

Swindon Borough Council

Audit Committee

Tuesday, 19 April 2016

Committee Room 6, Civic Offices

At 6.00 p.m.

Conservative Councillors

Steve Weisinger
(Chair)
Oliver Donachie
Mark Edwards
Nick Martin
Maureen Penny

Labour Councillors

Steve Allsopp
Des Moffatt
Kevin Small

Committee Officer: Steve Jones (01793 463602)

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Access Arrangements - The venue is wheelchair accessible and an infrared receiver hearing system is provided. If you have any special requirements to enable you to attend the meeting or would like to receive any of the pages contained in this agenda in a larger print size, please contact the Committee Officer as soon as possible prior to the date of the meeting.

AGENDA

1. Apologies for Absence

2. Declarations of Interest

Members are requested at the start of the meeting to declare any known interests in any matter to be considered, and are reminded that any such interest should also be declared at the start of an item or during any discussion of the matter concerned.

3. Public Question Time

See explanatory note below. Please phone the Committee Officer whose name and number appears at the top of this agenda if you need further guidance).

4. Minutes (Pages 5 - 8)

To receive the minutes of the meeting held on 23rd February 2016

5. Treasury Management Statement BDR (Pages 9 - 32)

6. **Internal Audit report - Treasury Management** HIA (Pages 33 - 50)
7. **Annual Statement of Accounts Update 2015/16** BDR (Pages 51 - 54)
8. **Internal Audit Plan: 2016/17** HIA (Pages 55 - 82)
9. **Letter to those charged with governance** HIA (Pages 83 - 98)
10. **External Audit Reports** (Pages 99 - 136)
 - a) External Audit Annual Plan
 - b) External Audit Update
11. **Changes to arrangements for appointment of an External Auditor** HIA (Pages 137 - 146)
12. **Head of Internal Audit Update** HIA (Pages 147 - 162)

Date of Despatch: 12 April 2016

Key:

Officers:

BDR - Board Director Resources (Section 151 Officer)
 HIA - Head of Internal Audit

Public Question Time - Swindon Borough Council remains committed to increasing its accountability to the public and to promoting active citizenship. 15 minutes will be allowed at the start of all Council meetings for questions to the Chair from the public about the work of the Committee (except for confidential matters, and matters relating to planning and licensing applications). We will give priority to those who submit questions in writing at least two days before the meeting. Questions must be relevant, clear, and concise. You may not use Public Question Time as an opportunity to make speeches or statements.

Questions in writing should be sent to the Committee Officer whose contact details appear on the agenda above or to the Director of Law and Democratic Services, we will publish it, along with the answer, alongside the Minutes. The process associated with asking a public question is set out in the "Public Question Time at Council Meetings Protocol and Guidance" available on the Council's Website.

(<http://www5.swindon.gov.uk/moderngov/ecCatDisplay.aspx?sch=doc&cat=13338&path=0>) or from the Committee Officer named above.

The Audit Committee - Terms of Reference

(the complete terms of reference and programme of activity for the Audit Committee are set out in Minute 10 of the meeting of the Audit Sub-Committee held on 16 June 2015)

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.

- In relation to the authority's internal audit functions:
 - Oversee its independence, objectivity, performance and professionalism
 - Support the effectiveness of the internal audit process
 - Promote the effective use of internal audit within the assurance framework
- Consider the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risk of fraud and corruption.
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

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AUDIT COMMITTEE

TUESDAY, 23 FEBRUARY 2016

PRESENT:- Councillors Steve Weisinger (Chair), Steve Allsopp, Oliver Donachie, Mark Edwards, Nick Martin, Des Moffatt, Maureen Penny and Kevin Small.

32. Declarations of Interest

The Chair reminded members of the need to declare known interests in any matters to be considered at the meeting.

Councillor Donachie made a non-prejudicial declaration of interest in respect of items on the agenda relating to Public Power Solution, in his capacity as Non-Executive Director of that organisation.

33. Public Question Time

There were no public questions.

34. Minutes

Resolved – (1) That the minutes of the meeting held on 17^h November 2015 be confirmed and signed.

(2) That, further to Minute 30(ii)(2), the officers seek to obtain for members the information previously requested regarding levels of written off expenses.

35. Corporate Risk Management Update

The Committee received the Annual Summary Report on Risk Management activity within the Council. The report included the latest Corporate Risk Summary for the Committee's inspection and provided members with an update on progress in relation to the implementation of the new framework for Corporate Risk Management and the embedding of the Risk Management Strategy across the Council.

The Head of People, Performance and Engagement introduced the report, advising of the establishment of the risk management team and the appointment of a Risk and Performance Officer and, in particular, the work done to streamline the Risk Management processes and to integrate and align these with the Council's performance management arrangements.

The Corporate Planning Lead took members through the detail of the report, expanding on the main key risk areas identified in the Corporate Risk Summary, attached to the report at Appendix 1, and the respective causes, impacts and planned actions to reduce likelihood for each area of risk. Members' views were sought on the functionality of the newly-adopted corporate risk summary format.

Following the presentation of the report, the Head of People, Performance and Engagement and the Chief Executive responded to members' specific questions on

related issues, including.

- The revised corporate risk summary format.
- Organisational sustainability and the capacity to maintain services.
- The summary's assessment of major unplanned expenditure as "low risk".
- Governance and the summary assessment of potential impacts due to contraventions of legislative and statutory obligations.
- The summary information relating to possible causes of Highways and Transport risks.
- The measurability of summary plans to mitigate key risks.
- IT support, business continuity planning and the mitigation of IT related business continuity risks.
- The ability of the Committee to consider specific service and Pillar risk areas.
- The summary's identification of ownership of key risk areas.
- Financial and organisational resilience and the mitigation of reputational risk resulting from a generalised view of business affairs across the local government sector.

Resolved – (1) That the report be noted and its conclusions around the effectiveness of the Council's Risk Management, Internal Control and overall assurance framework be endorsed.

(2) That the officers be thanked for attending the meeting and for their full and open responses to members' questions and observations on the Council's Corporate Risk Strategy and specific issues relating to the key risk areas identified in the Corporate Risk Summary.

36. Internal Audit report - Brindley Close (Lessons Learnt)

The Committee received the Internal Audit "Lessons Learnt Review", carried out in relation to the waste fire on Council owned land at Brindley Close, which was leased to Averies Recycling (Swindon) Ltd. It was noted that the audit was carried out as a consultancy review to look at lessons learnt and therefore had no overall audit opinion attached.

The Head of Internal Audit introduced the report, taking the Committee through the key findings of the review and, with the Board Director, Service Delivery, and Head of Property Assets, responded to members' questions and observations the Management response to the various recommendations set out in the Action Plan annexed to the report.

- The position and liability of the Council as the "landlord of last resort" in respect of waste, landfill and waste transfer sites on council-owned land.
- The role and function of the Council in providing sites under licence for business operations that involve "non-conforming uses" and the enforcement of licence conditions.
- The suggested lease terms and conditions for inclusion in waste operator lease agreements and the ability of the Council to require appropriate insurance cover in respect of the "non-conforming" uses.
- The feasibility of introducing a monitoring and inspection schedule, in conjunction with the Environment Agency, in respect of all non-conforming use licences issued by the Council.

Resolved – That the report be noted and that the Committee receive a further report reviewing issues pertaining to the licencing, monitoring and inspection of the operation of waste sites in nine months' time.

37. Internal Audit report - Licensing

Further to Minute 28, the Committee received a report on the outcome of the Internal Audit Review of the effectiveness of the Licensing (Taxi and Private Hire) income and reconciliation process.

The Council's Licensing Manager was in attendance to introduce the report and provide an update on the effectiveness of process changes made in relation to the specific audit recommendations regarding:

- The Analysis and reconciliation of income.
- The segregation in duties between the collection of income and administration of the applications.

Following the update, the Licensing Manager responded to members' questions on the issues raised, particularly members' concerns at the apparently limited progress in responding to the initial audit recommendations.

Resolved – (1) That the report, and the management response to the specific audit review recommendations, be noted.

(2) That a further review report be submitted to the Committee in the latter part of the next Municipal Year, following the implementation of all the requisite IT support systems.

38. External Audit Reports

- (i) Certification Work for Swindon Borough Council for the year ended 31 March 2015

Chris Hackett (Grant Thornton) presented a report regarding the certification of claims and returns submitted by the Council. The report also provided a summary of the External Auditors' assessment of the Council's management arrangements in respect of the certification process and highlighted significant matters in relation to each of four claims and returns that were certified for the Financial Year 2014/15.

Resolved – That the report be noted.

- (ii) Audit Committee Update

Chris Hackett (Grant Thornton) presented a report advising the Committee of the External Auditors' progress, as at 23rd February 2016, in respect of the delivery of their audit responsibilities. The report also included a summary of key emerging national issues and developments that might be of interest to the Committee.

Resolved – That the report and supporting papers be noted.

39. Public Sector Internal Audit Standards - External Assessment

The Committee received a report of the Head of Internal Audit on the requirement of

the Public Sector Internal Audit Standards for an external assessment of internal audit. It was noted that this assessment had to be conducted at least once every five years by a qualified, independent reviewer external to the organisation. Members were invited to consider the proposed arrangement for that external assessment.

Resolved – That the report be noted and that the terms of reference for the external assessment of internal audit be approved.

40. Head of Internal Audit Update

The Committee received a report of the Head of Internal Audit summarising the main issues arising from the Internal Audit reports finalised since the last Audit Committee meeting in November 2015, progress made against the Annual Internal Audit Plan 2015/16 and Internal Audit business, staffing and resource issues, including the successful bid for DCLG monies for counter fraud work.

Resolved – That the report be noted.

(Councillor Mark Edwards made a non-prejudicial declaration of interest in respect of matters in this report relating to Isambard School, in his capacity as a Governor of that school.)

Treasury Strategy Statement 2016/17

Audit Committee

Date: 19th April 2016

Author:	Cabinet Member for Finance, People and Performance Board Director, Resources
Wards:	All
Locality Affected:	All
Parishes Affected:	All

1. Purpose and Reasons

- 1.1. To report the Treasury Management Strategy for 2016/17, including Prudential Indicators up to 2017/18, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement.
- 1.2. The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

2. Recommendations

Audit Committee is recommended:

- 2.1. That the Treasury Management Strategy, Minimum Revenue Provision Policy and Prudential Indicators, as set out in Appendix 1, to be submitted for approval by Full Council at its meeting on 14th April 2016, be noted.

3. Detail

Treasury Strategy

- 3.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Available cash (resulting from the Council's day-to-day cash management processes) is invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.2. The second main function of the treasury management service is the funding of the Council's Capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses temporarily in lieu of new loans.
- 3.3. Treasury management is defined by the CIPFA Code of Practice for Treasury Management as the:

Further information on the subject of this report can be obtained from Paul Smith on Direct Dial No.463976, or Email psmith2@swindon.gov.uk.

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“management of the local authority’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”.

- 3.4. The strategy for 2016/17 has not altered significantly from the 2015/16 strategy, which was reviewed and agreed by Council in February 2015 then reported to Cabinet mid-year (Council Minute .81, 2014/15 and Cabinet Minute 7, 2015/16 refer).
- 3.5. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates, and actuals. Under the Council’s Constitution, the Audit Committee scrutinises the treasury management activities undertaken by the Board Director Resources and his team, including compliance with agreed policies.
- 3.6. **A Treasury Management Strategy Statement** (This report) - The first, and most important report covers:
- 3.6.1. The Capital spending plans (including prudential indicators) based on Cabinet and Council decisions;
- 3.6.2. A Minimum Revenue Provision (MRP) Policy (which details how capital expenditure funded by borrowing is charged to the revenue budget over time);
- 3.6.3. The Treasury Management Strategy, as set out in **Appendix 1**, which details how the investments and borrowings are managed overall, including treasury indicators; and
- 3.6.4. An Investment Strategy, which sets the parameters around how investments are to be managed on a day-to-day basis.
- 3.7. **A Mid-Year Treasury Management Report** – This updates Members on Treasury Management performance for the first half of the financial year.
- 3.8. **An Annual Treasury Management Report** – This details the full year Treasury activity and performance.
- 3.9. The Treasury Management Strategy for 2016/17 covers three main areas:
- Capital Issues:
 - the capital plans and the prudential indicators;
 - the MRP strategy.
- 3.10. Treasury Management issues covered are:

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Treasury Strategy Statement 2016/17

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- the current treasury position;
- the treasury indicators which will limit the treasury risk and activities of the Council;
- the prospect for interest rates;
- the borrowing strategy;
- the policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- the creditworthiness policy; and
- the policy on use of external service providers.

3.11. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Investment Returns

3.12. The annual Investment Strategy details priorities when making Investments of surplus funds as

- security first (i.e ensuring we get our money back),
 - liquidity second (we get it back when we need it),
 - return on investment (we get the best possible return on our money).
- These priorities follow both CIPFA and DCLG guidance.

3.13. The impact of this guidance is that the potential return on investments is secondary to security and liquidity and these parameters have a significant impact on the interest rate achieved by the Council in comparison with some other bodies and individuals as it restricts both to whom the Council can lend, and for how long.

3.14. The current Investment Strategy currently restricts investments to a maximum of two years. The Policy also recommends that investments greater than 1 year are limited to £20m in total and £10m to any one Counterparty. The exact length of any investment will, as always, be based on rates available at that time, interest rate forecasts, and forward liquidity requirements.

3.15. The Council is part of a benchmarking club, which consists of around 12 to 13 other public bodies in the West and Wales, including a variety of Local

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Authorities, Fire Authorities etc. Investment returns are regularly checked against the other public bodies in this group.

4. Alternative Options

- 4.1. Any alternative options for specific areas are set out within the report.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1. These have been reflected in the body of the report.

Legal and Human Rights Implications

- 5.2. All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3. There are no such direct implications.

Diversity Impact Assessment

- 5.4. A Diversity Impact Assessment (DIA) is not relevant to this report as this is a regulatory report, which covers the Councils treasury management processes and doesn't directly affect any services.

6. Consultees

- 6.1. The Board Director, Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers and Appendices

- 7.1. Appendix 1 – Treasury Management Strategy

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TREASURY MANAGEMENT STRATEGY 2016/17

Further information on the subject of this report can be obtained from
Paul Smith on Direct Dial No. 463976 or Email psmith2@swindon.gov.uk

Appendix 1- Treasury Management Strategy 2016/17

Cabinet

Date: 16TH March 2016



Contents:

- 1. Current Portfolio Position**
 - 2. Prospect for Interest Rates and Economic Outlook**
 - 3. Minimum Revenue Provision Policy Statement**
 - 4. Borrowing Strategy**
 - 5. Investment Policy, Creditworthiness Policy and Investment Strategy**
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- **Annex 1 – Prudential Indicators**
 - **Annex 2 - Credit and Counterparty Risk Management, Specified and Non- Specified Investments**

Appendix 1- Treasury Management Strategy 2016/17

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1 Current Portfolio Position

1.1 The capital expenditure plans set in Annex 1 to Appendix 1 summarises the Councils current and future plans. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

1.2 The Council's actual treasury portfolio position at 31 March 2015, with forward projections are summarised below. The table shows the actual external borrowing (both relating to the general fund and the HRA), against the borrowing requirement (shown through the Capital Financing Requirement or "CFR"), highlighting any over or under borrowing. The CFR represents the amount of long term borrowing required to fund capital expenditure, but not yet taken out.

Table 1 - Portfolio position forecasts				
	15/16	16/17	17/18	18/19
	£'000's	£'000's	£'000's	£'000's
Gross Borrowing b/fwd	266,564	310,063	323,562	342,061
New Borrowing	50,000	20,000	20,000	20,000
Maturing Debt	- 6,501	- 6,501	- 1,501	- 11,501
Gross Borrowing c/fwd	310,063	323,562	342,061	350,560
Net Investments c/fwd	- 80,000	- 70,000	- 60,000	- 50,000
Net Borrowing c/fwd	230,063	253,562	282,061	300,560
CFR	452,062	451,133	441,855	432,332
Less PFI liabilities	- 52,810	- 51,280	- 49,555	- 47,632
Net Borrowing Requirement	399,252	399,853	392,300	384,700
(Under)/Over borrowing	- 169,189	- 146,291	- 110,240	- 84,140

2 Prospects for Interest Rates and Economic Outlook

2.1 The Council has appointed Capita Asset Services (formerly Sector Group) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita central view.

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Table 2 – Prospects for Interest Rates

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%

2.2 UK GDP (Gross Domestic Product) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2.2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% year on year) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3 followed by a slight recovery in quarter 4 to an initial reading of +0.5%.

2.3 The February Bank of England Inflation Report included a forecast for growth to remain around 2.2 – 2.4% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. However, these forecasts are approximately 0.2% lower than those of the November Inflation Report. Investment expenditure is also expected to support growth. However, since the second half of 2015, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK and this theme was maintained in the February Inflation Report.

2.4 The February Inflation Report was notably subdued in respect of the forecasts for inflation in the near-term; this was expected to barely get back up to the 1% level within the next 12 months but was expected to marginally exceed the 2% target on the 2-3 year time horizon. The increase in the November Inflation Report forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and

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commodity prices will delay a significant tick up in inflation from around zero. There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There is also the uncertain impact of the EU referendum which may take place as early as June 2016.

2.5 The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back and the markets are currently betting on a mid 2017 increase.

2.6 In summary:

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3 Minimum Revenue Provision Policy Statement

3.1 The Council is required to charge an element of the accumulated General Fund capital spend each year (measured through the CFR) to revenue (the minimum revenue provision or "MRP"), although it is also allowed to undertake additional voluntary payments if required.

3.2 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to Councils, as long as there is a prudent provision. The Council is recommended to approve the following MRP Statement, which is unchanged from last year:

"For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP will be based on the CFR. This option provides for an approximate 4% reduction in

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the borrowing need (CFR) each year. From 1 April 2008 for all unsupported borrowing the MRP will be based on the estimated life of the assets, in accordance with the regulations.

MRP in relation to capital expenditure funded through borrowing incurred on the Wichelstowe project, will be deferred and the liability repaid through future capital receipts from the site. Should there be a shortfall between the debt and eventual receipts, the balance will incur an annual MRP charge.

This methodology will also be applied to other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future receipts and where there is a strong likelihood that this will happen”

3.3 No revenue charge is currently required for the HRA, although the existing voluntary policy is to repay £5m per annum.

4 Borrowing Strategy

4.1 The Council is currently maintaining an under-borrowed position. This means that there is a shortfall between the amount of long-term loans required, and the actual level of long term loans taken out. Long term loans are required to fund capital expenditure which Cabinet has approved as “funded through borrowing”, but there is a timing difference between when the expenditure is made and when the long term loan is taken out. The timing of the taking of long term loans is part of the wider cash management strategy.

4.2 The difference between long term borrowing required and what has actually been taken out is known as “Internal Borrowing” and represents the temporary use of cash reserves and working capital to bridge the timing difference. As cash from reserves and working capital is currently invested at historically low rates, then the policy of delaying long-term borrowing and using existing cash balances as an interim measure is currently a cheaper option for the Council.

4.3 While the council will maintain an under borrowed position on the General Fund (the HRA is fully borrowed up to the CFR), future movements in interest rates will dictate the future policy and the timing of taking out long-term loans, and will be kept under careful review.

4.4 Against this background and the risks within the economic forecast, caution will continue be adopted with the 2016/17 treasury operations. The Board Director Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling

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from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years

Borrowing in Advance of Need

4.5 The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Loan Re-scheduling

4.6 Opportunities from rescheduling loans to generate savings will be monitored through the year but need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

4.7 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- amending the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.8 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

4.9 All rescheduling will be reported to the Cabinet at the earliest meeting following its action

5 Investment Policy, Creditworthiness Policy and Investment Strategy

Investment Policy

5.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and

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Cross Sectoral Guidance Notes (“the CIPFA TM Code”). The Council’s investment priorities will be security first, liquidity second, then return.

- 5.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 5.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- 5.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 5.5 Investment instruments identified for use in the financial year are listed in Annex 2 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

Creditworthiness Policy

- 5.6 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;
 - sovereign ratings to select counterparties from only the most creditworthy countries.
- 5.7 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

Further information on the subject of this report can be obtained from Paul Smith on Direct Dial No. 463976 or Email psmith2@swindon.gov.uk

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- 5.8 The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.
- 5.9 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 5.10 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.
- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 5.11 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Country limits

- 5.12 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be amended by officers should ratings change in accordance with this policy.

Investment Strategy

- 5.13 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 5.14 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise around late 2016. Bank Rate forecasts for financial year ends (March) are:
- 2016/17 0.75%

Appendix 1- Treasury Management Strategy 2016/17

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- 2017/18 1.25%
- 2018/19 1.75%

The estimated budgeted investment earnings rates for returns on cash investments placed for periods up to 100 days during each financial year for the next three years are as follows:

- 2016/17 0.60%
- 2017/18 1.25%
- 2018/19 1.75%

Investment Periods

5.15 Investment periods are currently restricted to no longer than 24 months. Lending to counterparties is in line with the creditworthiness policy detailed above and recommended by Capita and these are limited to a total of £20m. Any investments to banks and building societies for a period in excess of 365 days would be classed as a “non-specified investment” as detailed in Annex 2 to this strategy.

6 Policy on the use of external service providers

6.1 The Council uses Capita Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council 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.

Annexes

- Annex 1 - Prudential Indicators.
- Annex 2 - Credit and Counterparty Risk Management, Specified and Non- Specified Investments

Key Decision / Decision in Forward Plan

This is not a key decision for the Cabinet (as the approval of the full Council is required) and is included in the Cabinet Forward Plan

Treasury Management Strategy 2016/17 Appendix 1- Annex 1

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Annex 1 – Prudential Indicators

1 Capital Indicators

1.1 The Council's capital expenditure plans are a key driver of treasury management activity. The outputs from capital expenditure plans are reflected in prudential indicators, which are designed to assist the Members overview and confirm capital expenditure plans.

Table 1 - Capital Expenditure Projections

Capital Expenditure	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund Approved	90,570			
General Fund New		8,951	7,587	7,587
HRA Approved	36,547			
HRA Estimated New		15,700	15,700	15,700
Total	127,117	24,651	23,287	23,287

1.2 The figures in this indicator (General Fund approved) represent the level of current scheme approvals as reported to Cabinet in December 2015 as part of the quarterly capital monitoring process. Figures in the "general fund new" row represent approvals at Cabinet in February 2016 for 2016/17 and 2017/18, and an estimate for 2018/19 assumed at the same level as 2017/18. These represent total approvals, irrespective of funding source.

1.3 The second prudential indicator is the **Council's Capital Financing Requirement (CFR)**. The CFR represents the total long term borrowing requirement (ie borrowing required to finance capital approvals), regardless of whether the borrowing has been undertaken or not.

1.4 Details of the Council's projections for actual external debt compared to the CFR are contained in table 1 of the main Strategy. Note the figures are estimates, not commitments.

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Table 2 Capital Financing Requirement				
General Fund	15/16	16/17	17/18	18/19
	£'000's			
CFR b/fwd	265,380	268,720	274,321	271,768
Spend from borrowing	8,217	10,608	2,614	2,614
Less MRP	- 4,877	- 5,006	- 5,167	- 5,215
Sub-total	268,720	274,321	271,768	269,168
Add PFI Liability	52,810	51,280	49,555	47,632
Closing CFR incl PFI	321,530	325,601	321,323	316,800
HRA	15/16	16/17	17/18	18/19
CFR b/fwd	135,532	130,532	125,532	120,532
Spend from borrowing	-	-	-	-
Less MRP	- 5,000	- 5,000	- 5,000	- 5,000
Closing CFR	130,532	125,532	120,532	115,532
Total CFR	452,062	451,133	441,855	432,332

2 Affordability Indicators

- 2.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans and subsequent finance costs on the Council's overall finances.
- 2.2 Table 3 below shows the estimated financing costs (interest and debt repayment) as a proportion of the General Fund and HRA budgets.

Table 3 - Estimate of the ratio of financing costs to net revenue stream				
	15/16	16/17	17/18	18/19
General Fund	10.0%	11.0%	11.3%	11.5%
HRA	38.0%	38.0%	37.9%	37.9%

- 2.3 Table 4 calculates the impact of new approvals funded from borrowing on the tax payer, based on approvals from the February Cabinet Report. It is effectively the increase in debt charges (interest and debt repayment) divided by the estimated tax base. The 2018/19 estimate is based on the assumption that approvals are at the same level as 2017/18.

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Table 4 - Incremental impact of capital investment decisions on the band D Council Tax

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Current Approved Programme	£4.31	£13.19	£13.01	£12.83
New Proposals	Nil	£0.60	£2.51	£4.49

3 Borrowing Indicators

3.1 The Operational Boundary. This is the limit beyond which external borrowing is not normally expected to exceed. This limit reflects the Councils current estimated debt position, with the assumption that internal borrowing will be reduced as new external borrowing is undertaken. Other long term liabilities represent PFI and finance leases.

Table 5 - Operational Boundary

Op Boundary	16/17	17/18	18/19
Debt	343,562	362,061	370,560
Other Long Term Liabilities	51,280	49,555	47,632
Total	394,842	411,616	418,192

3.2 The Authorised Limit for external borrowing. A further key prudential indicator, this represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited. This has been set to reflect the Council's estimate of the Capital Financing Requirement for borrowing, and for other long term liabilities (PFI and other leases) at £5m above the Operational Boundary (i.e. the expected level)

Table 6 - Authorised Limit

Authorised Limit for External Debt	16/17	17/18	18/19
Borrowing	383,420	375,867	365,652
Other Long Term Liabilities	56,280	54,555	52,632
TOTAL	439,700	430,422	418,284

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3.3 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £m	2015/16 Estimate £'000's	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA debt cap	172,600	172,600	172,600	172,600
HRA CFR 31 st March	130,532	125,532	120,532	115,532
HRA headroom	42,068	47,068	52,068	57,068

4 Activity Limit Indicators

4.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rate loans (based upon the debt position net of investments)
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates loans;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing in a single period;

Table 7-Treasury Management Activity Limits

£m	2016/17	2017/18	2018/19
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%
Maturity Structure of fixed interest rate borrowing 2016/17			
	Lower	Upper	
Under 12 months	0%	15%	
12 months to 2 years	0%	30%	
2 years to 5 years	0%	40%	
5 years to 10 years	0%	40%	
10 years and above	0%	80%	
In any 10 year period above 10 years	0%	50%	

Further information on the subject of this report can be obtained from Paul Smith on Direct Dial No. 463976 or Email psmith2@swindon.gov.uk

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4.2 The maximum amount the council will invest for more than 1 year is set out in the table below/;

Maximum principal sums invested > 364 days			
£m	2016/17	2017/18	2018/19
Principal sums invested > 364 days	£20m	£20m	£20m

Further information on the subject of this report can be obtained from Paul Smith on Direct Dial No. 463976 or Email psmith2@swindon.gov.uk

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Annex 2 – Credit and Counterparty Risk Management, Specified and Non- Specified Investments

1 Treasury Management Practices

- 1.1 The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy.
- 1.2 The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on the 1st April 2008 and will apply its principles to all investment activity. In accordance with the Code, the Board Director – Resources has produced its Treasury Management Practices (TMPs). This part covering investment counterparty policy requires approval each year.
- 1.3 The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:
 - The strategy guidelines for choosing and placing investments, particularly non-specified investments.
 - The principles to be used to determine the maximum periods for which funds can be committed.
 - Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
 - Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

2 Specified/Non-Specified Investments

- 2.1 The main Investment guidelines are contained in the body of the Treasury Strategy statement. The paragraphs below detail the Council's use of Specified and Non Specified Investments
- 2.2 **Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a

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longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or Gilt with less than one year to maturity).
- Supranational bonds of less than one year's duration.
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society) in accordance with the Councils creditworthiness Policy.

2.3 Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Council holds 2 types of non-specified investments:

- Cash deposits > 1 year (Category (e) below)
- The Local Authority Property Fund (Category (j) below).

Other Non specified investments that the Council could make would include any investments with:

Non Specified Investment Category
Supranational Bonds greater than 1 year to maturity (a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). (b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. (c) Gilt edged securities with a maturity of greater than one year. These

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are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

(d) The Council's own banker if it fails to meet the basic credit criteria. In this instance any balances will be maintained on an instant access basis

(e) Any bank or building society that complies with the Council's creditworthiness policy for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

(f) Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies but will take specific advice before doing so.

(g) Share capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.

(h) Loan capital in a body corporate. See note 1 below.

(i) Bond funds. See note 1 below.

(j) Pooled property funds – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.

Note 1: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties - *The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately and if required new counterparties which meet the criteria will be added to the list.*

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Internal Audit report - Treasury Management

Audit Committee

Date: 19th April 2016

Author:	Head of Internal Audit
Wards:	None
Locality Affected:	None
Parishes Affected:	None

1. Purpose and Reasons

- 1.1 The terms of reference for the Audit Committee sets out that one of the purposes of the Committee is to provide *'effective scrutiny of treasury management policies and practices including the annual investment strategy'*.
- 1.2 Internal Audit carries out an annual audit of the Council's treasury management process. The report attached provides the Committee with assurance regarding the internal control arrangements in place within the treasury management process.
- 1.3 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating effectively.

2. Recommendations

- 2.1 It is recommended that the contents of the report be noted.

3. Detail

Background

- 3.1 Treasury Management is defined by the Chartered Institute for Public Finance and Accountancy (CIPFA) as the *"management of the local authority'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"*.
- 3.2 A paper regarding the Treasury Management Strategy for 2016/17, including Prudential Indicators, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement is included on this meeting's agenda.
- 3.3 Internal Audit carries out an annual audit of the Council's treasury management process. Key findings from the audit are set out below:

Key Findings

- 3.4 The auditor found the internal control arrangements to be of a *high standard* resulting in only a moderate risk to the Council.

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Internal Audit report - Treasury Management

Audit Committee

Date: 19th April 2016

- 3.5 Investments are made with organisations that offer a low risk of default.
- 3.6 It was found that the Treasury Management function continues to be compliant with the CIPFA Code of Practice for Treasury Management.
- 3.7 Internal Audit recommendations made are all of a medium or low priority. The Internal Audit report is attached as Appendix 1 to this report.
- 3.8 The Head of Technical Finance will be attending Audit Committee to answer any questions that Members may have.

4. Alternative Options

- 4.1 Not Applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report however the detailed audit report addresses the suitability of internal controls within the systems examined

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 Effective systems of internal control within the Council will help to ensure that the Council's corporate objectives and those set out in One Swindon are achieved.

Diversity Impact Assessment

- 5.5 Not Applicable

Risk Management

- 5.6 Not applicable

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Internal Audit report - Treasury Management

Audit Committee

Date: 19th April 2016

6. Consultees

- 6.1 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix 1 – Internal Audit report: *Treasury Management*

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Treasury Management
March 2016
Final

Swindon Internal Audit Services: Treasury Management 2015/16

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Report Distribution – Final Report issued on 14th March 2016 to:

Stuart McKellar	Board Director - Finance, Revenues, Benefits and Property
Paul Smith	Head of Technical Finance
Darren Stevens	Finance Manager - Housing, Treasury and Growth
Keir Garnham	Treasury Management Assistant

Auditor:

Ahsan Khan Internal Auditor

Swindon Internal Audit Services: Treasury Management 2015/16

Executive Summary

Background

This audit was undertaken as part of the planned Internal Audit programme for 2015/16 financial year. It is intended to provide assurance to the Board Director: Resources that the risks associated with Treasury Management are being adequately managed and the Council is not exposed to any significant financial risk as a result.

The objectives for Treasury Management are outlined in the 'Treasury Management Strategy 2015/16', and were approved by full Council on the 4th February 2015. The objectives are detailed below:

- Part of the treasury management operation is to use the cash management process to ensure that the Council's cash flow is adequately planned, and cash is available when needed. The Council has a low risk appetite for investments, therefore available surplus cash is invested in low risk counterparties or instruments providing adequate liquidity initially before considering the investment return (paragraph 3.2).
- The second function of the treasury management service is the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This may involve arranging long or short term loans, or using longer term cash flow surpluses (paragraph 3.3).

The Treasury Management Team is required to produce a minimum of three main reports each year:

- A Treasury Management strategy;
- A mid-year Treasury Management report
- An annual Treasury Management report

These reports are required to be scrutinised before being recommended to Council. Under the Council's Constitution, the scrutiny of the Treasury Management should be undertaken by the Audit Committee.

The system has received a "high standard" audit opinion for a number of years. Processes remain largely the same as previous years. As a result we have taken a follow-up approach to this year's audit, walking-through processes and controls to confirm they are still in place, and carrying out testing to ensure previous recommendations have been implemented.

Audit Opinion

The impact and materiality of Treasury Management is considered **high** and combined with the Auditor's opinion that the system controls are of a **high standard** gives an overall risk assessment to the Council of **moderate**.

Swindon Internal Audit Services: Treasury Management 2015/16

Key Messages

Treasury Management continues to be well administered and is to date in achieving the objectives set out in the Treasury Management Strategy for 2015/16. Investments are made with organisations that offer a low risk of default in line with guidance provided by third party advisors Capita Asset Services. Whilst investment return is not a priority, the weekly reports produced by Treasury Management indicate rates received are slightly above the benchmark rates and borrowing rates being below average lending rates. Cash flow for the year was well managed. Expected payments and receipts have been input in a cash flow forecast through to 2017.

Walkthroughs and testing confirmed that Treasury Management practices and processes have not changed substantially from the previous financial year and appropriate controls remain in place.

Swindon Internal Audit Services: Treasury Management 2015/16

Context

Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the “*management of the local authority’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*”.

At the 9th February 2016, the Council had approximately £97 million of investments, £4.5 million of short term borrowing and £285 million long term borrowing. A failure of process would therefore have a significant impact on the Council’s cash flows, its available funds to meet capital expenditure requirements and ability to service its debts.

Treasury Management is performed in compliance with the CIPFA Treasury Management Code as adopted in the Council’s Financial Regulations (Schedule 2 of the regulations). It is one of the key financial systems reviewed by Internal Audit to provide assurance to the Board Director: Resources in his role as the Council’s Section 151 Officer.

Treasury Management is a centralised function that is administered by a small team within Corporate Finance. They have direct access to the LloydsLink system, which allows them to view balances and make transfers via the internet.

The boundaries of Treasury Management work are defined in the Treasury Management Strategy, this outlines the approach to be used investing money, when borrowing monies and in setting the “affordable borrowing limit” (a statutory requirement), which is the amount the Council can afford to borrow.

The in-house team currently manage short to medium term investments (up to three months). The Council uses an external company called Capita Asset Services (previously Sector) to provide treasury management consultancy services and to provide credit ratings for when making investments. Capita Asset Services recommended that investments in counterparties be between three months and two years. The Council has adopted this recommendation although it has limited investments in counterparties to a maximum of one year.

Risk Areas Examined and Findings

In accordance with best practice, a risk-based approach was adopted that identified the key risks to the business objectives and those mitigating actions/controls that should be in place. The auditor then assessed the effectiveness of the mitigating controls through examination of relevant documents, procedures and detailed testing.

The key risks to the achievement of the business objectives were agreed with the Head of Technical Finance and the Finance Manager: Housing, Treasury and Growth before commencement of the audit. The table below summarises the Risk Areas examined during the review and provides an assessment of the adequacy of controls in place for each area of risk examined:

Swindon Internal Audit Services: Treasury Management 2015/16

Risk Area Examined and Findings	Audit Conclusion
<p>Risk: Regulation</p> <ul style="list-style-type: none"> The Treasury Management Strategy 2015/16 was presented to Audit Committee (24th April 2015) and Cabinet (5th February 2015), with Cabinet recommending it to Council for adoption. The strategy was confirmed and adopted by Council on 23rd February 2015. The Council has adopted all the mandatory clauses recommended in the CIPFA Treasury Management Code of Practice although the one relating to who provides scrutiny over Treasury activity has not been included in the Council's Financial Standing Orders. The Audit Committee Terms of Reference states it is responsible for "<i>oversight of Treasury Management activities</i>". The Internal Audit report on Treasury Management (2014/15) was presented to the Audit Committee in April 2015 to provide assurance regarding the adequacy of control within the system. 	<p style="text-align: center;">Satisfactory</p>
<p>Risk: Market conditions</p> <ul style="list-style-type: none"> The Council employs Capita Asset Services (previously Sector) to provide guidance to the Treasury Management function to enable Treasury Management to make informed investment/ borrowing decisions. Capita Asset Services provide regular market updates on a daily, weekly and ad hoc basis. They also provide investment benchmarking analysis. 	<p style="text-align: center;">High Standard</p>
<p>Risk: Cash flow</p> <ul style="list-style-type: none"> Cash flow analysis is undertaken daily and, as recommended by the CIPFA code, there is a twelve month cash flow projection in place. The Treasury Management Assistant updates the cash flow as information becomes available. 	<p style="text-align: center;">High Standard</p>
<p>Risk: Counterparties</p> <ul style="list-style-type: none"> Treasury Management continue to invest in accordance with the Strategy, with all investments with low risk organisations. Investments are all short to medium term and in line with Capita Asset Services guidance for the institutions concerned. The Council mainly uses two brokers to occasionally place business, with a third broker also available for use. This is in line with the CIPFA code, which recommends at least two. 	<p style="text-align: center;">High Standard</p>

Swindon Internal Audit Services: Treasury Management 2015/16

<p>Risk: Error, fraud and corruption</p> <ul style="list-style-type: none"> The Treasury Management Assistant has the ability to set up CHAPS payments but not to approve them. A minimum of two people need to be involved in processing a CHAPS payment up to £250,000. A third person is required for any amounts above this. There is good segregation of duties in the process. The LloydsLink system enforces segregation of duties in processing payments through its authorisation processes. Reconciliations are not reviewed by an independent person. Reconciliations are undertaken on a rolling basis, with the previous period updated and overwritten, but the spreadsheets do not indicate what period is being reconciled. AP 2.1 	<p style="text-align: center;">High Standard</p>
<p>Risk: Systems integrity</p> <ul style="list-style-type: none"> Treasury Management continues to use Logotech as its main database for recoding transactions and cash-flow forecasting. The Council now banks with Lloyds after transferring from the Co-operative bank in 2015. A high level review of security controls in the system has been carried out as part of this review. More detailed testing will be carried out in the 2016/17 review. The system requires individual user accounts to log on to the system. System administrator and standard user accounts have been segregated. Segregation of duties are enforced by the system, requiring two people to approve a payment. As a further control, a randomly generated code from a smartcard is required to approve payments in Lloyds link, i.e. two factor authentication is in place. System access reviews are undertaken by the TMA on a monthly basis. The audit trail was observed and covers actions such as processing of transactions, setting up users and logging into the system There is no forced change of password by the system, e.g. a requirement to change passwords periodically. This risk is partially mitigated by requiring an additional, random generated password to processes and transactions on the system, limiting the risk arising from this. AP 2.2 The TMA reviews system access monthly. This process could be enhanced by distributing the report of system users to the Head of Finance Admin as part of this monthly check, for them to check the currency of access rights for Finance Admin team members. This finding is low risk, as Finance Admin team members are only able to view transactions on the system. AP 2.3 	<p style="text-align: center;">Satisfactory</p>

Swindon Internal Audit Services: Treasury Management 2015/16

Overall Opinion

Materiality and Impact: High. The Treasury Management team is responsible for managing the Council's investments and borrowing position. At the 9th February 2016 the Council had approximately £97 million of investments, £4.5 million of short term borrowing and £285 million long term borrowing. Treasury Management is also responsible for ensuring the Council has sufficient cash available to meet its financial liabilities as they arise. Materiality is therefore **high**. Any failure of the Treasury Management function would have a significant impact on the Council. Impact is therefore **high**.

Changes since the last audit: The Council is now using Lloyds Bank to provide financial services.

The Treasury Management Audit in 2014/15 made six recommendations of which four have been implemented and one partially implemented. One recommendation has not been implemented which relates to an independent check of reconciliations.

Priority of Recommendations	Total	Implemented	Partially Implemented	Not Implemented
High	0	0	0	0
Medium	4	2	1	1
Low	2	2	0	0
Total	6	4	1	1

Opinion on system controls: High Standard (see Appendix A) i.e. the Auditor completing the review concluded that the significant controls are in place and operating effectively and only minor recommendations have been made.

Swindon Internal Audit Services: Treasury Management 2015/16

Overall Assessment of Risk: the combination of the medium impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **moderate**:

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High Standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

Swindon Internal Audit Services: Treasury Management 2015/16

Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of Treasury Management, together with the recommendations to mitigate risks, the manager's response to the recommendations, along with the officer responsible and timescale for implementation. In order for you to identify the most significant matters arising, which affect the reliance that can be placed on the controls reviewed, the recommendations have been prioritised.

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	Risk: Regulation			
1.1	<p>Scrutiny of Treasury Management Performance</p> <p>CIPFA Code - mandatory clauses: The CIPFA Code on Treasury Management clause "<i>this organisation nominates (name of responsible body) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies</i>" has not been included in the Council's Financial Standing Orders.</p> <p>This is one of four clauses CIPFA recommends for formal adoption by public services. The Council has included the first three in its Financial Standing Orders. This role is undertaken by the Audit Committee and is included in the committee's terms of reference.</p>	<p>It is recommended that the CIPFA clause on the scrutiny of Treasury Management strategy and policies is included in Schedule 2 (New Formal Adoption Clauses for Treasury Management Code of Practice) of the Council's Financial Standing Orders.</p> <p>Priority: Low</p> <p><i>This recommendation was made in the 2014/15 audit and has not been implemented.</i></p>	<p>Head of Technical Finance</p> <p>June 2016</p>	

Swindon Internal Audit Services: Treasury Management 2015/16

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	<i>Risk: Error, Fraud and Corruption</i>			
2.1	<p>Reconciliations</p> <p>Reconciliations between Logotech and the General Ledger are not reviewed by an independent person.</p> <p>Furthermore, the reconciliations are done on a rolling basis and the previous one is overwritten. Also no evidence of review is maintained. According to the Treasury Management Assistant these accounts feed into year-end balances and are reviewed in detail then.</p>	<p>Treasury reconciliations should be undertaken promptly at month end and reviewed by an independent person. Confirmation of review by the independent person should be sent by email to so this can be retained as evidence.</p> <p>Priority: Medium</p> <p><i>A similar recommendation was made and agreed in the 2014/15 audit but has not been fully implemented.</i></p>	<p>Head of Technical Finance</p> <p>May 2016</p>	

Swindon Internal Audit Services: Treasury Management 2015/16

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	<i>Risk: Systems Integrity</i>			
2.2	<p>User Access to Systems</p> <p>Currently, the TMA reviews users with access to the system on a monthly basis.</p> <p>This process could be enhanced by distributing the report of system users to the Head of Finance Admin as part of this monthly check, for them to check the currency of access rights for Finance Admin team members.</p> <p>This finding is low risk, as Finance Admin team members are only able to view transactions on the system.</p>	<p>The TMA should contact the Finance Admin Team Manager via email on a monthly basis to confirm whether all named staff are still current employees and that they still require access. This will also provide evidence of the checks undertaken</p> <p>Priority: Low</p>	<p>Head of Technical Finance</p> <p>May 2016</p>	
2.3	<p>Forced Password Changes</p> <p>Currently the LloydsLink system does not force users to change their passwords. The Council's Password Policy states that passwords should be changed a minimum of every 90 days.</p> <p>The risk in relation to this is partially mitigated by a control that requires a randomly generated smartcard code to processes any payments on the system.</p>	<p>Contact LloydsLink helpdesk to establish whether a requirement can be set up for users to be forced to change their passwords every 90 days.</p> <p>Priority: Low</p>	<p>Head of Technical Finance</p> <p>May 2016</p>	

Swindon Internal Audit Services: Treasury Management 2015/16

APPENDIX A

Standard Audit Opinions	Standard Audit Opinion System Control
<p>The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low.</p> <p>The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below).</p> <p>The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).</p>	<p>Audit Opinion 1. <i>High standard</i></p> <p>The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made.</p>
	<p>Audit Opinion 2. <i>Satisfactory standard</i></p> <p>The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.</p>
	<p>Audit Opinion 3. <i>Significant improvements required</i></p> <p>The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.</p>
	<p>Audit Opinion 4. <i>Fundamental weaknesses identified</i></p> <p>The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.</p>

Swindon Internal Audit Services: Treasury Management 2015/16

APPENDIX B

Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers who contributed to the review:

Name	Job Title
Keir Garnham	Treasury Management Assistant

Annual Statement of Accounts Update 2015/16

Committee: Audit Committee

Date: 19th April 2016

Author: Board Director, Resources

Wards: All

Locality Affected: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 This report provides an update on the progress towards the completion of the 2015/16 Statement of Accounts and future changes affecting their production
- 1.2 The audit committee is the designated body for approval of the Council's final accounts.

2. Recommendations

The Committee is recommended to:

- 2.1 Confirm the accounting policies for 2015/16 and proposed amendments for 2016/17.
- 2.2 Note the content of this report.

3. Detail

- 3.1 Under statutory requirements the draft annual accounts require authorisation by the Council's Section 151 Officer (Board Director, Resources) by the end of June. The position of the draft accounts may be reported to Committee at its June meeting for information, but is not a requirement for it to approve them until final.

Code Changes

- 3.2 The Code is reviewed annually by The Chartered Institute of Public Finance and Accountancy (CIPFA) and updates made to accounting requirements as a result of accounting regulation changes as interpreted for the public sector. There has not been significant change to the Code for 2015/16, but the main areas reviewed are:
 - 3.2.1 Fair Value Measurement – the Code has been updated to clarify and standardise the meaning of Fair Value measurement for valuations. Fair Value for non-financial assets, i.e. long term property, plant and equipment surplus assets and investments, are to be measured at highest and best use of the market. This means the maximum value, from its 'highest and best use', that could be obtained, without considering an Authority's intentions or restrictions on use. There are limited assets classified as investment or surplus and the effect of this change is expected to be limited.

Further information on the subject of this report can be obtained from Darren Stevens, Direct Dial 07769 281659, dstevens@swindon.gov.uk.

Annual Statement of Accounts Update 2015/16

Committee: Audit Committee

Date: 19th April 2016

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- 3.2.2 Narrative Report – the narrative report is the new name for the explanatory foreword and has the new requirement to include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

Accounting Policies

- 3.1 The accounting policies remain as per the final audited 2014/15 statement of accounts. Changes to the Code, as referred to in 3.2, do not directly result in the need to change the accounting policies. There are terminology updates or disclosure changes, depending on materiality, but significant judgements will be referred to in the accounts.

Future Changes to the Code and Local Arrangements

- 3.2 The introduction of a Highways Network Asset (HNA), previously called the Transport Infrastructure Asset, will require a revaluation under depreciated replacement cost methodology as at 1/4/16.
- 3.3 This will mean the inclusion for 2016/17 of an updated accounting policy for the HNA. The proposed policy to be included for the 2016/17 accounts is shown below, and Members are asked to approve it in preparation, with any refinement being presented at a future Audit Committee for confirmation:

“A Highways Network Asset (HNA) is a network and grouping of inalienable components, expenditure on which is only recoverable by continued use of the asset created. As a Highways Authority, Swindon Borough Council is judged to have highways infrastructure that fits this definition.

The HNA will be valued under depreciated replacement cost (DRC). Additions to the network from the capital programme will be deemed to equal the value of the asset being replaced, with additions equalling disposals. The replaced part will be assumed to have reached the end of its useful life and the value of the replaced part will equal the value of the depreciation derecognised for that replacement.

Valuations are undertaken by Highways Engineers using nationally prescribed models. This is supported with inventory from condition surveys and local knowledge. Significant judgements in the valuations process are recorded within the accounts disclosures.”

- 3.4 The process for including the HNA in the accounts has recently changed. Previously there was a requirement to restate the 2015/16 accounts but it has been agreed this year that the Code will be updated and the requirement will now be to show the asset revaluation from the 1st April 2016 only. This will now only result in adjustment to opening balances, without full prior period adjustment.
- 3.5 There has also been a review by CIPFA of the accounting statements format. This will see changes from 2016/17 to the core revenue statements of the

Further information on the subject of this report can be obtained from Darren Stevens, Direct Dial 07769 281659, dstevens@swindon.gov.uk.

Annual Statement of Accounts Update 2015/16

Committee: Audit Committee

Date: 19th April 2016

Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves (MiRS). The CIES will be required to present income and expenditure based on an Authority's internal reporting arrangements to those charged with governance. This means that in future, rather than the service analysis dictated by the Service Reporting Code of Practice (SERCOP), the accounts will be presented showing the service analysis that our internal budget monitoring reporting is shown as. This should provide greater consistency between in-year and year-end reporting, whilst improving the ability of the reader to follow the accounting adjustments that take place after budgeted outturn position.

- 3.6 The dates from 2017/18 remain as previously advised, and have since been published in the last Accounts and Audit Regulations, so are now statutory. This means that for 2017/18 onwards the draft accounts will need signing by the S151 officer by the 31st May. The subsequent publication of the final accounts, and therefore deadline for confirmation of the audit and receipt of certificate, changes to the 31st July. The Audit Committee for approval of the 2017/18 statement of accounts will therefore be expected during the last week of July 2018.
- 3.7 In the final statement of accounts for 2014/15 there remained the possibility that the group accounts section would need to be updated for any change to the published accounts of Public Power Solutions (PPS). Their position has since been concluded and it is confirmed that the turnover and subsequent balances in the Swindon Borough Council group accounts section will require restatement in the 2015/16 accounts of £3.7m. This is due to the timing of when income was able to be presented in the PPS accounts.

4. Alternative Options

- 4.1 None – the annual Statement of Accounts is a statutory process.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 These have been reflected in the body of the report.

Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 There are no such direct implications.

Further information on the subject of this report can be obtained from Darren Stevens, Direct Dial 07769 281659, dstevens@swindon.gov.uk.

Annual Statement of Accounts Update 2015/16

Committee: Audit Committee

Date: 19th April 2016

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

Diversity Impact Assessment

- 5.5 A Diversity Impact Assessment (DIA) has not been done as this report does not make any new recommendations that would have a detrimental impact on services.

6. Consultees

- 6.1 The Board Director Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 None

Internal Audit Plan: 2016/17

Audit Committee

Date: 19th April 2016

Author: Head of Internal Audit
Wards: None
Locality Affected: None
Parishes Affected: None

1. Purpose and Reasons

- 1.1 To present the draft Internal Audit Annual Plan (2016/17) for approval by the Audit Committee.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

2. Recommendations

The Committee is recommended to:

- 2.1 Approve the draft Internal Audit Plan for 2016/17.

3. Detail

Legal Framework

- 3.1 Internal Audit is a statutory requirement for local government under the Accounts and Audit Regulations 2015.
 - (a) Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs. Internal Audit supports the role of the Section 151 Officer by assessing the financial controls of the Council, in particular in relation to the main financial systems and provides assurance to the External Auditor regarding the reliance that can be placed upon these.
 - (b) Section 5 of the Accounts and Audit Regulations 2015 states that '*a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*'

Internal Audit Plan: 2016/17

Audit Committee

Date: 19th April 2016

- 3.2 These regulations emphasise the much wider role for Internal Audit and the need to consider all internal control arrangements, not just financial, and places more emphasis on the risk management arrangements and the need to consider the key risks to the Council's objectives.

Annual Internal Audit plan 2016/17

- 3.3 The Head of Internal Audit has put together a draft risk-based Internal audit plan for 2016/17 (see Appendix 1). The plan has been produced on the basis of:
- Ensuring that there is adequate coverage of the Council's governance, risk management and key systems of internal control in order to provide assurance to the Leader and Chief Executive when certifying the Annual Governance Statement, and to the Council's Audit Committee.
 - Ensuring that the Director of Finance's Section 151 (Local Government Act 1972) requirements are met.
 - Ensuring compliance with the requirements of the Accounts and Audit Regulations 2015.
 - Risks identified to the Council meeting its key objectives identified in the Corporate Risk register are covered.
 - The requirements of External Audit, in particular in relation to the audit of the Council's main financial systems.
 - Board Director/Heads of Service and Leadership team priorities.
 - Priorities identified by Internal Audit.
 - Additional Corporate Governance issues including anti-fraud and corruption work.
 - Certification work including the Carbon Reduction Commitment Scheme, Highways Grant audits etc.
 - A contingency has also been allowed for investigation work, follow-up work and advice and consultancy.
- 3.4 Meetings with the Chief Executive, Corporate Management Team members, all tier two officers and key finance staff, the Corporate Planning Lead and Risk Manager were held in order to identify their priorities for Internal Audit over the coming financial year. All leadership management teams were also consulted.
- 3.5 Appendix 1 sets out those audits included in the draft audit plan for 2016/17.
- 3.6 Appendix 2 sets out those audits that had been discussed with Corporate Management Team; leadership teams etc. and have been left out of the plan for 2016/17, as there are insufficient audit resources to cover all these audits.

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940 nhobbs@swindon.gov.uk.

Internal Audit Plan: 2016/17

Audit Committee

Date: 19th April 2016

3.7 The draft plan and priorities have been agreed by Corporate Board.

3.8 Audit Committee are therefore requested to agree the audit plan.

4. Alternative Options

4.1 Not Applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 None

Links to One Swindon, Strategic Objectives, Plans and Policies

5.4 Effective systems of internal control within the Council will help to ensure that the objectives set out in One Swindon are achieved.

Diversity Impact Assessment

5.5 None

Risk Management

5.6 Not applicable

6. Consultees

6.1 The Board Director Finance, Revenues, Benefits and Property (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

6.2 The Chief Executive, Corporate Management Team, all tier one and two officers, Heads of Finance, Corporate Planning Lead and Risk Manager have been consulted when putting the internal audit plan together.

Internal Audit Plan: 2016/17

Audit Committee

Date: 19th April 2016

7. Background Papers

7.1 None

8. Appendices

Appendix 1 – Draft Internal Audit Plan 2016/17

Appendix 2 – Audits left out of the 2016/17 plan

Internal Audit Plan
2016/17
(DRAFT)

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Introduction

Swindon Borough Council, like all organisations providing services to the public, relies on systems that balance flexibility with appropriate internal control in order to manage resources to meet strategic and service objectives, ensuring accountability and minimising the risk of fraud.

The Council has important statutory obligations and is responsible for the proper stewardship of many millions of pounds of public money and must ensure that the highest standards of corporate governance are maintained. Internal Audit help to provide assurances that Council assets and resources are correctly applied and used wisely.

Internal Audit is mandatory in local government. Under the Accounts and Audit Regulations 2015, Section 5, the Council '*must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*'

Internal Auditing is defined as '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*' (source: Public Sector Internal Audit Standards).

Our aim is to help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the risk management, governance and internal control environment.

The Council's External Auditor examines the work of Internal Audit on an annual basis and seeks to place reliance on that work when they come to audit the Council's financial statement of accounts. The Council's External Auditors are Grant Thornton.

The standards of auditing which the Council will receive from Internal Audit and associated performance indicators are also outlined in this plan and meet the requirements of the Public Sector Internal Audit Standards.

I would like to take this opportunity to gratefully acknowledge the support received from Members, Audit and Standards Committees, the Chief Executive, Board Directors, Heads of Service, their management teams and staff during the preparation of the audit plan and during the course of completing our audits.

An Outline of the Planning Process

The level of Internal Audit resources required to examine all the Council's activities far exceeds those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent, objective assurance function which internal audit provides. Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on the delivery of the Council's objectives. How regularly systems and processes are reviewed varies depending on the associated risk, materiality and dependency which they carry in relation to achievement of the Council's priorities and pledges.

The plan will look to provide reasonable assurance to Audit Committee, Corporate Board and other stakeholders regarding all key areas within the Council (see diagram on next page – Reasonable Assurance Framework).

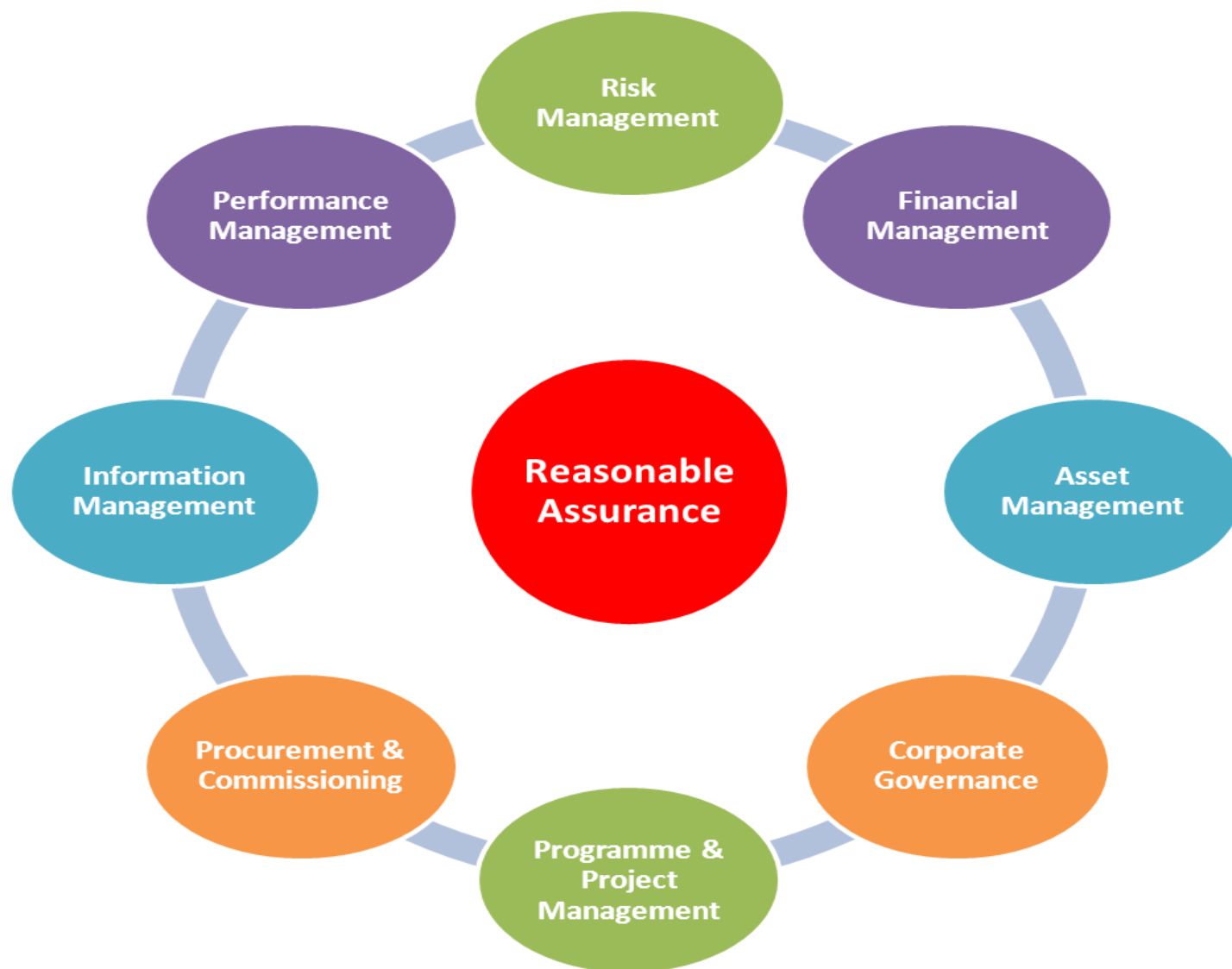
When putting the plan together Internal Audit will take in to account the risk management framework, including risk registers etc. It will also consider the risk maturity of the Council. This year's annual plan has again sought to place reliance on the Corporate and Pillar risk registers and management's identification of key risks in their areas. As part of the planning process for 2016/17 the Head of Internal Audit met with the Chief Executive, Board Directors all tier two officers as well as key finance staff, the Corporate Planning Lead and Risk Manager. These meetings identified management's key priorities and risks for Internal Audit to consider. Issues covered in the Pillar risk registers were also discussed to ensure that all key risks had been identified.

Main Financial Systems: Strong controls in these systems are fundamental to our overall audit opinion. The audit of these systems gives the Council's Section 151 Officer assurance as to whether there are '*arrangements for the proper administration of their financial affairs*'. These systems are covered in some respect every year and include a review of anti-fraud and corruption controls. The Council's External Auditor will review Internal Audit's work in this area as part of their assessment of the reliability of the Council's financial systems. If no work was carried out in these areas then additional work may be required by External Audit that may result in additional fees being charged to the Council.

Also included in the plan are audits highlighted as priority areas by Internal Audit following previous year reviews i.e. where a significant level of risk had been identified in a key system a follow up audit has been specifically planned; areas identified by colleagues in other councils as a risk; and national issues such as changes in legislation.

The Internal Audit plan is reviewed regularly by the Head of Internal Audit during the year. He reports progress against the plan quarterly to senior leadership teams. As part of this process he will ensure that audits planned for the next quarter are still a priority and to establish whether there are any emerging risks that require audit attention.

Reasonable Assurance Framework



Annual Governance Statement

The outcome of the audits within this year's plan will inform the Head of Internal Audit's overall opinion on the adequacy of the Council's system of internal control, risk management and governance arrangements. This in turn will feed in to the review of effectiveness of governance arrangements that forms part of the Council's Annual Governance Statement.

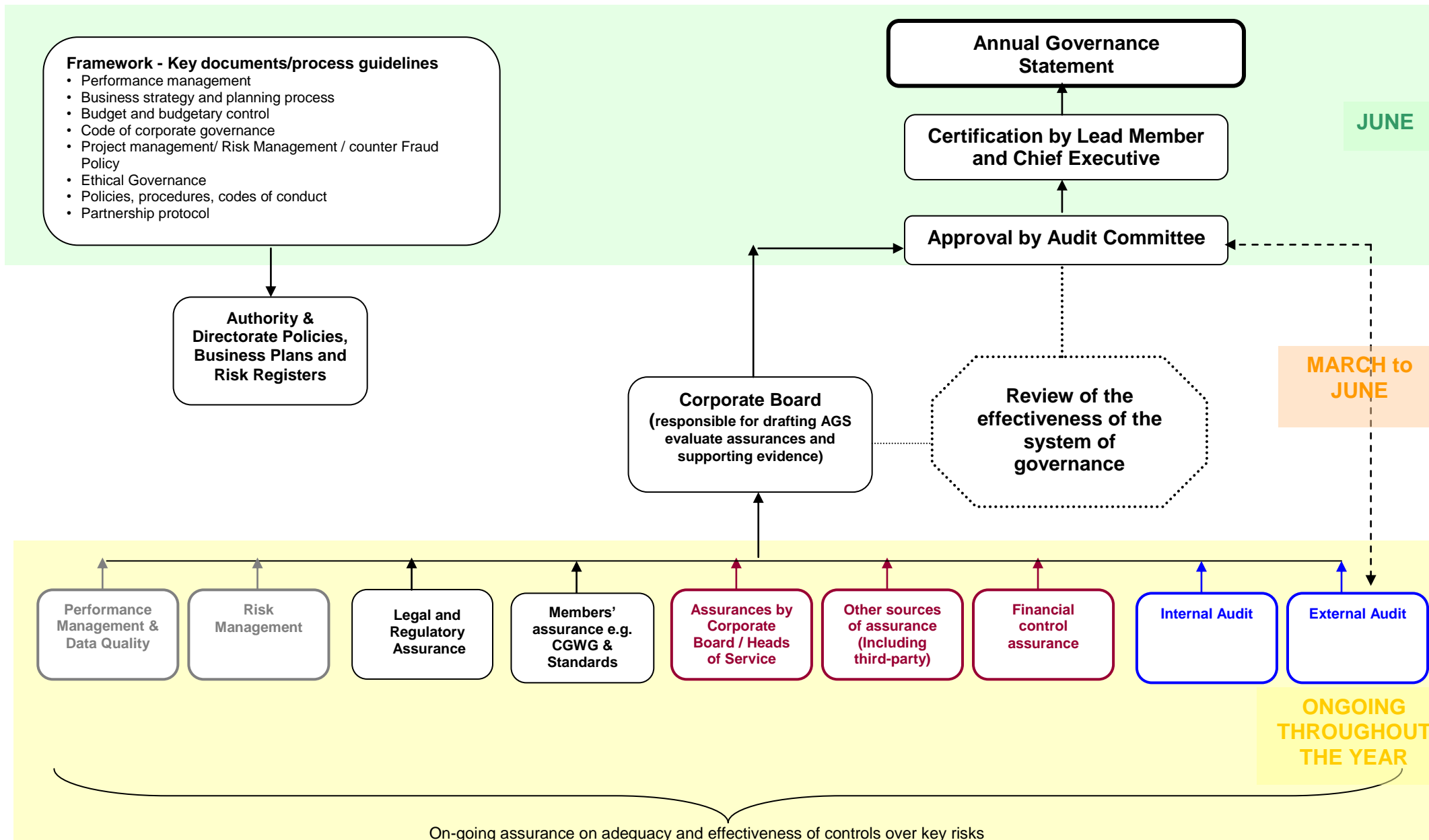
Internal Audit is only one of a number of areas of assurance that contribute to the Council's Assurance Framework (see copy of the framework on page 6).

The Accounts and Audit Regulations 2015 for local government bodies in England require an Annual Governance Statement (AGS) to be prepared. The AGS is required to include the following disclosures:

- An acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control).
- An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- A brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
 - the authority
 - the executive
 - the audit committee/overview and scrutiny function/risk management committee/standards committee
 - internal audit
 - other explicit review/assurance mechanisms
- An outline of the actions taken, or proposed to deal with significant governance issues, including an agreed action plan.

The AGS must be seen as a Council wide document and not just the responsibility of the S.151 Officer or Head of Internal Audit. Corporate Board agrees the AGS before being reviewed and approved by the Audit Committee. The Leader of the Council and the Chief Executive will sign off the AGS, which is then published with the Council's statement of accounts.

ANNUAL GOVERNANCE STATEMENT FRAMEWORK (FLOWCHART)



Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's governance arrangements, management of risk, maintenance of an effective control environment, and reporting on financial and non-financial performance. In turn Internal Audit provides a key source of assurance to the Committee as to whether controls are operating effectively.

Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority.

Effective corporate governance depends, in part, on a systematic strategy, framework and process for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

Page 67 The existence of an independent and effective Audit Committee helps to convey to staff and to the public the importance Members and Officers attach to internal control.

The Council has adopted best practice in implementing an Audit Committee. Members promote the need for internal control and risk management. Board Directors, Heads of Service and other relevant officers have attended meetings of the Committee to update Members on the progress in implementing audit recommendations, thereby helping to raise the profile of the work of Internal Audit.

The Committee has also agreed a set of terms of reference that encompass the latest guidance issued by CIPFA in their publication, *Audit Committees – Practical Guidance for Local Authorities and Police – 2013*.

The Audit Committee's terms of reference set out the following core functions of the Audit Committee:

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- Oversee Internal Audit's independence, objectivity, performance and professionalism; support the effectiveness of the internal audit process and promote the effective use of Internal Audit within the assurance framework.
- Consider the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to fraud and corruption.

- Consider the reports and recommendations of Internal Audit, External Audit and inspection agencies and their implications for governance, risk management or control.
- Review the Council's financial statements, the External Auditor's opinion and report to members, and monitor management action in response to the issues raised.
- Review and monitor treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
- Advise upon and/or review the effectiveness of any other matters referred to the Audit Committee by the Cabinet, the Overview and Scrutiny, Regulatory Committees or the Head of Internal Audit.

Fraud and Corruption

Unfortunately, fraud and corruption is an increasing feature nationally. Responsibility for prevention and detection rests with management but Internal Audit will identify high-risk areas, test for the existence of fraud and recommend improved internal controls where necessary.

Page 68 Internal Audit will promote an anti-fraud culture and encourage staff to raise legitimate concerns with the confidence that they will be thoroughly investigated. Information on frauds elsewhere will continue to be widely disseminated and audit staff will consider whether procedures are operating which would prevent these particular activities occurring in this Council. A Fraud Bulletin that provides details of recent frauds and scams that have been committed in both the public and private sector is produced on a regular basis and distributed to all staff.

Swindon Internal Audit Services will make use of computer audit techniques to compare and test data across different systems, as well as co-ordinating involvement in national data matching exercises enabling the Council to identify and tackle any potential fraud.

Internal Audit also operates the Council's Whistleblowing procedure in conjunction with the Director of Law and Democratic Services. A confidential phone/fax line is provided. Any calls received are reported to the Director of Law and Democratic Services who then appoints an investigating officer to investigate the allegations made. This will normally be Internal Audit.

The results of any investigation are reported to the Head of Service along with any other relevant officer i.e. Board Director etc. The details of any person using the whistleblowing service are kept confidential unless the nature of the call is found to be malicious etc. where separate disciplinary action may be taken.

Summaries of investigations are provided to the Council's Standards Committee who also has responsibility for approving the Council's Anti-Fraud and Corruption Strategy (including the Whistleblowing Policy).

Internal Audit have compiled a Fraud Response plan that sets out what managers/employees should do if they become aware of a potential fraud. Internal Audit has also prepared a Fraud Awareness Guide for managers.

Areas particularly susceptible to fraud are identified by:

- Reviewing publications such as the Audit Commission's '*Protecting the Public Purse*' and their '*National Fraud Initiative National Report*' that indicated areas of actual and potential fraud.
- Discussions with Heads of Service
- Previous audits / experience
- Information exchanged with colleagues from other local authorities i.e. at the West of England Fraud sub-group.
- Fraud Awareness bulletins issued by the National Anti-Fraud Network (NAFN)

These areas are then considered for inclusion in the audit plan. Time is also included for ad-hoc-fraud investigations.

Page 69 Corporate Fraud Team

Internal Audit was successful in bidding for Counter Fraud funding from the Government. This funding enabled the setting up of a Corporate Fraud Team with the appointment of two officers, a Corporate Fraud Investigator and a Corporate Fraud Intelligence Officer. The initial grant funding ran until March 2016 but additional funding has been gained from the Housing Revenue Account for 2016/17.

The main focus of the Corporate Fraud team is on external fraud committed against the Council. Areas of focus during 2016/17 will include:

- Housing tenancy fraud
- Right to buy applications
- Council tax exemptions and discounts including Single Person Discount; student exemptions
- Council tax reduction scheme, etc.

1. *Audit Charter*

The Internal Audit Charter, approved by Audit Committee, defines the purpose, authority and responsibility of Internal Audit within Swindon Borough Council and outlines the scope of Internal Audit's work. The Charter also covers the following areas:

- Role
- Professionalism
- Accountability
- Responsibility of statutory officers
- Independence and objectivity
- Internal Audit plan and resource
- Reporting and monitoring
- Periodic assessment and approval

2. *Scope and Service Priorities*

The scope of the internal audit function covers the entire internal control system of Swindon Borough Council, including its risk management and governance arrangements. Our audit reviews can therefore cover all financial and non-financial activities of the Council. These reviews advise and support the:

- (a) Audit Committee in discharging its responsibilities for:
- advising on the adequacy and effectiveness of the Authority's internal control environment in accordance with the requirements of The Accounts and Audit Regulations 2015;
 - supporting the Director of Finance with his delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit;
 - Monitoring the adequacy and effectiveness of the Internal Audit Service and Directors' responsibility for ensuring an adequate control environment.
- (b) Leader and Chief Executive in their annual certification of the Annual Governance Statement.
- (c) Board Director: Resources in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.

The Council's own corporate risk register supported by individual Pillar risk registers drives a large part of the annual audit plan.

We will also carry out audits of the Council's main financial systems to provide assurance to the Council's S.151 Officer that arrangements are in place for the proper administration of the Council's financial affairs and help to promote an anti-fraud and corruption culture by

targeting areas of high risk of fraud, investigating suspected cases of fraud/irregularity and being the main contact for the Council's whistleblowing hotline.

3. Auditing Standards

The Relevant Internal Audit Standard Setters have adopted a common set of Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors International Professional Practice Framework, as follows:

- Definition of Internal Auditing
- Code of Ethics
 - Integrity; Objectivity; Confidentiality; Competency
- International Standards for the Professional Practice of Internal Auditing
 - Purpose, authority and responsibility; Independence and objectivity; Proficiency and due professional care; Quality assurance and improvement programme; Managing the Internal Audit activity; Nature of work; Engagement planning; Performing the engagement; Communicating the results; Monitoring progress

Swindon Internal Audit Services applies the above standards providing a quality, professional, internal audit and management review service which helps the Council discharge its statutory duties regarding accountability, risk management, securing value for money and the application of high standards of governance in the stewardship of public funds.

Adopting a constructive and supportive approach, working in partnership with officers throughout the Council, Swindon Internal Audit Services also promote good management practice and helps ensure that the Council's corporate policies and objectives are being realised.

4. Quality Standards

Swindon Internal Audit Services will:

- Undertake audit assignments with competence, diligence, integrity and objectivity utilising skills and judgement developed through experience and training.
- Act impartially and objectively to provide a reliable opinion, pursuing all issues either reported or found.
- Encourage approaches from Members and employees regarding any matters of concern, or simply to obtain advice and assistance.
- Fully involve Services in order to develop dynamic strategic and operational plans that are relevant to their needs and recognise service priorities.

- Plan and conduct our assignments in accordance with auditing standards.
- Fully brief Managers, prior to commencing each audit review, concerning the objectives and scope of the work and invite them to identify particular matters that would benefit from an independent evaluation.
- Adopt a risk-based approach.
- Emphasise the positive as well as where improvements can be made and take account of the culture of Services, available resources and possible constraints when making recommendations. Fully discuss findings with Managers concerned and issue draft reports on major audit assignments.
- Reach agreement on recommendations and how they can be implemented.
- Include an action plan in all reports incorporating agreed implementation dates for the recommendations made.
- Review the successful implementation of recommendations.
- Deal with enquiries concerning suspected fraud or malpractice immediately.
- Staff the office within the Council's normal working hours, answering telephone calls within four rings.
- Work closely with the External Auditor to eliminate any duplication of effort and ensure a cost-effective audit process.
- Constantly monitor and communicate standards of good practice.
- Treat all information gathered with the utmost confidentiality.
- Be polite, courteous, helpful and understanding in the approach adopted.
- Commit to Health and Safety, Equal Opportunities, Sustainability and other policies of the Council.

5. *Service Outputs*

For planned work service outputs are:

Detailed reports arising from reviews of the whole system of internal control, financial and otherwise, containing recommendations which help to:

- Develop key management, financial and information systems
- Secure value for money
- Review performance
- Ensure adherence to legislative requirements, management policies and directives
- Ensure compliance with best practice
- Safeguard assets
- Ensure completeness and accuracy of records

- Secure effectiveness, economy and efficiency in the use of resources
- Ensure the reliability and integrity of information

For irregularity work service outputs are:

Comprehensive fraud prevention measures and raised awareness of the special responsibility the Council has for maintaining the highest possible standards in its management of public funds. In particular, this involves:

- Monitoring compliance with Standing Orders and Financial Regulations
- Coordinating corporate fraud prevention action
- Investigating reported irregularities and supporting any Police enquiries
- Coordinating participation in local and national anti-fraud initiatives
- Providing immediate notification of frauds reported elsewhere together with advice on avoidance measures

For unplanned, ad hoc, work service outputs are:

Advice and assistance during the development of current corporate initiatives.

Other general advice and assistance to officers throughout the Council regarding best management practice, probity issues, system development and internal control. Points of practice are communicated to Members and Service Managers through the issue of reports and notification of work carried out by the Audit Commission, External Audit and other Government Agencies that may help them improve the services they provide.

6. *Feedback and Performance Measurement*

The opinion of Members, Managers and staff is highly valued as it enables the Service to maintain high standards and quickly respond to changing client needs. Opportunities for feedback are provided through regular meetings with Senior Management teams, 1:1's between the Head of Internal Audit and both the Council's Monitoring Officers and Section 151 Officer, relevant Finance Managers and the issue of Customer Feedback Forms that accompany final audit reports. These forms provide a means for clients to make constructive comments on the services received.

Feedback is also welcomed directly to the Head of Internal Audit regarding any audit work that has been completed, is in progress or is planned. We are also keen to assist where possible with queries regarding internal control issues and react to changes in priorities and reacting to requests for audits in areas where there are new or increased risk.

7. Performance Indicators

The section has three key performance indicators. These are:

- Overall completion of the number of audits in the audit plan: Target 90%
- Completion of the main financial system audits: Target: 100%.
- Customer Satisfaction Feedback: Target of at least 86% of clients scoring the audit as 'Good' or 'Excellent'.

Performance against these targets is reported to each meeting of the Council's Audit Committee and included in the Head of internal Audit's Annual report.

Allocation of Resources

Page 74 The annual audit plan for 2016/17 has been drafted on the basis of current planned available days within the section. The plan was produced on the basis of the requirements of meeting the Board Director: Resources' Section 151 responsibilities, the requirements of External Audit, key risk areas identified by individual Board Directors, Heads of Service.

Not all issues/areas raised by management and Internal Audit have been included in the plan due to the level of audit resources available. These audits were discussed with both Corporate Board and Audit Committee and management were prepared to bear the risk and not increase the audit resource to meet the additional requirement. Therefore, the annual audit plan had to be trimmed so that it could be delivered from existing current resources. The reduction in the audits was in agreement with Corporate Board, the Board Director: Resources and the Audit Committee – those audits that were considered to be of a lower risk were removed from the plan.

The detail of our allocation of resources is shown in Appendix 1 attached. However, it should be noted that the plan is flexible enough to consider new areas of significant risk that occur during the course of the year. External Audit has stated that they are happy for the plan to be changed to reflect an increased risk in a particular area as long as it can be properly justified.

Individual audits will be allocated from the annual plan on the basis of matching the auditor's expertise and experience to the assignment requirements. Currently the section has both Information Technology and Contract specialists in the section if an additional specialist resource was required to complete an assignment this would be discussed with the relevant manager(s).

Internal Audit obtains assurance from other assurance providers within the Council i.e. Health and Safety, Risk Management etc. when developing the audit plan and carrying out individual assignments.

INTERNAL AUDIT PLAN - 2016/17

CHIEF EXECUTIVE

Corporate - John Gilbert

Annual Governance Statement - compilation of 2015/16 statement
Annual Governance Statement - review of actions
Responding corporately to safeguarding
Approach to partnerships

Law, Democratic Services, Revenues and Benefits - Stephen Taylor

Municipal Burials and Crematorium: follow-up (carry over from 2015/16)
Compliance with Standing Orders and Financial regulations - procurement
Scrutiny
Elections
Council Tax (inc. discounts)
NNDR
Debtors
Housing Benefits: claims processing
RIPA follow-up review pre. Surveillance Commissioner inspection (May 2016)

Economy - Paddy Bradley

Commercial assets
Asset Management
Economy - delivery (Forward Swindon etc.)
LEP Governance

Key to audit priorities:

C = Critical i.e. must do's to give sufficient coverage of key financial systems to satisfy S.151 requirements plus grant certifications etc.
H = High priority; M= Medium priority; L = Low priority

COMMISSIONING

Children and Adults - Sue Wald

Residential Care Homes
Learning Disabilities
Troubled Families
Healthcheck Adult Services

Children and Families - Karen Reeve

Fostering
Health Visiting
Saltway: disabled children
Youth Offending team
Adoption

Public Health - Cherry Jones

Childrens Health (see Health Visiting above)
Workplace Health
CCG - Drugs invoicing
Public Health - ring fenced funding statement of assurance

Education and Attainment - Peter Nathan

Isambard School - follow-up
Special Educational Needs (SEN RAP)
School Placed Planning
Financial regulations for schools
School (1)
School (2)
School (3)

Housing - Mike Ash

Housing Rents
Affordable Housing
Housing availability for most vulnerable people
Tenant Strategy
Domestic Abuse Strategy
HRA self-financing

DELIVERY

Board Director: Bernie Brannan

Waterside - site operation
PPS Ltd - Wroughton
Brindley Close (follow-up)

Housing Property - Gerry O'Connor

Statutory compliance corporate buildings: follow-up
Housing repairs and maintenance
Contracting audit: follow-up

Highways and Transport - Jason Humm

Bruce Street Bridges follow-up
Asset management approach to resource allocation
Street Works

Design and Architecture - Nic Newland

Management of Capital projects

Planning, Regulatory Services and Heritage - Richard Bell

Eastern Villages
Licensing: Follow-up (move from Lalpac to Uniform)

StreetSmart - Leon Barrett

Grounds
Parking and Parking enforcement
Fleet management
PPS Ltd Contract management
Play areas
Stores follow-up

LOCALITIES - Patrick Weir

Library Strategy

RESOURCES

Board Director: Stuart McKellar

Finance and Change Programme - Kirsty Cole

Treasury Management
Creditors
Main Accounting
Change programmes - combined transition (Gateway review)
Refunds
Carbon Reduction commitment - certification grant
Carbon reduction plans: follow-up

Business Support - Karen McMahon

Health and Safety/Corporate Manslaughter: follow-up
Purchasing Cards
Payroll: main system
Payroll: starters and leavers
Business Continuity - resilience of critical systems
ID Badges follow-up

People, Performance and Engagement - Sam Mowbray

Performance and Risk

Performance Framework

Risk Management

People - Sonia Grewal

Managing Recruitment

Discipline and grievance processes

Employment of consultants and casual staff

TUPE arrangements

Communications and Insight - Gavin Calthrop

Consultation process

Information Technology - Glyn Peach

Lagan

IT Training

IT Asset Management

NAVMAN

Corporate reporting

Starters, leavers asset management (SLAM)

Patch management

IT Governance - policies and procedures

Mobile devices

Records Management (inc. Hillmeads) follow-up

EXTERNAL WORK

St Joseph's School

University Technical College - Swindon

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AUDITS NOT IN THE INTERNAL AUDIT PLAN 2016/17

Chief Executive / Corporate

Registry Office
Provision of external legal advice
Adult and Community Learning

Commissioning

Sexual health, substance misuse
School (4)
School (5)
School (6)
Pupil Premium
Non-attendance at school - fines
Tuition Services and EOTAS
Children missing from education and home schooled pupils
AWP
Domiciliary Care
Delayed discharge from hospital
Emergency duty

Localities

Grants to voluntary bodies

Delivery

Community Infrastructure Levy
Waste route optimisation
Community governance review
Section 38

Resources

Digital services - receipts and payments

Wichelstowe Joint Venture

VAT

Banking processes

Payment Card Industry Standards

Total days

Letter to those charged with governance

Audit Committee

Date: 19th April 2016

Author: Head of Internal Audit
Wards: None
Locality Affected: None
Parishes Affected: None

1. Purpose and Reasons

- 1.1 As part of their audit of the Council's financial statements and in order to comply with the International Auditing Standards (UK and Ireland), the External Auditor is required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that the Audit Committee note the responses submitted by the Chair on behalf of the Audit Committee and by management.

3. Detail

- 3.1 The Council's financial statements are audited by its External Auditor, Grant Thornton.
- 3.2 In order for the External Auditor to comply with the International Auditing Standards (UK and Ireland) they need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. The External Auditor is also required to make inquiries of both management and 'those charged with governance' (the Audit Committee) as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements. This applies to both the Council and to the Council's subsidiary companies.
- 3.3 The responses in the attached letter and appendices address the points set out in auditing standards.
- 3.4 The responses the Chair of Audit Committee are attached as appendices 1 and 2. The response from management is attached as Appendix 3.

4. Alternative Options

- 4.1 Not Applicable
-

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Letter to those charged with governance

Audit Committee

Date: 19th April 2016

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 Effective systems of governance and internal control within the Council will help to ensure that the objectives set out in One Swindon and the Council's Corporate Strategy is achieved.

Diversity Impact Assessment

- 5.5 None

Risk Management

- 5.6 Not applicable

6. Consultees

- 6.1 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

Appendix 1: Letter from the Chair of Audit Committee

Appendix 2: Response from the Chair of Audit Committee

Appendix 3: letter from Section 151 Officer

Appendix 4: Response from Management

Letter to those charged with governance

Audit Committee

Date: 19th April 2016

9. Key Decision/Decision in Forward Plan

Not Applicable

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Liz Cave
Engagement Lead
Grant Thornton UK LLP

31st March 2016

Dear Liz,

Swindon Borough Council Financial Statements for year-end 31st March 2016

Thank you for your letter dated 10th March 2016.

I understand that you need to be updated on how the Audit Committee gains assurance over management processes and arrangements in place to prevent and detect fraud. Also, what knowledge those charged with governance i.e. the Audit Committee, have of any actual, suspected or alleged fraud.

I have completed the appendix to your letter, please see attached, which provides the information you have requested regarding the assurance the Committee is able to rely upon.

If you require any additional information please do not hesitate to contact me.

Many thanks,

Councillor Steve Weisinger
Chair: Audit Committee

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APPENDIX

Response from Audit Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	The Board Director: Resources (section 151 Officer) ensures that there are adequate controls in place to mitigate the key risks within the Council's financial processes. Internal Audit provides assurance regarding the adequacy and effectiveness of these controls.
What are the results of this process?	The Council has in place a set of Financial regulations, documented procedures and processes. Internal Audit's reviews of the Council's key financial systems have provided assurance that these are operating effectively.
What processes does the Council have in place to identify and respond to risks of fraud?	<p>The annual Internal Audit plan, approved by Audit Committee, includes proactive fraud work.</p> <p>The Council has in place an Anti-Fraud and Bribery Strategy that is supported by a Whistleblowing policy and a Fraud Response plan.</p> <p>Internal Audit also issues a Fraud Bulletin that makes staff aware of the types of fraud being committed elsewhere.</p> <p>The Council has a Fraud Awareness e-learning training package on the Learning Zone.</p> <p>A Corporate Fraud Team, initially funded through Government grant, focuses its work on high risk areas such as right to buy, tenancy fraud and Council Tax discounts/exemptions.</p>

Chartered Accountants

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Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Areas identified as high risk by Internal Audit either through their work on NFI, review of relevant documents such as Protecting the Public Purse, previous audit experience, investigations and the experience of colleagues from other authorities and issues raised through the West of England Fraud Group have been included in the annual audit plan. Also, the work of the Corporate Fraud team is focussed on these areas.
Are internal controls, including segregation of duties, in place and operating effectively?	Internal Audit has provided assurance, for the areas and items tested, that there have been adequate internal control arrangements in place. Recommendations are made where there are missing or failing controls.
If not, where are the risk areas and what mitigating actions have been taken?	A summary of all Internal Audit reports issued are presented at each Audit Committee meeting. Internal Audit carries out follow-up audits and where significant issues are identified the Audit Committee calls in the full report and requires relevant officers/Members to attend.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	I am not aware of any such areas.
Are there any areas where there is a potential for misreporting?	The governance arrangements and internal controls currently in place reduce the potential for misreporting.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	Fraud update report produced by the Head of Internal Audit which includes reference to investigations, work of the Corporate Fraud Team, output from NFI etc., sight of the Council's Anti-Fraud and Bribery Strategy, Whistleblowing policy and Fraud Response plan. Results of any Whistleblowing investigations are also reported to Standards Committee.
What arrangements are in place to report fraud issues and risks to the Audit Committee?	Any specific issues would be reported to Audit Committee by the Head of Internal Audit. Fraud investigations are discussed with the Chair of Audit Committee. As mentioned above outcomes of Whistleblowing cases are reported to Standards Committee.

How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Staff are reminded on a regular basis of the Code of Conduct, Gifts and Hospitality, and Declarations of Interest on a regular basis through the use of the Core Brief etc. The Whistleblowing Policy applies to staff, Members, suppliers and contractors, volunteers and anyone acting on behalf of the Council.
How does the Audit Committee encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Fraud Bulletin has been endorsed by the Chair of the Audit Committee in the past (by providing an introduction to the bulletin). Fraud Update provided by the Head of Internal Audit at least annually. Whistleblowing posters, with relevant contact details, are up in Council sites. Two cases of fraud exceeding £10,000 have been investigated in 2015/16.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	I am not aware of any such relationships or transactions. Staff and Members are required to declare any such relationships. Also, all Chief Officers and Statutory Officers are required to make such declarations regarding such issues as part of the closure of the accounts.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013? Are you aware of any instances of actual, suspected or alleged fraud at the Council's subsidiaries since 1 April 2013?	The Head of Internal Audit's Fraud Update provides such details. I am aware of instances of fraud and I have discussed with the Head of Internal Audit. As mentioned above the outcome of Whistleblowing cases are reported to Standards Committee.

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Decision reports require legal and financial implications to be signed off by the Council's Monitoring Officer and Section 151 Officer. The work of Internal Audit includes compliance with law and regulation.
How does management gain assurance that all relevant laws and regulations have been complied with?	Monitoring Officer attends Corporate Board. All decision reports require legal sign off. The Council's Whistleblowing Policy encourages staff to report any wrong doing. Annual Governance Statement process, Internal Audit and

	Inspection reports would identify any non-compliance found.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Annual Governance Statement. Internal Audit reports. Fraud Update report.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013?	The Head of Internal Audit keeps me informed of on-going fraud investigations. External Audit has been notified of two investigations that have found fraud exceeding £10,000 this financial year. The Corporate Fraud team has helped to recover nine housing properties to date and stopped a further Stopped five right to but applications (£302,418 discount); Identified four Council Tax discount frauds (£1,037) and one parking permit fraud (£2,825). Outcomes of Whistleblowing cases are reported through Standards Committee.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Monitoring Officer attends Corporate Board. All decision reports require legal sign off. The Council's Whistleblowing Policy encourages staff to report any wrong doing. Annual Governance statement process and Internal Audit and Inspection reports would look to identify any non-compliance in areas examined.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Council lost the Judicial review of the CIL liability charge decision. The claimant, Orbital Shopping Park Swindon Ltd will expect to be paid their legal costs.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None

Finance Department, WTW2
Swindon Borough Council
Civic Offices
Euclid Street
Swindon
SN1 2JH
Website:
www.swindon.gov.uk

12 April 2016
Liz Cave
Engagement Lead
Grant Thornton UK LLP

Please reply to:
E-mail:
Our ref:

Dear Liz

Swindon Borough Council Financial Statements for year-end 31st March 2016

Thank you for your letter of 10th March 2016.

I understand that you need to be updated on how management gains assurance that arrangements are in place to prevent and detect fraud. Also, what knowledge management has of any actual, suspected or alleged fraud.

I have completed the appendix to your letter, please see attached, which provides the information you have requested regarding the assurance the Management is able to rely upon.

If you require any additional information please do not hesitate to contact me.

Many Thanks

Stuart McKellar
Board Director, Resources & S151 Officer
Swindon Borough Council

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APPENDIX

Responses from Management: Swindon Borough Council

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2015/6?	Bringing back in-house the ICT services and consequential changes to transactional types e.g. contract to staff/supplies, though impact should be limited as this only applies to the final two months of the year.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	No major change
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	No
How would you assess the quality of the Council's internal control processes?	Satisfactory
How would you assess the process for reviewing the effectiveness of internal control?	Good
How do the Council's risk management processes link to financial reporting?	All cost centres and Budget managers are risk assessed and provided with appropriate financial support to match the level of risk. Financial control and risk management are considered together as part of the project pack for the Council's major change programmes driving a more sustainable financial position for the Council
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	Adequate
What has been the outcome of these arrangements so far this year?	All suspected cases of fraud should be reported to the Head of Internal Audit who will investigate appropriately. If allegations are received through the Council's Whistleblowing process then these will go to the Council's Monitoring Officer to allocate an appropriate investigating officer, this will be Internal Audit if financially related
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Internal Audit has a risk-based annual plan that includes proactive fraud work. The Corporate Fraud Team focus on areas that are susceptible to fraud and have been identified as such in the Audit Commission publication <i>Protecting the Public Purse</i> e.g. Housing tenancy, right to buys, SPD discounts, direct payments etc.
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Yes. During 2015/16 five whistleblowing cases were referred to the Council's Monitoring Officer. All were investigated.

Have any reports been made under the Bribery Act?	None
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Key risks are included in the Council's Corporate Risk Register which is reported six monthly to the Council's Audit Committee.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	Through All staff briefings and Team meetings
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Close liaison with the Council's Legal Team
Is there any use of financial instruments, including derivatives?	No change to last year, Treasury make use of standard short/long term borrowing/investments and LOBOs.
Are you aware of any significant transaction outside the normal course of business?	No
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	No
Are you aware of allegations of fraud, errors, or other irregularities during the period?	The Head of Internal Audit keeps me informed of on-going fraud investigations. External Audit has been notified of two investigations that have found fraud exceeding £10,000 this financial year. The Corporate Fraud team has helped to recover nine housing properties to date and stopped a further Stopped five right to but applications (£302,418 discount); Identified four Council Tax discount frauds (£1,037) and one parking permit fraud (£2,825). This is in addition to the work of the Benefit Fraud team that has recently transferred over to the DWP. Outcomes of Whistleblowing cases are reported through Standards Committee.
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	See above
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	These are disclosed in the accounts and relate to transfer of Leisure assets, PFI modelling and school transfers.
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	The PFI accounting model is based upon a range of input criteria from the original PFI model, that can have a significant variation over the long-term, but the current model is unchanged from last year, and referred to Grant Thornton's own modelling. Asset related estimates rely on professional opinion.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the	No

financial statements?	
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	Cabinet adopted a strategy in recent years to deliberately deliver future tears' savings early to build up its reserves to fund the Council's Change Programmes to allow it to transition to a more financially sustainable position. The Council's financial position is under control with its budgets being delivered without drawing on General Reserves for the last 8 years and a balanced budget already in place for 2016/17. The Council also has a balanced profile of investments and borrowing. Cash flows are monitored and repayments for maturing debt factored into forecasts as part of routine Treasury process. On that basis, the management team feels that the Council's financial position is strong.
Management is required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	<p>The Management Team does not consider there are any immediate, significant concerns around the going concern of the authority, although this is included as a medium term risk in the Corporate risk register, due to the combination of increasing demand and falling funding. The financial position of the authority is discussed monthly at Corporate Board and with Cabinet Members (LAG) and is formally reported to Cabinet at least bi-monthly. The Authority has a balanced budget for 2016/17 and has identified a high-level plan to balance future year's budget within the context of a medium term financial outlook.</p> <p>The in-year monitoring financial statements to Cabinet formally consider all Funds with sections on the HRA and DSG, as well as the core General Fund Budget. The key focus of financial discussions at Board and LAG are on future year's financial sustainability.</p>
Can you provide details of those solicitors utilised by the Council's during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Solicitors firms:</p> <p><i>Monitoring Officer Investigations:</i> We have not used any external lawyers.</p> <p><i>Advice:</i> Ashfords - Swindon Museum and Art Gallery Trust</p> <p><i>Litigation:</i> We have not used any external lawyers</p> <p><i>Conveyancing and Property:</i> Davitt Bold Jones LLP – Solar Cable, Lower Bassett Down Grant of Easement Foot Anstey LLP - land rear of 83 Ermin Street and Newburn Centre. Foot Anstey LLP – Highway Agreement between Highways England, Wiltshire Council and Swindon Borough Council Brown Jacobson LLP – Leisure project (Lease and Business Transfer Agreement)</p>

	<p>Ashfords LLP - Highworth Rec (Lease and Business Management Agreement)</p> <p>Ashfords LLP – Lydiard Park (Lease and Business Transfer Agreement)</p> <p>Michelmores LLP - Corn Exchange Swindon, Development Agreement</p> <p>Pinsents Mason LLP - Wichelstowe Joint Venture</p> <p>Ashfords LLP - Wichelstowe Reports on Titles.</p> <p><i>Barristers:</i></p> <p>Mr Clive Sheldon QC - Coronial Service</p> <p>11KBW Mr Joseph Barrett - EU procurement legal advise (Christine Cox)</p> <p>William Webster, 12 College Place – Application for the listing of Lydiard as Asset of Community Value</p> <p>Anthony Crean QC, Kings Chambers - Kimmerfields CPO Inquiry.</p> <p>Paul Cairnes QC, No5 Chambers - Berkeley Farm Planning Appeal.</p> <p>Anthony Crean QC, Kings Chambers – CIL liability charge decision (Orbital Shopping Park Swindon Limited)</p> <p>Anthony Crean QC, Kings Chambers – Berkeley Farm s288 TCPA 1990 legal challenge of Planning Inspector’s decision.</p> <p>Timothy Jones, No5 Chambers – Land at Ermin Street Planning Appeal.</p>
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	We have instructed a number of Barristers to advise on a range of matters including Child Protection, Adult Protection, Commercial litigation, prosecutions and employment law.
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No

The Audit Plan for Swindon Borough Council

Year ending 31 March 2016

19 April 2016

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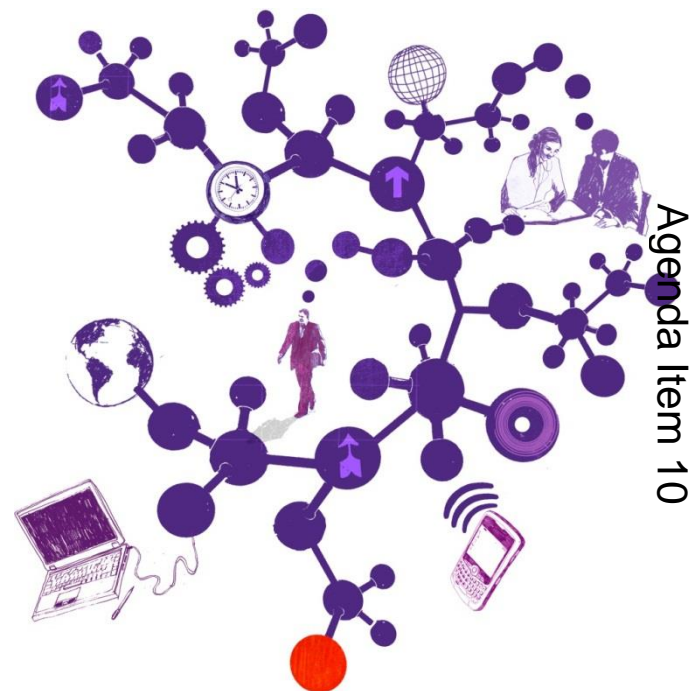
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Agenda Item 10

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Swindon Borough Council
Civic Centre
Euclid Street
Swindon
SN1 2JH

19 April 2016

Dear Members of the Audit Committee

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Audit Plan for Swindon Borough Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Swindon Borough Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Elizabeth A Cave
Director

Chartered Accountants

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Appendices

A. Action plan	
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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- Swindon has set a balanced budget for 2016/17, however, in the three years from 2017/18 to 2019/20 the Council faces funding and cost pressures of £63.5m. Key areas where the Council intends to take actions to meet these pressures and ensure budgets continue to be balanced have been identified.

2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- Swindon is considering options with the neighbouring Wiltshire Council, although plans are at an early stage.

3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- In particular, the reduction in council housing rents and changes to right to buy will have a significant impact on Councils' housing revenue account business plans.

4. Wichelstowe joint venture

- Financial close on the contract to develop Wichelstowe is expected imminently. This is a major development in the Council area.

5. Joint working

- The local government sector is increasingly looking to deliver services through innovative delivery methods. Reflecting this Swindon is engaged with an increasing number of related bodies. These include established subsidiary companies, new companies and new partner bodies for example in respect of the Wichelstowe development. It is vital Swindon maintains resilient oversight of these bodies. Officers are currently reviewing procedures in regard to this.



Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as they evolve.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- Where helpful we will share our knowledge of how other Councils are responding to these changes.

- We will review the Council's arrangements in relation to the closing of the deal.

- We will review the Council's arrangements in this area and any proposed changes as part of our work to reach our VFM conclusion.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

4. Accounting for joint arrangements

- Councils are involved in a number of pooled and aligned budgets which they need to account for in their financial statements. Further guidance has recently been issued in this area.
- We ran a seminar in January which your officers attended to discuss the accounting treatment in this area.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

Our response

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

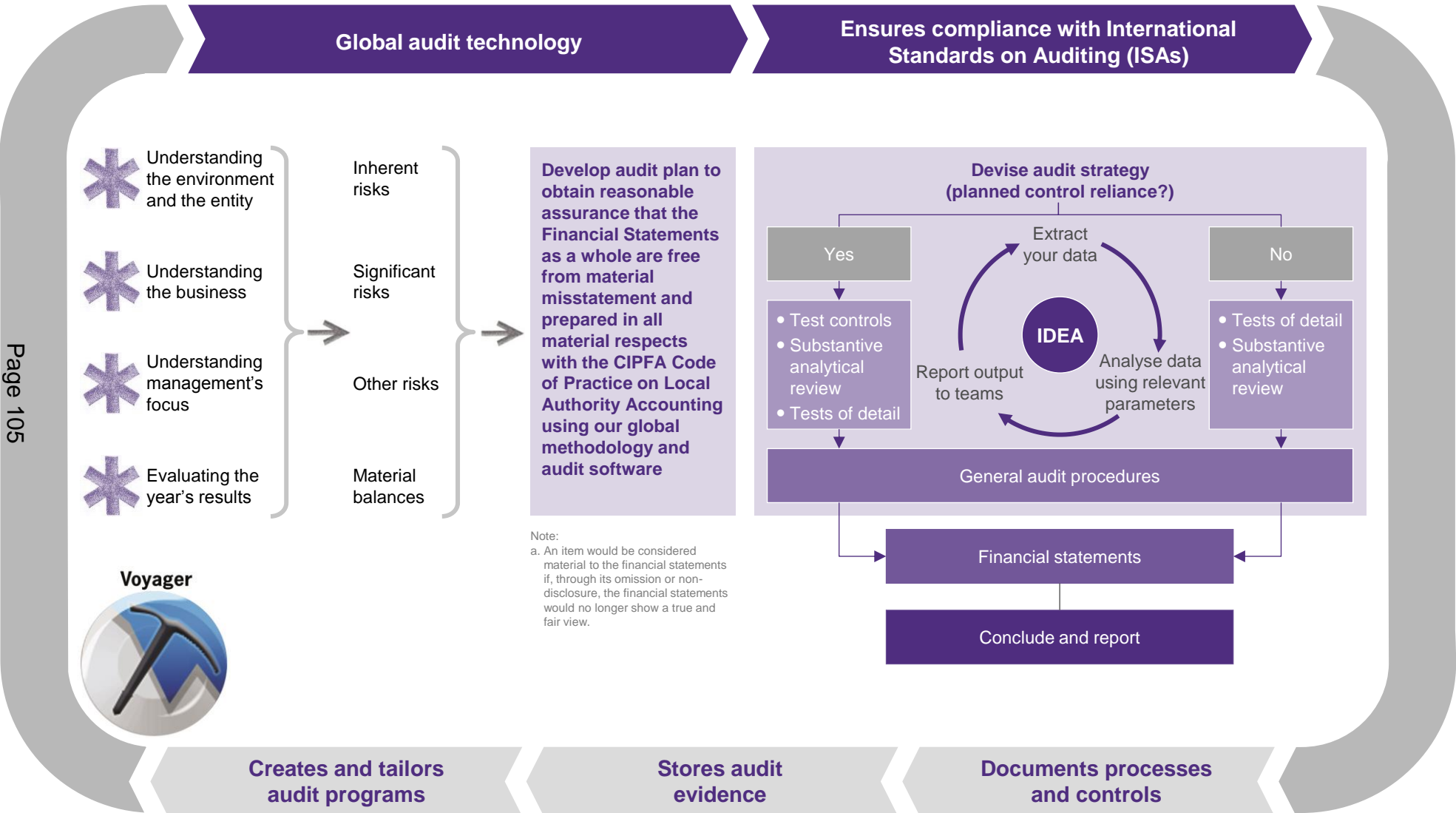
- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 August 2016 as we move toward the new deadline.

Our audit approach

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £10,277k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £513k for the interim audit.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings, Councillors' allowances and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Work completed to date:</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Swindon Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Swindon Borough Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Testing of journal entries from period one to nine <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment (PPE)	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of PPE process • Review of the competence, expertise and objectivity of any management experts used. • Discussions with valuer about the basis on which the valuation is carried out and discussion of the key assumptions. <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Review of the instructions issued to valuation experts and the scope of their work • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • Review of accounting estimates, judgements and decisions made by Valuer • Review of unusual significant transactions.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating Expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed to date: <ul style="list-style-type: none"> Completed walkthrough of system and associated controls Testing of operating expenses from period one to nine Testing of aligned budget expenses from period one to nine Further work planned: <ul style="list-style-type: none"> Testing of the final three months of the year Review of unrecorded liabilities and post year end payments to ensure all liabilities identified. Review of accruals Determine whether liabilities have been recorded in the correct period
Employee Remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	Work completed to date: <ul style="list-style-type: none"> Completed walkthrough of system and associated controls Further work planned: <ul style="list-style-type: none"> Trend analysis of payroll expenditure by month to identify any significant variances Review of post year end payments to ensure all payroll expenditure included Review reconciliation of gross payroll to ledger to ensure complete

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Heritage assets
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Public Power Solutions (formerly Swindon Commercial Services)	Yes	Targeted	Revenue Recognition We have identified a revenue recognition risk. In 2014/15 the auditor queried the timing of income of £3.7m in respect of Wroughton Solar Farm.	Work planned: <ul style="list-style-type: none"> Review of revenue recognition policies Analytical review of income
Thamesdown Transport Limited	No	Targeted	Revenue are above our threshold	Work planned: <ul style="list-style-type: none"> Review of revenue recognition policies Analytical review of income
Forward Swindon	No	Analytical	N/A	Work planned: <ul style="list-style-type: none"> Desktop review performed by GT UK

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015.

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of good governance• Understanding and using appropriate cost and performance information to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Oversight of Council subsidiaries and partner bodies In response to growing financial pressures and to deliver high quality services in a changing environment, the Council is engaging with increasing numbers of partner bodies. These vary significantly in the nature of the arrangement. Recent examples include the solar farm project linked to Swindon Common Farm Community Interest Company and the financing arrangement for the related bond issue. Also the Wichelstowe Joint Venture Partnership to oversee a key development project in the Borough.</p> <p>The Council and those charged with governance need to ensure they have on-going robust oversight arrangements in place.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control and the criteria of informed decision making.</p>	<p>We will review corporate arrangements at the Council for monitoring and reporting on the performance of its subsidiaries and partners.</p>
<p>Financial health Between 2017/18 and 2019/20 the Council is anticipating cost pressures of £63.5m which after assumed increases in income (eg council tax) leaves a gap of £49m. Key actions to address the gap including service reductions, and early interventions in areas such as social care to avoid costs have been identified. The overall financial challenge raises significant risks to the Council's medium term financial stability.</p>	<p>This links to the criteria of informed decision making and resource deployment.</p>	<p>We will review and discuss the risks in the Council's medium term financial plans.</p>
<p>Financial close of the Wichelstowe development joint venture contract Negotiations to agree a joint venture development using Council land and previous infrastructure investment have been on-going for two years. Financial close is expected imminently to enable the Council to recover debt of £43m and realise additional gains. There have been some late changes to the financial model, for example to reflect the need for additional piling at the site. The risk to the Council is that it does not obtain the best deal in the circumstances.</p>	<p>This links to the criteria of informed decision making.</p>	<p>We will review the changes to the Model, the impact on expected returns and the information reported to Members.</p>

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

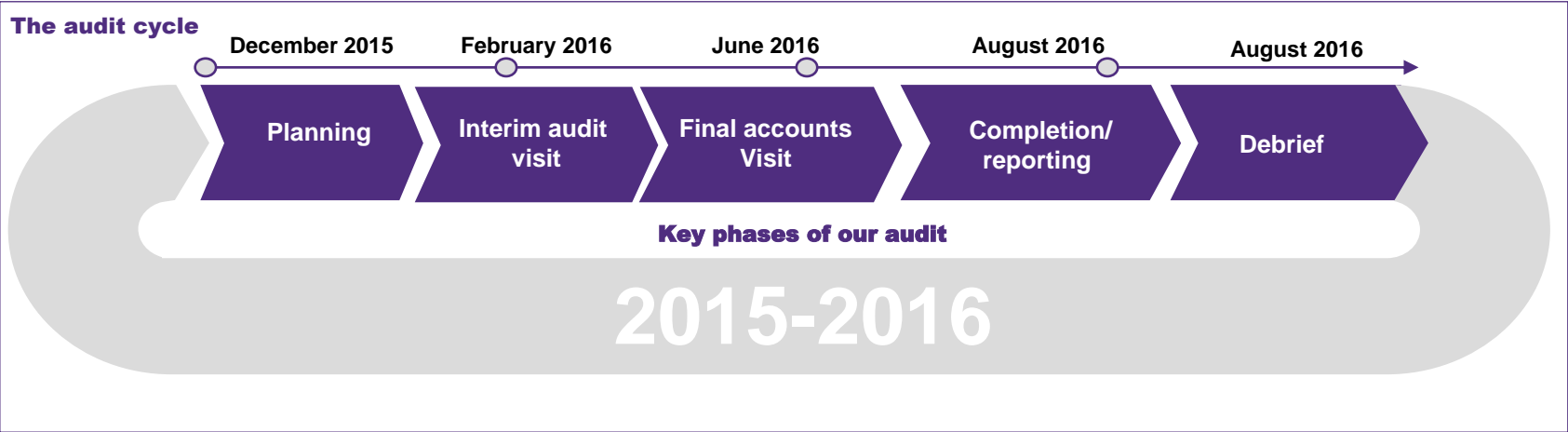
Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>We identified one issue we wish to bring to your attention. We tested an interim sample of seventeen employees for evidence that terms of employment had been formally accepted. This provides assurance over the existence of the employee. For seven employees in our sample, we could not identify that the terms of their employment had been formally accepted by the employee.</p>	We have raised a similar point in previous years and were assured by officers it was isolated to a particular service area. As in previous years this potentially raises governance issues should an employee get into dispute with their employer. For our opinion we will seek alternative evidence for existence by confirming National Insurance records.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on a sample of journal transactions recorded for the first nine months of the financial year. No issues have been identified that we wish to highlight for your attention.</p>	No errors identified at this stage. Further testing is required to ensure coverage of the whole financial year.

Results of interim audit work (continued)

	Work performed	Conclusion
Early substantive testing	<p>Other Revenues – testing of the occurrence and valuation of a sample of accounts receivable invoices raised from period one to nine</p> <p>Operating Expenses - testing of the occurrence and valuation of a sample of operating expense payments from period one to nine</p> <p>Employee Remuneration - testing of the occurrence and valuation of a sample of payroll transactions raised from period one to nine</p> <p>Aligned Budgets – testing of the occurrence and accuracy of a sample of care expense payments from period one to nine</p> <p>Property, Plant and Equipment – testing of the occurrence and accuracy of a sample of additions and disposals from period one to nine</p> <p>HRA – testing of the occurrence and valuation of a sample of HRA rent income from period one to nine</p> <p>We have identified three issues which we wish to bring to your attention.</p> <p>Our testing of Property, Plant and Equipment identified a £2m addition, (relating to the Barnfield Bus Depot) completed in 2014/15 but not recognised in the accounts until 2015/16.</p> <p>When completing interim testing of the HRA we noted that tenancy agreements were not available as systems were undergoing up-dates. We sought alternative sources of evidence and understand they will be available at our final audit.</p> <p>We have identified that the accounting treatment in relation to the Better Care Fund had not been confirmed during the interim audit.</p>	<p>In completing our work to give the opinion on your accounts we will:</p> <ul style="list-style-type: none"> • undertake year end cut off testing to ensure materially all items are in the correct year • Review tenancy agreements • Review the accounting treatment of the Better Care Fund.

Key dates



Date	Activity
December 2015	Planning
February 2016	Interim site visit
April 2016	Presentation of audit plan to Audit Committee
June to August 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Board Director of Resources
August 2016	Report audit findings to those charged with governance Audit Committee
August 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	128,378
Grant certification	10,476
Total audit fees (excluding VAT)	138,854

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Review of Teachers Pensions Agency return	4,200
• Review of Pooling of Housing Capital Receipts return	2,200
Non Audit related services	
• Review of Schools PFI contract	20,000
• Place analytics data base service	7,800
Other services	34,200

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

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Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	We recommend that all employees are required to sign a contract upon joining, which is retained securely by Swindon Borough Council in an accessible place.	Medium		
2	We recommend that management review additions and disposals with subsidiary entities on a more regular basis to ensure all purchases, sales and disposals are reflected in a timely manner within the ledger	High		
3	We recommend that the accounting treatment for the Better Care Fund is finalised prior to the final audit. We understand that the accounting treatment is under active consideration by management.	Medium		
4	We recommend that tenancy agreements are available for review during the final audit. We appreciate that the on-going process should result in tenancy agreements being more readily accessible to both auditors and relevant employees.	Low		



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Audit Committee Update

Swindon Borough Council

Year ended 31 March 2016

April 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Page 128
- Making devolution work: A practical guide for local leaders
 - Spreading their wings: Building a successful local authority trading company
 - Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
 - All aboard? our local government governance review 2015
 - Knowing the ropes: Audit Committee effectiveness review

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at April 2016

Work	Planned date	Complete?	Comments
2015-16 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.	April 2016	April 2016	Included with April agenda
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • work for the Value for Money conclusion. 	January to April 2016	Yes	The matters arising are summarised in our Accounts Audit Plan
2015-16 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July to September 2016	No	

Progress at April 2016

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2015/16 VfM conclusion comprises: <ul style="list-style-type: none"> • an initial risk assessment; • a detailed review of arrangements; • reviewing key documents; and • discussions with officers. 	March to September 2016	No	The risk assessment is reported in our Accounts Audit Plan
Other areas of work Certification work on the Council's Grant Claim and returns including the Housing Benefits Claim	November 2016	No	We have been in contact with officers to select initial HB samples.
Other activity undertaken We have been liaising with officers to discuss issues affecting the year end accounts.	September 2016	No	On-going

Accounts - public rights of inspection and challenge

Local Government issues: National Audit Office

Council accounts: a guide to your rights

The NAO has published an updated version of 'Council accounts: a guide to your rights' on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15th July 2016. Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

IFRS 13 'Fair value measurement'

Accounting and audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local authorities need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

Unlodged non-domestic rate appeals

Accounting and audit issues

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

Local Authority Trading Companies

Grant Thornton Seminar - Building a successful local authority trading company

On 11th February Grant Thornton hosted a free client seminar, in Taunton, looking at Local Authority Trading Companies (LATC). It was attended by 29 officers from councils in the South West. Although nobody from Swindon Borough Council could attend we would be happy to share our slides from the day with the Council.

As councils look for different ways to reduce costs, improve efficiency and generate income some are setting up local authority trading companies. We predict that the number of these companies will continue to grow over the next five years.

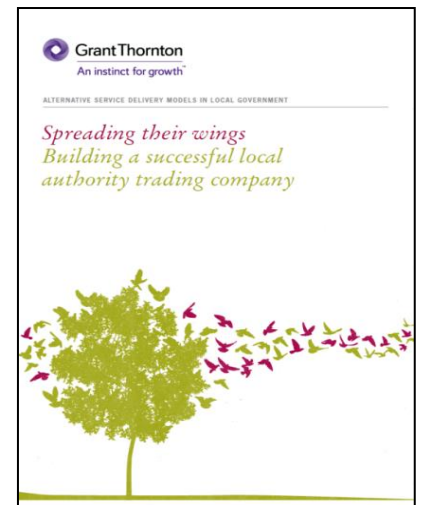
The seminar considered the themes set out in our recent report, 'Spreading their Wings', focusing on how to set up and build successful local authority trading companies.

Attendees heard from Grant Thornton Local Government Advisory and Tax colleagues, with a focus on the complexities of Corporation tax, SLDT, VAT and Employment taxes when entering into such arrangements.

Martin Farrow from Buckinghamshire Care Limited shared his experiences from the Buckinghamshire Care journey "A merger between sustainability and purpose". He set the scene – underfunded social care, government savings, rising demand, ageing population and service cutbacks meaning a lot fewer people receiving services. The solution? A seismic shift in commissioning.

Hugh Lambourne from Bournemouth Borough Council explained his Council's approach to developing its commercial services "Building a successful LATC & Commercial Council". Offering an insight into why you might create an LATC or alternatively why you might choose not to trade through an LATC!

The day ended with a panel session with Martin and Hugh being joined by Sarah Longthorpe - Bournemouth Borough Council, Giles Letheren – Delt shared Services limited and Frank Wilson – Ubico Limited. A lively set of questions were posed by delegates.



You can download a copy of the Grant Thornton report – Spreading their wings from the website at <http://www.grant-thornton.co.uk/en/Sectors/Government--Public-Sector/>
Hard copies are also available from your Engagement Lead and Audit Manager.

Grant Thornton's next report on Joint Ventures will be available in April

The changing face of Corporate Reporting

The Chief Executive Officer of the International Integrated Reporting Council (IIRC) spoke at the February 2015 meeting of our Global Public Sector Group.

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

We have been a long-time supporter of the IIRC through Council membership and staff secondments. The most recent of these secondments was focussed on helping the IIRC explore and promote how the benefits already being experienced by businesses implementing <IR> can be extended to public sector organisations.

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

<IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.

<IR> is underpinned by the International <IR> Framework published in December 2013. It is principles-based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.

<IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

<Integrated Reporting>

Challenge question:

Is the Audit Committee aware of integrated reporting, <IR>, and the guidance issued by the International Integrated Reporting Council?

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

The IIRC's website includes the following sections to enable organisations to understand the approach:

- **Why?** – which sets out the need for change.
- **What?** – which explains the tool for better reporting.
- **How?** – which provides practical help and tips.

It is generally acknowledged that reporting can change behaviours. We would therefore encourage you to review this guidance and if you believe it would be of potential interest and benefit to your organisation we would be pleased to discuss and share our expertise and knowledge on how improved reporting could also lead to better decisions, enhanced accountability and trust and improved performance.



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Changes to arrangements for appointment of an External Auditor

Audit Committee

Date: 19th April 2016

Author: Head of Internal Audit
Wards: None
Locality Affected: None
Parishes Affected: None

1. Purpose and Reasons

- 1.1 This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- 1.2 The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

2. Recommendations

The Committee is recommended to:

- 2.1 Note the options for the appointment of an External Auditor and to support the setting up of a national Sector Led Body (option 3 in the report)
- 2.2 That a further update report is brought back to Audit committee later in the year.

3. Detail

Background to the issue

- 3.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
 - 3.2 On 5 October 2015 the Secretary of State Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
 - 3.3 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited, the transitional body set up by the Local Government Association with delegated authority from the Secretary of State Communities and Local Government.
 - 3.4 Over recent years the Council have benefited from a reduction in fees. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission.
-

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Changes to arrangements for appointment of an External Auditor

Audit Committee

Date: 19th April 2016

- 3.5 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of the auditor.
- 3.6 There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 3.7 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 3.8 The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top ten or twelve firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

Options for local appointment of External Auditors

- 3.9 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

Option 1 – To make a stand-alone appointment

- 3.10 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be made up wholly, or with a majority, of independent members as defined by the Act.
- 3.11 Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefit

- 3.12 Setting up an Auditor Panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- 3.13 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the Local Government Association to cost in the order of £15,000 plus on-going expenses and allowances

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Changes to arrangements for appointment of an External Auditor

Audit Committee

Date: 19th April 2016

- 3.14 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 3.15 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 – Set up a Joint Auditor Panel / Local procurement arrangements

- 3.16 The Act enables the Council to join with other authorities to establish a joint Auditor Panel. Again this will need to be constituted of wholly, or a majority, of independent appointees. Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- 3.17 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- 3.18 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- 3.19 The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent Auditor Panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- 3.20 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue could occur where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 - Opt-in to a sector led body

- 3.21 In response to the consultation on the new arrangement the Local Government Association successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body appointed by the Secretary of State under the Act.
- 3.22 A Sector Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Changes to arrangements for appointment of an External Auditor

Audit Committee

Date: 19th April 2016

Advantages/benefits

- 3.23 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
- 3.24 By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation
- 3.25 Any conflicts at individual authorities would be managed by the Sector Led Body who would have a number of contracted firms to call upon.
- 3.26 The appointment process would not be ceded to locally appointed independent members, instead a separate body set up to act in the collective interests of the 'opt-in' authorities would do this.
- 3.27 The Local Government Association is considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements. The Local Government Association has recently written to all local authority Chief Executives inviting them to express an interest in using a Sector Led Body.

Disadvantages/risks

- 3.28 Individual elected members will have less opportunity for direct involvement in the appointment process other than through the Local Government Association and/or stakeholder representative groups.
- 3.29 In order for the Sector Led Body to be viable and to be placed in the strongest possible negotiating position the Sector Led Body will need Councils to indicate their intention to opt-in before final contract prices are known.

The way forward

- 3.30 The Council have until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 3.31 The Local Government Association is working on developing a Sector Led Body. In a recent survey, 58% of respondents expressed an interest in this option. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a Sector Led Body.
- 3.32 In order to strengthen the Local Government Association's negotiating position and enable it to more accurately evaluate the offering, it is recommended that the Council pursue Option 3 on the basis that it should provide a more cost effective option in both the contracting process and for on-going external audit fees.
- 3.33 A formal decision to opt-in will be required at a later stage.

Further information on the subject of this report can be obtained from Nick Hobbs,
Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Changes to arrangements for appointment of an External Auditor

Audit Committee

Date: 19th April 2016

Conclusion and Next Steps

- 3.34 The Council will need to take action to implement new arrangements for the appointment of external auditors from April 2018. In order that more detailed proposals can be developed the Council/Committee is asked to give early consideration to the preferred approach.
- 3.35 It is recommended that the Council supports the Local Government Association initiative to set up a Sector Led Body as it believes this offers best value to councils by reducing set-up costs and having the potential to negotiate a lower on-going audit fee.

4. Alternative Options

- 4.1 Not Applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 Current external fees levels are likely to increase when the current contracts end in 2018.
- 5.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council's budget for 2016/17 and 2017/18. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
- 5.3 Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

Legal and Human Rights Implications

- 5.4 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;
- 5.5 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

Changes to arrangements for appointment of an External Auditor

Audit Committee

Date: 19th April 2016

- 5.6 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.7 None

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.8 Effective systems of governance, risk management and internal control within the Council will help to ensure that the objectives set out in One Swindon and the Council's Corporate Strategy is achieved.

Diversity Impact Assessment

- 5.9 None

Risk Management

- 5.10 There is no immediate risk to the Council. However, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.
- 5.11 Providing the Local Government Association with a realistic assessment of our likely way forward will enable the Local Government Association to invest in developing appropriate arrangements to support the Council.

6. Consultees

- 6.1 The Chief Executive
- 6.2 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

Appendix 1 – Local Government Association: Sector led body frequently asked questions

Sector led body FAQs

1. What is your timetable for setting up the body?

We have already set up the company we would like to see as the sector led body. We set up Public Sector Audit Appointments Limited (PSAA) to make audit appointments under the transitional arrangements following closure of the Audit Commission. To act as a sector led body PSAA will need to be specified as an Appointing Person by the Secretary of State under the Local Audit (Appointing Person) Regulations 2015 and PSAA is working towards achieving such a specification at present.

2. When will we need to make a commitment?

The date by which principal local government bodies will need to formally opt-in to a sector led appointing person arrangement is not yet finalised. The aim is to award contracts to firms by June 2017, giving 6 months to organise which firm is appointed to each individual authority before the 31 December 2017 deadline. In order to maximise the potential economies of scale from agreeing large block contracts with the firms and to manage auditor independence issues we need certainty about the volume and location of work we are able to offer as soon as is practical. Our provisional timetable suggests that we will need to start preparing tender documentation in September 2016 so ideally we will need to know by then which authorities are included.

3. Can we join after it has been set up or do we have to join at the beginning?

One of the main benefits of a sector led approach is the ability to negotiate lower fees with the firms as a result of being able to offer higher volumes of work. The greater number of participants we have signed up at the outset the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector led arrangements in later years. However, in order to be in the best position to negotiate good rates for authorities we

would encourage as many authorities as possible to commit by September 2016

4. Will membership be free for existing members of the LGA?

There will not be a fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged by the sector led body will cover the costs of appointing auditors. We believe that audit fees achieved through block contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by using the SLB councils will avoid having to do their own procurement and the legal requirement to set up a panel of independent members.

5. If No to (4) then any idea how much membership of this might be?

N/A

6. How will we be able to influence how the SLB and associated contracts are set up?

Local Government Association members will be able to feed in consideration of the setting up of the sector led body through the usual channels including contact with their Principal Advisors. The Improvement and Development Agency Board considered a report on the outline proposals in December 2015. In addition, we are happy to attend meetings and engage with individuals or groups of authorities on request to discuss the developing arrangements. We have not yet determined the full governance of the sector led arrangements and are considering the options, including how best to obtain stakeholder input.

7. Will there be standard terms and conditions?

The audit contracts between the SLB and the audit firms will require firms to deliver audits compliant with the NAO Code of Audit Practice.

8. What will be the length of the contract?

The optimal length of contract between the SLB and an audit firm has not been decided. We would welcome views on what the sector considers the optimal length of audit contract.

9. Will there be the opportunity of a 3 year contract with an option to extend for up to 2 years or something similar?

Please see answer to question 8.

10. In addition to the Code of Audit Practice requirements set out by the NAO will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?

Local Authority Group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice and will continue to be part of the statutory audit.

Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the current PSAA managed appointment arrangements. We will consider the role of the SLB in making such appointments as part of our planning and would welcome views on this.

11. How is it envisaged that the procurement will work?

12. Will Local authorities be able to seek information from providers and undertake some form of evaluation to choose a supplier?

13. Will the price be fixed with the LGA or will there be a range of prices?

14. If a range of prices will individual Council's be able to undertake a process seeking information and bids from providers and then evaluate their submissions based on response and price i.e. like call off contracts?

We have not yet finalised our detailed procurement proposals and there are a number of options being considered. We will share with you our proposals as

soon as possible. The questions raised above are useful in helping us identify the issues that need to be addressed in the proposals.

Head of Internal Audit Update

Audit Committee

Date: 19 April 2016

Author: Head of Internal Audit

Wards: None

Locality Affected: None

Parishes Affected: None

1. Purpose and Reasons

- 1.1 To present Members with a summary of the main issues arising from the Internal Audit reports finalised since the Audit Committee meeting in February 2016, to update Members with regard to progress against the annual internal audit plan and other key issues.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that the contents of the report be noted.

3. Detail

Progress on completion of Internal Audit Plan 2015/16

- 3.1 Details of audits finalised since the February Audit Committee meeting are set out in Appendix 1. The appendix sets out the key audit recommendations made along with the overall risk assessment to the Council.
- 3.2 Appendix 2 sets out progress against the 2015/16 plan as at the year-end. 86% of the number of audits in the audit plan was completed against a target of 90%. We are just short of achieving our target. This has been due, in the main, to the number and complexity of investigations that the section has been involved with during the year.
- 3.3 The Head of Internal Audit's annual report for 2015/16 will be presented to Audit Committee in June.

4. Alternative Options

- 4.1 Not Applicable

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Head of Internal Audit Update

Audit Committee

Date: 19 April 2016

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.4 Internal Audit's remit is to examine the adequacy of the Council's governance, risk management and internal controls. Effective systems of governance, risk management and internal control within the Council will help to ensure that the objectives set out in One Swindon and the Council's Corporate Strategy is achieved.

Diversity Impact Assessment

- 5.5 None

Risk Management

- 5.6 Potential risks to the Council are identified in the individual audit reports summarised in Appendices 1 and 2.

6. Consultees

- 6.1 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.
- 6.2 All Heads of Service, Board Directors and Members who have contributed to individual audits to date during the course of 2015/16.

7. Background Papers

- 7.1 None

Head of Internal Audit Update

Audit Committee

Date: 19 April 2016

8. Appendices

Appendix 1 – Internal Audit Reports finalised since the February 2016 Audit Committee.

Appendix 2 – Progress against the Internal Audit plan 2015/16

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Audits finalised since the February 2016 meeting of the Audit Committee

Audit Title:	Asset Management						
Date of Report:	February 2016				Materiality/Impact:		High
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	2	Previous Audit Opinion:	2	Overall Evaluation (Risk):	Moderate
<u>Key Recommendations</u> There are no key recommendations made as a result of the review:							

Audit Title:	Annual Governance Statement Follow Up - GCSE Attainment						
Date of Report:	March 2016				Materiality/Impact:		High
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	N/A	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	N/A
<u>Key Recommendations</u> A follow-up review was carried out of issues raised in last year's Annual Governance Statement that had not already been covered by an internal audit review. One of those areas was GCSE Attainment. The auditor found that significant action has been undertaken to establish a robust governance structure that enables and challenges performance concerning school improvement in Swindon, arising from the Ofsted Inspection on School Improvement that took place in December 2014. However, raising attainment across the Borough is not a quick fix, and time will be needed for the newly established Education Strategy Board to have an impact on a rise in standards. A continued challenge for the Council will also be ensuring the on-going involvement of Academies in contributing to the improvement agenda, especially the secondary schools that have a large impact on overall attainment. Although the Local Authority has responsibility for School Improvement, there is a lack of direct power that the Council can use to influence the performance of Academies and ultimately, attainment. Although there is evidence of significant mitigating action in place to manage the future risk for GCSE attainment, it remains a current and future risk to the Council.							

Audit Title:	Bruce Street Bridges							
Date of Report:					Materiality/Impact:		High	
Number of 'High Priority' Recommendations:	NA	Current Audit Opinion:	NA	Previous Audit Opinion:	NA	Overall Evaluation (Risk):	N/A	
<p><u>Key Recommendations</u></p> <p>A consultancy review of the Bruce Street Bridges and Cheney Manor Flood Mitigation projects was requested, following concerns raised in relation to project delays, budget overspends and disruption to the highways network.</p> <p>Following the review we have made several key recommendations, including in relation to:</p> <ul style="list-style-type: none"> • portfolio, programme and project management • design and approval processes • performance / supplier management • future arrangements for scheme health and safety administration 								

Audit Title:	Care Leaver Payments						
Date of Report:	April 2016			Materiality/Impact:		High	
Number of 'High Priority' Recommendations:	7	Current Audit Opinion:	3	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	Moderate

Key Recommendations

The key recommendations made as a result of the review are:

- A clear strategy should be established that outlines the Council's approach to providing support for young people in need of developing financial management skills.
- Financial support provided to young people should be clearly recorded in Pathway Plans. The Plan should also highlight any attached conditions, how payments will be made, the frequency of payments and when they will be reviewed.
- Pathway Plans should be reviewed at least every six months (or more often if requested by the young person or the Personal Adviser or where there has been a significant change in the young person's circumstances) in line with the Children, Families and Community Health Procedures Manual.
- It should be clearly recorded in Request for Finance forms and Pathway Plans why alternative financial support is not being received to ensure there is clear justification for the Council providing a young person with support.
- The legality of withholding the leaving care grant from young people who are provided with an advance (or alternatively where the leaving care grant is used to offset debts or costs incurred by the young person) should be resolved as a matter of urgency. If considered legal, these terms and conditions should be clearly referenced in any information provided to young people regarding financial support.
- Sensitive information relating to children and young people should be held securely.
- A payment of £1,325 reviewed during testing, was paid to a young person to purchase an intensive driving course. However, despite the young person receiving the money in August 2015, driving lessons had still not been booked. It was recommended that the young person's Personal Advisor should support them to purchase driving lessons. Where this is not possible, or the urgency for an intensive course is no longer needed, the money paid to the young person should be reclaimed by the Care Leaver Team. In future, where similar funding is agreed, purchasing should be overseen by the Personal Advisor to ensure the young person is in receipt of the support agreed.

Audit Title:	Health and Wellbeing Board Governance Arrangements – follow up review				Date of Report:	29/02/16	
Number of 'High Priority' Recommendations:	1	Current Audit Opinion:	n/a	Previous Audit Opinion:	n/a	Overall Evaluation (Risk):	n/a
<u>Key Recommendations</u> <p>The audit considered progress made in implementing agreed recommendations made during an earlier audit consultancy review of the Health and Wellbeing Board when it was in 'shadow' status. Of the eighteen recommendations made, three have not been implemented of which two are high priority.</p> <p>The status of these outstanding high priority recommendations are:</p> <ol style="list-style-type: none"> 1. A formal project plan is not in place to support six monthly monitoring and review of the Joint Health and Wellbeing Strategy or an annual revision by reflecting on the latest Joint Strategic Needs Assessment. The steps necessary to review and approve the new Joint Health and Wellbeing Strategy from 1st January 2017 is also not set out in a project plan. However, the Health and Wellbeing Board forward work programme includes two items for the Director of Public Health: <ul style="list-style-type: none"> • October 2016 – draft the Joint Health and Wellbeing Strategy 2017-2010 • December 2016 – sign off the Joint Health and Wellbeing Strategy. <p>The six monthly reviews or an annual revision as referred to in the meeting terms of reference are not included.</p> 2. A risk register is not in place at the Health and Wellbeing Board from which to evaluate, monitor and manage emerging risks and issues at meetings i.e. including update of the JSNA, preparation of the Joint Health and Wellbeing Strategy and achievement of the latter's outcomes and priorities. In the absence of a risk register at the Health and Wellbeing Board there is no effective process to link any escalating risks to the Council's Corporate Risk Register. <p>One additional recommendation was made - that a Local Government Association 2015/16 self-assessment process be conducted within three months of an Officer being appointed to and taking up the post of Chief Executive for Swindon Borough Council. The Local Government Association has refreshed its self-assessment tool for Health and Wellbeing Boards for 2015/16. The assessment tool is non-chargeable. The new tool includes the offer of a facilitator for a day to work through the self-assessment with the Health and Wellbeing Board. Contact details for the Local Government Association have been provided to the Director of Public Health.</p>							

Audit Title:	Lydiard House and Park						
Date of Report:	March 2016			Materiality/Impact:		Medium	
Number of 'High Priority' Recommendations:	6	Current Audit Opinion:	3	Previous Audit Opinion:	3	Overall Evaluation (Risk):	Moderate
<u>Key Recommendations</u> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> • The Council should prepare a strategy/vision for Lydiard House and Park to set out what it would like to achieve through delivering this service to users and how the service subsidy can be reduced. This should link into the Swindon Heritage Strategy where appropriate. Consideration should be given to the best way to co-ordinate management of the service to deliver this new strategy, including re-establishment of an overall service manager. Once the structure to deliver the service is determined, job descriptions for staff should be revisited to ensure they are clearly aligned to achievement of objectives. Relevant work based objectives should be set and reviewed regularly as part of the performance appraisal process. • A business plan that sets out measurable objectives should be prepared. Progress toward achieving these objectives should be monitored using key performance indicators that clearly underpin achievement of objectives. • As part of the Lydiard, Community Assets and Libraries change programme, a business case should be produced that appraises the potential increased income that could be generated across Lydiard, Steam and other relevant sites. The additional income should be considered against potential costs of increasing service capacity and against risks of fluctuations in potential income received. Any business case should take into account and appraise current commitments at sites, for example Swindon Park Run and Wiltshire League Football. • When the strategy for Lydiard has been produced, a review of the service business plan and supporting budgets should be carried out to ensure that there is alignment of available resources to intended plans and strategies. In the interim, options for cost reduction (or additional income generation) where possible, should be explored. Responsibility for overall budget management to reduce costs and maximise income should be assigned to the overall service manager. • An official order should be raised prior to the order being placed with the supplier (with the exception of utilities, periodic payments such as rent or rates, and petty cash purchases) and the goods services received checked to the order. It should be ensured that authorisation for payment of invoices is carried out by officers who have correct level of authorisation for the cost centre code. • It should be ensured that fire drills are carried out at the stable block and visitor centre on a timely basis to comply with the health and safety requirements. 							

Audit Title:	Stores and Equipment Management						
Date of Report:	April 2016			Materiality/Impact:		High	
Number of 'High Priority' Recommendations:	6	Current Audit Opinion:	3	Previous Audit Opinion:	3*	Overall Evaluation (Risk):	Of concern

Key Recommendations

The key recommendations made as a result of the review are:

- All Teams using equipment should be required to identify the items of tool and plant under their control (i.e. issued to their staff) together with information regarding the date it was last inspected. This should be compared to the central register currently held on DATAstox to establish discrepancies. Missing equipment should be investigated and where necessary, written off or removed from the register to enable a cleansed version of the equipment register.
- Wherever possible, all stock should be brought together and stored securely in one location. Where this is not possible, suitable access controls or other preventative measures should be taken to reduce the risk of theft from these areas (i.e. adequate CCTV coverage, stock access only by Stores staff, etc.).
- The main store area has a number of access points that are not entirely secure and controls should be put in place to ensure access is restricted (the shutter door should be open only for deliveries; side door access should be restricted to Stores personnel only; consideration should be given to implementing further access controls (i.e. swipe access) and removing counter access.
- The access controls for the Waterside Depot (in general), particularly for doors leading to offices or sensitive areas should be reviewed to establish where there are exposures to unauthorised access. Depending on the level of exposure, a solution should be sought to improve controls, balanced with the cost of implementing the control.
- Quotes should be obtained for CCTV in the main stores and for other gaps identified in the Depot and a decision made whether to improve coverage in these areas.
- A review of the use of the DATAstox system should be conducted to determine whether it is the most appropriate software for use at the Depot. If it is, then this should be properly backed up and supported. Going forward, access to the DATAstox software (or equivalent) should be properly controlled with specific User IDs and passwords given to staff with instructions not to share access. More than one member of staff should be trained in using the system.

**Audit last conducted in 2007.*

Audit Title:	ID Badges				Date of Report:	10/3/16	
Number of 'High Priority' Recommendations:	4	Current Audit Opinion:	4	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	Of Concern
<u>Key Recommendations</u> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> A monthly leavers report should be requested from HR to allow the Team to remove or disable leavers promptly and keep the Tru-Time database up to date. All active users in the Tru-Time system should be compared against Council employees within ESS to identify leavers that still have live ID badges. Additional training should be requested from ISYS to ensure users can operate the system fully. This should include the amendment of service area and employee structures Staff requiring replacement badges should be given the relevant cost code and asked to pay the badge replacement fee of £5 directly into Cashiers who will issue a receipt for the payment. This receipt can be kept as evidence of the payment in order for the replacement badge to be issued. Volunteer badges should be clearly identifiable to show the difference to Council staff badges e.g. 'volunteer' printed in large letters across the front of the badge. Volunteers should be differentiated on the Tru-Time system so reports can be run to show volunteers with active badges. A periodic check of active volunteers' badges should be conducted to ensure that they are still necessary. The officer requesting a volunteer badge should be recorded on Tru-Time and be given guidance on their responsibility for ensuring the ID badge is used appropriately and recovered when necessary.							

Audit Title:	Debtors				Date of Report:	29/02/16	
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	1	Previous Audit Opinion:	1	Overall Evaluation (Risk):	Moderate
<u>Key Recommendations</u> <ul style="list-style-type: none"> No key recommendations were made as part of this review. 							

Audit Title:	Allotments				Date of Report:	15/02/2016		
Number of ‘High Priority’ Recommendations:	N/A	Current Audit Opinion:	N/A	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	N/A	
<u>Key Recommendations</u>								
<p>A consultancy review of service process, income and expenditure was carried out therefore no audit opinion was given as part of the review. Recommendations have been made in relation to producing a clear vision for allotments in Swindon and an allotment strategy, that links to delivery of wider corporate objectives (for example promotion of healthy living, increasing community cohesion and meeting physical and mental health care needs).</p> <p>A number of models of Council provision of allotments were researched and options for future service delivery have been presented to service management as part of the report. These include retention of the service by the Council, working with Parish Councils to explore alternative means of providing allotment sites and other models of provision based on management of sites by community groups.</p> <p>The Council contribution to running allotments sites has been estimated and recommendations have been made in relation to potential cost savings from streamlining current processes. Prices charged for services have been benchmarked to other council's, to provide management with information for decision-making in relation to charging.</p>								

Audit Title:	Swindon Mind				Date of Report:		25/02/2016	
Number of ‘High Priority’ Recommendations:	N/A	Current Audit Opinion:	N/A	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	N/A	
<u>Key Recommendations</u>								
The piece of work was carried out as a consultancy review to provide additional contract management support to Swindon Borough Council Commissioners and Swindon Mind.								
The review appraised processes for financial and performance management. Recommendations made are being implemented.								

Audit Title:	Treasury Management						
Date of Report:	14/3/2016			Materiality/Impact:		High	
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	1	Previous Audit Opinion:	1	Overall Evaluation (Risk):	Moderate
<u>Key Recommendations</u> No key recommendations were made as part of this review.							

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Managed Audits Completed (Audits) - Draft

	April	May	June	July	August	September	October	November	December	January	February	March
Managed Audits Completed						NNDR		Council Tax	Asset Management	Debtors	Treasury management	Housing rents
												Creditors
												Housing benefits
												Payroll
												Main accounting
Managed Month Total	0	0	0	0	0	1	0	1	1	1	1	3
Managed Cumulative Total	0	0	0	0	0	1	1	2	3	4	5	8
Managed Target %	0	0	0	0	0	10	30	50	70	80	90	100
Managed Achieved %	0%	0%	0%	0%	0%	10%	10%	20%	30%	40%	50%	80%

Total Non Managed Audits Completed - Draft

	April	May	June	July	August	September	October	November	December	January	February	March
Other Audits Issued	Public Health Assurance Statement	Funding High Needs Students	Schools: Info Gov (corporate)	Money Laundering	Health Protection: Assurance Framework	Inv 15/16-2	Youth Engagement Workers and EET Provision	WB 14/15-4	WB 14/15-5	Complaints	LANdesk VPN Security	ICS Network
	Inv 14/15-15	Inv 14/15-16	Isambard School: IT Governance	ICT Security Governance	Mail Room Logistics	WB 14/15-4(a)	Brindley Close	Shaw Farm Follow-up	Stores equipment management	Lydiard	Taxi reconciliation	Honorarium
	Inv 14/15-17	Troubled Families Grant Claim (May)	Eldene: IT Governance	Improvement Grants	IT Healthcheck	NNDR RV inspections	Emergency Assistance Fund	Concessionary travel		ID Cards	Care leaver payments	Appointee/ deputyships
	Whistleblowing Policy	Housing Voids	East Wichel: IT Governance	NNDR 3 claim	Review of revised Contract SO's	Highways; Bruce Street Bridges	Community Equipment Store	WB 15/16-2		GCSE attainment	Inv 14/15-8	Crowdys
	Annual Governance Statement	Corporate Buildings Statutory Comp: follow-up	Information Governance and Security Policy	Orchid Vale: IT Governance	Adult Social Care: Financial Assessments	Allotments	Taxi & Private Hire: Licensing (follow-up)			Pot Holes	Vol sector: MIND	Use of community assets
	Performance Management	Isambard School follow-up	Information Risk Policy	Wroughton: IT Governance	Home to School transport	Pinch Point funding				Troubled Families Phase 2	Starters and leavers	MIND recovery plan
		Duplicate payments	PSN Code of Connection update	Key ICT Security issues		PPS: Sage Review				Duplicate payments	PPS: RDF	Hillmead
			SWIFT: System control and integrity	Section 17 Expenditure						The Grange		Security Standards
				PSN Compliance and risk issues						WB 15/16-1		ICT system control & integrity OPEN
				Trade Waste						Health & Wellbeing		ICT system control & integrity Oracle
				Carbon Reduction Commitment return						Garages		ICT system control & integrity Northgate
				Inv 15/16-1						Ofsted action plan		Parking Admin
												Risk management
												CFT Case ref: 011
												Overtime
												Housing Repairs
												ICT system control & integrity iTrent
												Housing Voids f/up
												WB 15/16-5
Non-managed total for month	6	7	8	12	6	7	5	4	2	12	7	19
Cumulative non managed audits	6	13	21	33	39	46	51	55	57	69	76	95

	April	May	June	July	August	September	October	November	December	January	February	March
Overall Month Total Audits	6	7	8	12	6	8	5	5	3	13	8	22
Overall Total Audits	6	13	21	33	39	47	52	57	60	73	81	103
Target Completion of Plan %	6	12	20	28	35	43	52	60	67	74	82	90
Audit Plan Achievement %	5%	11%	18%	28%	33%	39%	43%	48%	50%	61%	68%	86%

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