient understanding of the External Audit and Inspection requirements on the Council so that you can undertake your Audit Committee responsibilities?				
6.	Do you have sufficient understanding of the Council's governance arrangements including the Code of Good Governance so that you can undertake your Audit Committee responsibilities?				
7.	Do you have sufficient understanding of the Council's financial accounting and reporting arrangements to enable you to undertake your Audit Committee responsibilities?				
8.	Do you have sufficient understanding of the Council's Treasury Management strategy and reporting arrangements to enable you to undertake your Audit Committee responsibilities?				

No.	Skill	Competent	Developing	Not yet developed	Additional Comments*
9.	Do you have sufficient understanding of the Council's risk management strategy, methodology and reporting arrangements to undertake your Audit Committee responsibilities?				
10.	Do you have sufficient knowledge and understand the Council's Internal Audit arrangements and internal control assurance so that you can undertake your Audit Committee responsibilities?				
11.	Do you have sufficient knowledge of the Council's Anti-Fraud and Corruption Strategy and counter fraud arrangements to enable you to undertake your Audit Committee responsibilities?				
12.	Do you have sufficient understanding of the Council's Compliments, Complaints and Comments procedures and reporting arrangements to enable you to undertake your Audit Committee responsibilities?				

Within the Audit Committee there should be someone with the following:

No.	Skill	Competent	Developing	Not yet developed	Additional Comments*
13.	Do you have any recent and relevant financial experience that enables you to have effective engagement with financial accounts reporting and your responsibilities on the Audit Committee?				

Name.....Date.....

PLEASE RETURN COMPLETED FORMS TO JENNY MARRIOTT by MONDAY 27TH FEBRUARY 2012

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 31st JANUARY 2012

REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE 2011/12 AND SKILLS AUDIT

REPORT OF THE AUDIT & ASSURANCE MANAGER

1 PURPOSE

- 1.1 For members of the Audit Committee to agree the survey to measure the effectiveness of the Audit Committee.
- 1.2 For members of the Audit Committee to agree to undertake a skills audit and it's content to inform the training programme and any requirement for co-optees.
- 1.3 The results of the effectiveness review and skills audit will be reported to the Audit Committee on 27th March 2012.

2 RECOMMENDATIONS

- 2.1 That members agree the survey attached as Appendix A and to issue it to those outlined in paragraph 5.2 to measure the effectiveness of the Audit Committee;
- 2.2 That members of the committee agree and complete the skills survey attached as Appendix B to inform their training plan; and
- 2.3 That the results of the effectiveness survey and skills audit be presented to the March 2012 Audit Committee where members will decide any action to be taken in respect to training and the appointment of co-optees.

3 SUMMARY

- 3.1 A survey was undertaken in February 2010 to review the effectiveness of the Audit Committee. Previously surveys were undertaken in February 2008 and 2009. No survey was undertaken in 2011 due to the impending Borough Elections and it was agreed by the then Chairman that the survey should be undertaken when the 2011/12 Audit Committee membership was agreed. As the majority of the 2011/12 Committee members were new it seemed reasonable to postpone the survey until some experience had been gained of the business of the Committee.
- 3.2 Following the issue of the 2010 results at their meeting in March 2010 members requested that a co-optee appointment process be commenced. However at their meeting of 27th July 2010 it was agreed that given the re-structuring of the Council at that time, the financial uncertainty and also that the Borough elections were scheduled for May 2011 the process for the appointment would commence, if required, after the Borough Elections following a skills audit of the members of the Committee.
- 3.3 To demonstrate good governance it is important for the Council to measure the effectiveness of the Audit Committee. To complement the effectiveness survey the skills audit will identify additional training needs for members of the Audit Committee now they

have experienced 6 months operation. The results of both will also assist in the assessment by the Committee on whether to appoint any co-optees. Any training needs that are identified will clearly have to be met from within existing limited resources.

- 3.4 The government’s proposals for the future of external audit have suggested that Audit Committees should include independent¹ members. Any decisions on co-optees should be taken in light of the possible future make up of the Audit Committee.

4 PREVIOUS MINUTES

- 4.1 Standards & Audit Committee 29th January 2008
 Audit Committee 27th January 2009
 Audit Committee 2nd February 2010
 Audit Committee 1st February 2011

5 BACKGROUND

- 5.1 It is proposed to use the same survey as was used in February 2010 which included questions on co-optees (similar to 2009) to review the effectiveness of the Audit Committee. This will enable comparisons with previous years to be made. The proposed survey is attached as Appendix A.
- 5.2 It is proposed that the survey should be issued to and completed by:
- a) Members of the Audit Committee;
 - b) The Leader, Cllrs Richard Overton and Bill McClements – relevant Cabinet Members;
 - c) Managing Director, Chief Financial Officer (Corporate Director - Paul Clifford), Head of Finance, Head of Governance and the Audit & Assurance Manager;
 - d) Heads of Service/other officers who have attended the Committee in the last 12 months; and
 - e) the External Auditor (KPMG).
- 5.3 Attached as Appendix B is a draft skills audit which reflects the current committee’s terms of reference.
- 5.4 The analysis of the effectiveness surveys and skills audit returns will assist the Committee in discussions about their training programme and the appointment of co-optees. Any appointment will have to follow an open and transparent process.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	The review and skills audit should ensure Equality of Opportunity for all those completing them.
Environmental Impact	None

¹ Independent here means independent of the Council i.e. not officers or members and not politically orientated

Legal Implications	<p>(i) The Council are a relevant body within the meaning of the Accounts and Audit (England) Regulations 2011 and therefore must comply with the requirements set out in the Regulations. This includes, at Regulation 4 (2), a requirement for an annual review of the effectiveness of its system of internal control. The effectiveness of the Audit Committee survey within recommendation 2.1 will contribute towards meeting this requirement as the Audit Committee is part of the Council's system of internal control. The findings of the effectiveness review must come back to this Committee following which the Council must approve its annual governance statement. This will be undertaken by the Committee in accordance with its powers, functions and responsibilities as set out in Section 4, part 10 of the Council's Constitution.</p> <p>(ii) Regulation 6 (3) sets out an annual requirement for a review of the effectiveness of the Council's internal audit. The method of compliance with both these requirements is not specified and therefore is a matter for the Council to determine.</p> <p>(iii) Recommendation 2.3 of the report refers to the issue of co-optees. The membership of the Audit Committee as set out in the Council's Constitution states "one or more persons can be co-opted to the Committee who are not councillors or officers of the Council. Co-opted members will not be entitled to vote".</p>
Links with Corporate Priorities	An effective Audit Committee supports the Council's good governance arrangements encompassing the internal control and internal audit arrangements.
Opportunities and Risks	<p>Reviewing the effectiveness of the Audit Committee supports the effective management of risks and opportunities across the Council.</p> <p>The Audit Committee challenges and seeks assurances that the risk management processes are working effectively.</p>
Financial Implications	Any costs associated with the distribution and analysis of the survey will be met from within existing budgets. Any additional costs arising from training will also have to be met from within existing cash limited budgets. When the decision to appoint any co-opted members is made then the proposals should include the consideration of any allowances or additional costs that this would incur as they will have to be met from existing cash limited budgets
Ward Implications	None.

7 **BACKGROUND PAPERS**

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

Report by Jenny Marriott, Audit & Assurance Manager 383101