

Swindon Borough Council

Audit Committee

Tuesday, 23 November 2010

Committee Room 6, Civic Offices

At 6.00 p.m.

Conservative Councillors

Michael Dickinson
(Chair)
Nick Martin
Mary Martin
Eric Shaw
Peter Stoddart

Labour Councillors

Des Moffatt (Vice-
Chair)
Junab Ali

Committee Officer: Steve Jones (01793 463602)

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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 1 - 4)

To receive the minutes of the meeting held on 21 September 2010

5. Internal Audit reports identifying significant risk or 'of concern' - Payment Card Industry Standards (HIA-CE) (Pages 5 - 32)

6. Internal Audit reports identifying significant risk or 'of concern' - Section 38 Agreement (HIA-CE) (Pages 33 - 64)

7. Accounting Policies (DF-CE) (Pages 65 - 74)

8. Annual Audit Letter (Pages 75 - 90)

9. Head of Internal Audit Update (HIA-CE) (Pages 91 - 98)

Date of Despatch: 15 November 2010

Key:

HIA-CE - Head of Internal Audit

Public Question Time - *Swindon Borough Council is committed to increasing its accountability to the public and to promoting active citizenship. Up to 15 minutes will be allowed at the start of all Council meetings for questions to the Chair from members of the public about the work of the Committee (except for confidential matters and specific planning applications). Questions must be relevant, clear and concise. Because of time constraints Public Question Time is not an opportunity to make speeches or statements. Prior notice of a question to the Director of Law and Democratic Services is desirable - particularly if detailed background information is needed.*

Access Arrangements – *The Venue is wheelchair accessible and an infrared receiver hearing system is provided. If you would wish to attend the meeting but have any special requirement to enable you to do so please contact the Committee Clerk above, as soon as possible prior to the date of the meeting.*

If you would like to receive any of the pages contained in this agenda in a larger print size please contact the Committee Officer whose name appears on the first page of this agenda.

The Audit Committee - Terms of Reference

(the complete terms of reference and programme of activity for the Audit Committee are set out in Minute 61 of the meeting of the Audit Sub-Committee held on 25 January 2006)

To provide independent assurance to the Council on the following responsibilities:

- (i) the effectiveness of the Council's risk management, internal control and its overall assurance framework;
- (ii) the effectiveness of the Council's financial and non-financial performance to the extent that it might impact upon (i) above;
- (iii) the performance of the Council's Internal Audit section;
- (iv) the receipt and review of External Audit reports and liaison with external auditors on significant matters identified, and
- (v) advise upon and/or review the effectiveness of any other matters referred to the Audit Committee by the Cabinet, the Overview and Scrutiny and Regulatory Committees.

AUDIT COMMITTEE

TUESDAY, 21 SEPTEMBER 2010

PRESENT:- Councillors Michael Dickinson (Chair), Eric Shaw, Peter Stoddart, Des Moffatt (Vice-Chair) and Junab Ali

Apologies for absence were received from Councillors Nick Martin and Mary Martin.

15. Declarations of Interest

The Chair reminded members of the need to declare any known interests in any matters to be considered at the meeting. No declarations were made.

16. Public Question Time

No questions were asked under Standing Order 18.

17. Minutes

Resolved - That the minutes of the meeting held on 22 June 2010 be confirmed and signed.

18. Internal Audit reports identifying significant risk or 'of concern - Corporate Manslaughter

The Committee received the Internal Audit report on the mitigating controls in place to prevent a case of Corporate Manslaughter. The audit review was finalised in May 2010 when an overall risk assessment of "Of Concern" was given. The Council's Head of Human Resources and Talent and Head of Health, Safety and Wellbeing, were in attendance to respond to members' questions on issues raised by the audit review, the management response to the audit conclusions and recommendations and progress in implementing the agreed action plan.

Resolved – (1) That the report be noted.

(2) That the Head of Human Resources and Talent and the Head of Health, Safety and Wellbeing, be thanked for their attendance at the meeting and for their full and open response to members' questions on issues relating to the outcomes of the Internal Audit review of Corporate Manslaughter.

(3) That it be noted that a training session on the subject of Corporate Manslaughter, aimed primarily at Group Directors and Directors, would be held tomorrow (22nd September) at the County Ground training facility. That the officers arrange a similar training session for members, to be held in the evening.

(4) That a further report on progress in implementing the Management response to the Internal Audit recommendations, as set out in the associated Action Plan (Section 8 of the Audit Report) be submitted to the Committee in approximately 6 month's time.

19. Corporate Risk Management: Update

The Head of Performance and Risk introduced a report on the pending re-examination and refresh of the Council's Corporate Risk Register in response to the

changing economic environment and the need to ensure that the major risks the Council is facing are correctly identified and actions put in place to mitigate those risks. It was noted that this re-examination would be considered at the next meeting of the Corporate Board and the Audit Committee's views were invited regarding key corporate risk areas and the level of assurance members would expect from the Risk Management function that appropriate action was being taken to manage and mitigate these risks. It was intended that members' comments would be reported to the Corporate Board and that the outcome of that debate would be used by groups to agree actions to be put in place to mitigate risks, accountabilities for delivery and timescales for introduction. It was intended that the reviewed Register would be submitted to the Audit Committee for consideration at its November meeting before being referred to Cabinet for endorsement.

Resolved – (1) That members' views and comments regarding key corporate risks, the level of assurance required by the Committee that these risk are being appropriately managed and the nature and involvement of the Committee in the future monitoring of the Corporate Risk Register be noted and that these be reported to Corporate Board to inform that body's re-examination of the Register.

(2) That members advise the Head of Performance and Risk, in advance of next week's Corporate Board, of any further key risk areas they might identify or where they feel improvements might be made to the Councils' overall assurance framework.

20. External Audit Report on the Statement of Accounts 2009/10

The Director of Finance submitted the updated Statement of Accounts for 2009/10 for the Committee's approval. The Committee also received the External Auditor's Annual Governance Report in relation to its Annual Audit of the Council's Statement of Accounts for 2009/10, including, at appendix 4, the draft letter of representation for the Committee's consideration.

Mr Peter Smith and Mr. Martin Robinson of the Audit Commission, were in attendance and presented the Annual Governance Report, summarising its key messages, including the messages arising from the audit of the Council's financial statements, and work undertaken to assess the Council's arrangements to secure value for money from its use of resources. Mr Smith and Mr Robinson responded to members' questions on issues raised in the report and on the Council's response to its findings.

Mr Robinson also provided a brief summary statement in respect of the recent announcement about the abolition of the Audit Commission and the continuation of existing external audit arrangements until the 2012/13 Financial Year and the likely arrangements for the future, the suggestion being that authorities would be able to appoint their own independent external auditors from a "more competitive and open marketplace".

The External Auditors concluded their presentation of the Annual Governance Report by expressing their thanks for the high level of assistance and support provided by the Council's Deputy Head of Finance and the Financial Services Team in conducting the 2009/109 Audit.

Resolved – (1) That the report of the Director of Finance on the Statement of Accounts for 2009/10 be noted. That the draft External Auditors' Annual Governance Report 2009/10, and the updates provided at the meeting, be also noted.

(2) That, having considered the matters raised in the Annual Governance Report, and taken note of the adjustments to the Financial Statements, set out in

Appendix 2 to the report, and the unadjusted misstatements in the accounts (Appendix 3), the letter of representation, attached at Appendix 4, be acknowledged.

(4) That the Audited Statement of Accounts for 2009/10 be approved, to be signed by the Chair within a period of 1 week, following his own final check of the accounts.

21. External Audit - Audit Opinion Plan

The Committee received the External Auditors' Audit Opinion Plan, setting out the details of the work proposed to be undertaken for the audit of the Council's 2009/10 financial statements and reflecting:

- audit work specified by the Audit Commission for 2009/10
- current national risks relevant to local circumstances
- local risks.

The report also included details of the fee for the audit of financial statements and the additional specific risks relevant to the current audit opinion that would be addressed.

Resolved – That the report be noted.

22. 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 June 2010 and progress made against the Annual Internal Audit Plan.

Resolved – (1) That the report be noted.

(2) That the "Payment Card Industry Standard" audit report, classified as having an overall risk evaluation of "Of Concern", and the "Section 38" audit report, evaluated as being of "Moderate" risk, be submitted to the next meeting of the Committee for consideration.

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Internal Audit reports identifying significant risk or 'of concern':

PAYMENT CARD INDUSTRY STANDARDS

AUDIT COMMITTEE

Date: 23rd November 2010

Author: Head of Internal Audit

Wards Affected: None

Purpose

Members requested that at least one individual audit report be presented to each meeting of the Committee. This report should be one that has been classified as being of 'significant risk' or 'of concern', if one had been issued since the previous meeting of the Committee. If not, then a report would be selected in liaison with the Chair of the Audit Committee.

Audit Committee requested that the Internal Audit report on Payment Card Industry Standards be presented to the committee.

Recommendation

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

1 Reasons

- 1.1 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.
- 1.2 Internal Audit's terms of reference require that at least one individual audit report be submitted to each meeting of the Committee.
- 1.3 Audit Committee requested that the Internal Audit report on Payment Card Industry Standards be presented to the November meeting of the Audit Committee.

2 Detail

- 2.1 A copy of the report following the internal audit review of the Council's arrangements to ensure compliance with the Payment Card Industry Standards is attached as Appendix 1. The report was finalised on 29th July 2010 and an overall risk assessment of 'Of Concern' was given. The initial management response is also included in this report.
- 2.2 Key recommendations made in the report to achieve the improvements required include:

Internal Audit reports identifying significant risk or 'of concern':

PAYMENT CARD INDUSTRY STANDARDS

AUDIT COMMITTEE

Date: 23rd November 2010

- The re-programming of all relevant credit/debit card payment devices to ensure that the full 16-digit card number is no longer printed on the Merchant copy receipt.
 - Clarification should be provided by Corporate Finance to advise the correct length of time that credit/debit card receipts should be retained and then communicated to all departments.
 - Review of processing procedures to ensure that under no circumstance the cardholder's security number is retained on any paperwork being held as this is in breach of the Payment Card Industry Standards.
- 2.3 The Group Finance Manager (Technical) has also provided a summary (see Appendix 2) of progress since the issue of the Internal Audit report. A point-by-point update of progress in implementing each of the recommendations is also provided (see Appendix 3)
- 2.4 The audit report, management responses and updates on progress are submitted for Members consideration.
- 2.5 The Group Finance Manager (Technical) will be attending the meeting to answer any questions that Members may have.

Alternative Options

Not Applicable.

Risk Management

Financial and Procurement Implications

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/Human Rights Implications

Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2006. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)

Effective systems of internal control within the Council will help to ensure that the objectives set out in the Corporate Plan and Swindon 2010 are achieved.

Internal Audit reports identifying significant risk or 'of concern':

PAYMENT CARD INDUSTRY STANDARDS

AUDIT COMMITTEE

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Consultees

The Director of Finance (Section 151 Officer) and the Director of Law and Democratic Services (Monitoring Officer) are consulted on all reports.

Various other officers – as listed in the attached audit report (see Appendix 1)

Appendices / Background papers

Appendix 1 – Internal Audit Report: Payment Card Industry Standards

Appendix 2 – Summary of Progress since the issue of the Internal Audit report

Appendix 3 – Update on individual Internal Audit recommendations

Key Decision/Decision in Forward Plan

Not Applicable

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Swindon Internal Audit Services
Chief Executive's

Strictly Private and Confidential

Payment Card Industry Standards

Report status: Final

Report date: 29th July 2010

Report Reference: Finance/PCIS/DS

Auditor: Dawn Sexstone, CIPFA Trainee

Issued by: Nikki Soave, Principal Auditor

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Appendices:

A: Standard Audit Opinions

Report distribution:

Draft for discussion issued: 7th June 2010

Paul Smith Group Finance Manager - Technical

Final issued: 29th July 2010

Paul Smith Group Finance Manager - Technical

Fiona Pearce CAPITA - Head of Finance Administration

Anna Marzec Data Protection Officer

Stuart McKellar Director of Finance

1 Executive Summary

- 1.1 This audit has been undertaken as part of the audit plan and included a follow up on previous audit recommendations made in the Payment Card Industry Data Security Standards audit in December 2008.
- 1.2 The aim of the audit was to look at the current controls and processes in place across the Council and to give an audit opinion on whether the controls are adequate enough to comply with the Payment Card Industry Standards.
- 1.3 The areas being covered in this audit are departments which receive and process their own credit /debit card payments and departments which receive telephone payment requests that are passed on to a third party department for processing. The audit did not cover the IT and network security side of the Payment Card Industry Standards.
- 1.4 The main findings were that there had been no significant improvements made to comply with the Payment Card Industry Standards since the previous audit conducted in 2008/09. A project had been put together to address the issues of PCI compliance but the project was put on hold due to the issues around IT requirements which arose after project inception. As a result there are still areas that have not received any training in the Payment Card Industry Standards on what is expected of staff either in their role as a payment processor, or for those receiving payment details over the telephone.
- 1.5 Across the different sites the following key issues were found:
- Cardholder's security codes were being kept.
 - Some departments had not received Payment Card Industry Standards training.
 - Storage of cardholder information was not consistent across the Council.
- 1.6 The key recommendations from the report are:
- The re-programming of all credit/debit card payment devices to ensure that the full 16-digit card number is no longer printed on the Merchant copy receipt.
 - Clarification should be provided by Corporate Finance to advise the correct length of time that credit/debit card receipts should be retained and then communicated to all departments.
 - Review of processing procedures to ensure that under no circumstance the cardholder's security number is retained on any paperwork being held as this is in breach of the Payment Card Industry Standards.
- 1.7 The result of the audit testing in relation to compliance with the Payment Card Industry Standards indicated that significant improvements were required. The system was defined as one of high materiality and impact and therefore combining this with the opinion on internal controls gives an overall rating of the audit was **of concern**.

2 Introduction

- 2.1 An internal audit review of the existing processes in place with regards to the receiving of Credit and Debit card payments was carried out as part of the agreed Audit Plan. This is intended to provide assurance to the Director of Finance that the systems of internal control are operating adequately and effectively.
- 2.2 Across the Council there are a number of sites and departments which either directly receives payments, or who receive cardholder data for processing by another department. The process of receiving debit and credit card payments should comply with the Payment Card Industry Standards and any areas of non-compliance should be identified and corrected.
- 2.3 There are three main processes being used to receive debit and credit card payments, they are as follows:
- Chip and pin devices – the payment device is directly connect to the Bank by its own telephone line and payments can be processed using chip and pin, by swiping the card and obtaining a signature, or as a cardholder-not-present transaction.
 - AXIS Counter Receipting – this is a computer software package that can be used either with, or without, a PDQ machine. The payment details are input into the system that records the transaction value, if the cardholder is present then the PDQ machine is used to authorise the payment. If the cardholder is not present then payments are processed through Capita Finance and a PDQ machine is not required.
 - Flex system – this is the swipe card system being used at all the Recreation sites and again is a software package linked to a swipe card device and requires the card holder to sign the merchant copy of the receipt.

3 Approach

- 3.1 Managers determine the extent of internal control in their systems and are responsible for providing an environment that ensures that resources are properly applied, value for money is secured, fraud and other losses prevented, and the Council's Financial Regulations are complied with.
- 3.2 Internal Audit, as a service to the Directorate and the Council as a whole, contributes to internal control by examining and evaluating its adequacy and effectiveness. The auditor's responsibility is to form an independent opinion, based on the audit work undertaken, on the reliability of the systems of internal control, risk management and governance, reviewed and report this to the Director of Finance and to other relevant Managers.
- 3.3 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.

- 3.4 The appropriate managers and staff were consulted during the course of the review and examination and testing of relevant documentation and procedures took place within departments.

4 Risk Areas Examined

- 4.1 The key risks to the achievement of the business objectives were agreed with the Director of Finance before the commencement of the audit. The table below summarises the Risk Areas examined during the review and provides an assessment of the adequacy of the mitigating controls in place for each area of risk examined:

Risk Area Examined	Audit Conclusion re. mitigating controls
<ul style="list-style-type: none"> Financial Loss to the Authority 	Significant improvements required
<ul style="list-style-type: none"> Identity theft or Fraud 	Significant improvements required

5 Overall Opinion

- 5.1 **Materiality and impact: High.** In the worst-case scenario, failure to comply with the PCI/DSS risks disclosure, modification and/or deletion of customer data further placing at risk the integrity (accuracy and completeness) of the Council's financial records and accounts. The maintenance of privacy and security is a statutory requirement. Non-compliance with the legislation will place the Council at risk of prosecution through the Courts, loss of public confidence and political embarrassment. Ultimately the cardholder may be placed at risk of "identity theft" and financial loss. The political, social and financial repercussions potentially arising from inadequate control determines the classification of **high materiality** and **impact** for this environment.
- 5.2 **Opinion on system controls: Significant improvements required** (see Appendix A) i.e. 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.
- 5.3 **Overall assessment of risk:** the combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **of concern**:

		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

- 5.4 The following key recommendations should be implemented in order to achieve the improvements required:
- The re-programming of all credit/debit card payment devices to ensure that the full 16-digit card number is no longer printed on the Merchant copy receipt.
 - Clarification should be provided by Corporate Finance to advise the correct length of time that credit/debit card receipts should be retained and then communicated to all departments.
 - Review of processing procedures to ensure that under no circumstance the cardholder's security number is retained on any paperwork being held as this is in breach of the Payment Card Industry Standards.
- 5.5 Management's response to the Internal Audit recommendations is included in the action plan at section 8 of the report on completion of the audit.
- 5.6 All of the matters arising are detailed in the action plan, together with suitable recommendations, together with an indication as to whether the matters arising are of a high, medium or low priority. The action plan provides a checklist of the findings of the review, potential consequences, and identifies officers responsible for implementing the recommendations and appropriate time-scales.

6 *Secure Procedures*

- 6.1 It was noted that the following secure procedures are now an integral part of the Payment Card Industry Standards system:
- The Cashier's process for receiving cardholder present payments is robust and the system being used is functioning effectively.
 - All new cashiers are made fully aware of the Payment Card Industry standards and sign to confirm that they have read the standards.

7 Acknowledgement

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

Name	Job title
Paul Smith	Group Finance Manager - Technical
Sheila Jennings	Admin Assistant - Enterprise Works
Marilyn O'Sullivan	Receptionist - Registrar Office
Caroline Lovett	Duty Manager - Steam Museum
Mike Crossland	Duty Manager - Steam Museum
Janice Leard	Information Centre Manager
Gail Midwinter	Capita Finance - WTW1
Freida Savage	Capita Finance - WTW1
Nicki Western	Culture Marketing Manager - Arts Centre
Fiona Page	Community Facilities Business Support Officer
Roxanne De'Lecia	Revenues Officer - Credit Control
Lee Haines	Processing Clerk - Parking Admin
Mary Turner	Senior Cashier
Liz Burton	Building Control Officer

Section 8: Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of Payment Card Industry Standards, 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	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
1	Risk: Identity and Financial Theft - Corporate Policies and Procedures			
1.1 Page 16	The latest Retention and Disposal Policy available on the Council's Intranet pages was issued in May 2005. On reviewing this document it was found that there is no specific entry for the retention and disposal of Credit and debit card receipts.	<p>The current Retention and Disposal policy should be updated to include the length of time credit/debit card receipts should be retained and how they should be disposed off for both chip and pin, and non chip and pin transactions.</p> <p>Priority: Medium</p>	<p>Data Protection Officer</p> <p>August 2010</p>	This will be updated as part of the re-continuation of the PCI compliance project. This area can be targeted for immediate update.

Final Internal Audit Report – Payment Card Industry Standards

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
2	Risk: Identity and Financial Theft - Testing of sites with payment card facilities.			
2.1	<p>Testing was undertaken on the following seven Council run sites that have there own card payment facilities:</p> <ul style="list-style-type: none"> • Enterprise Works • Registrar Office • Steam • Premier House, Reception • Information Centre • Capita Finance • Arts Centre <p>It was found that they were all producing merchant receipts that showed the full 16-digit card number.</p> <p>This is in breach of the Payment Card Industry standards (3.3), which state that the full card number (PAN) should only be displayed in full if there is a legitimate business needs to see the full PAN.</p>	<p>All debit/credit card machines should be re-programmed to comply with the PCI guidance that only the first 6 and last 4 digits should be visible as a maximum.</p> <p>Priority: High</p>	<p>Group Finance Manager - Technical</p> <p>August 2010</p>	Agree

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Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
2	Risk: Identity and Financial Theft - Testing of sites with payment card facilities.			
2.2	<p><u>Enterprise Works</u></p> <p>During testing of PCI compliance at Enterprise Works it was found that the receipts are stored in cardboard archive boxes in the archive room. The Archive room does not get locked up and the boxes are not kept in a lockable cupboard.</p> <p>This is in breach of the Payment Card Industry standards (9.6), which states that they need to physically secure all papers that contain cardholder data.</p>	<p>All receipts should be held securely to prevent unauthorised access to confidential information.</p> <p>Priority: Medium</p>	<p>General Manager – Enterprise Works</p> <p>August 2010</p>	Agreed – will be taken up with the Enterprise Works Manager
2.3	<p><u>Steam Museum</u></p> <p>During PCI compliance testing at Steam it was found that they are holding financial information, which goes back since the site opened 10 years ago. This is in breach of the Council's Data Retention and disposal policy, which states financial information should be held for 7 years.</p>	<p>Clarification should be provided by Corporate Finance to advise the correct length of time that credit/debit card receipts should be retained and then communicated to all departments.</p> <p>Records held that are over 7 years old should be disposed of securely.</p> <p>Priority: High</p>	<p>Group Finance Manager - Technical</p> <p>August 2010</p> <p>General Manager – STEAM</p> <p>August 2010</p>	Agreed

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Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
2	Risk: Identity and Financial Theft - Testing of sites with payment card facilities.			
2.4	<p><u>Information Centre</u> The Information Centre processes payments both over the telephone and when the cardholder is present. It was found that the Telephone Payment Request sheets that are used to record the payment details received over the telephone, are being kept for 6 to 12 months before disposal.</p>	<p>Telephone Payment Request sheets should be disposed of promptly and securely once the transaction has been processed electronically.</p>	<p>Information Centre Manager August 2010</p>	<p>Response by J Leard, Visitor Information Centre Manager As soon as the transaction has been processed the Telephone Payment Request sheets are promptly held in the safe, which is only accessible by the responsible key holders. After a period of 6 months they are shredded by a cross-shredder. They are kept for a period of 6 months, as this is a requirement in case of charge-backs.</p>
2.5	<p><u>Information Centre</u> The Telephone Payment Request sheet being used by the Information Centre to record telephone payments was found to include the cardholders' 3-digit card security number. These forms are then kept for 6 to 12 months in their safe.</p> <p>This is in breach of the Payment Card Industry standard (3.2.2), which states that the card verification code or value used to verify 'card not present' transactions should not be stored.</p>	<p>Cardholder's security codes should not be kept once payment has been processed, as this is in breach of PCI requirements.</p> <p>Priority: High</p>	<p>Information Centre Manager August 2010</p>	<p>Response by J Leard, Visitor Information Centre Manager We will promptly devise a system whereby the 3-digit card security number is not recorded on the Telephone Payment Request sheet and once the transaction is processed the security number will be destroyed.</p>

Final Internal Audit Report – Payment Card Industry Standards

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
2	Risk: Identity and Financial Theft - Testing of sites with payment card facilities.			
2.6	<p><u>Capita Finance</u></p> <p>The AXIS system being used by Capita Finance allows the processing of card payments without the need for the 3-digit security code or any other security checks being undertaken.</p> <p>This increases the chance of fraudulent payment information being processed by the Council.</p>	<p>The Council should introduce an additional security check to mitigate the chances of fraudulent payments being made to the Council.</p> <p>Priority: High</p>	<p>Group Finance Manager - Technical</p> <p>August 2010</p>	<p>'For cardholder present transactions 'chip and pin' machines are to be used. The security number is not required for these transactions. For transactions where the cardholder is not present, the introduction of the paye.net system later in 2010 will allow for security card numbers to be taken. The use of these will be considered during its implementation. The Axis system does not have a 'field' for security numbers.'</p>

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
3	Risk: Identity and Financial Theft - Testing of departments taking payment information over the telephone.			
3.1	<p><u>Community Hire</u></p> <p>When Community Hire take payments over the telephone they are currently recording the 3-digit security code on the telephone request forms, as it is required in order to process the payment at Premier House.</p> <p>The retaining of the security verification number is in breach of the Payment Card Industry standards (3.2.2) that states: 'do not store the card-verification code or value used to verify card-not-present transactions'.</p> <p>The Community Hire team will be moving to WTW5 in April 2010 and once they have moved their payment requests will be sent to Capita Finance (WTW1) for processing and the need to record this information will change. Once Capita Finance has processed the payment all the paperwork will be held in the Cashiers department and they will be responsible for the disposal of the forms.</p> <p><u>Building Control</u></p> <p>Testing established that although Building Control do not ask the Cardholder for the security code occasionally they may be given this information by the cardholder which they record on the Telephone payment request form.</p>	<p>The 3-digit security code should not be retained once processing has been undertaken, this information should be removed from any forms being held within the departments.</p> <p>Priority: High</p>	<p>Head of Finance Admin (Capita)</p> <p>August 2010</p>	Agreed

Final Internal Audit Report – Payment Card Industry Standards

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
3	Risk: Identity and Financial Theft - Testing of departments taking payment information over the telephone.			
3.2	<p><u>Credit Control</u> The Credit control team were due to receive training for PCI compliance but the PCI DSS Compliance project got put on hold before they had received the training.</p> <p><u>Parking Services (BSU)</u> During the testing it was established that the team had not received any training on PCI compliance.</p> <p><u>Building Control</u> During the testing it was established that the team had not received any training on PCI compliance.</p> <p>Anyone receiving payment information over the telephone should be made aware of the Payment Card Industry standards, as they are applicable to the role the employee is undertaking. Lack of awareness will lead to errors being made and data being stored incorrectly.</p>	<p>Any employee responsible for taking credit/debit card payments over the telephone should be aware of the Payment Card Industry standards and be advised on the issue of best practice.</p> <p>Priority: Medium</p>	<p>Group Finance Manager - Technical</p> <p>August 2010</p>	<p>All employees identified as responsible for taking payments were identified and invited to attend general PCI training, which includes some of the sections highlighted at 3.2</p> <p>Training will again be undertaken as part of the restart of the PCI project.</p>

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
3	Risk: Identity and Financial Theft - Testing of departments taking payment information over the telephone.			
3.3	<u>Parking Services (BSU)</u> The form being sent to Capita Finance for processing includes the 3-digit security code from the back of the card, other departments sending payments through WTW1 do not record this information.	Procedures need to be introduced to ensure all departments are aware of their responsibilities and that the practice of receiving payment card information over the telephone is consistent across the Council. Priority: High	Group Finance Manager - Technical August 2010	Response by F Pearce Responsibility for reconciliation of TIC cash / card takings is the responsibility of Capita Finance Admin therefore we have to have the merchant copies. I would question this recommendation as the storage of merchant copies in central finance admin is more secure than TIC and does not negatively impact procedures, policy or security. Introducing Paye.net will address this issue.
4	Risk: Financial loss to the Authority			
4.2	The contract did not contain a list of the establishments that were included. The information which was provided for tender was the total number of transactions – <ul style="list-style-type: none"> Credit Card payments – volume 36,975 transactions at a value of £1,380,185. Debit Card payments – volume 121,580 transactions with a value of £4,767,355. The description of the service within the tender was ‘The processing of credit and debit card transactions at various locations’.	A list of sites included should be held with the contract and kept up to date, new sites should be added when identified as requiring this service. Priority: Medium	Group Finance Manager - Technical August 2010	Unclear what the purpose of this recommendation is and what advantages this would bring.

Standard Audit Opinions

1. The audit opinion is based on two different criteria the first is the materiality of the system and it's impact on the Council if there was a system failure. This has been spilt into High, Medium or Low.
2. 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 weakness. Each of these categories has a standard opinion (see below).

Standard Audit Opinions on System Control
<p>Audit Opinion 1. <i>High Standard</i></p> <p>The auditor completing the review concluded the significant system 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>

3. 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 section 4 of the main report).

Management Summary – Update on Progress

What is PCI Compliance?

The major credit card issuers created PCI (Payment Card Industry) compliance standards to protect personal information and ensure security when transactions are processed using a payment card. All members of the payment card industry (financial institutions, credit card companies and merchants) must comply with these standards if they want to accept credit cards. Failure to meet compliance standards can result in fines if personal card data is compromised as well as the loss of the ability to process credit cards. (or more expensive card transaction processing)

What are the PCI DSS requirements?

The PCI DSS standard has 12 requirements for compliance, under the summary headings:

- Build and Maintain a Secure Network
- Protect Cardholder Data
- Maintain a Vulnerability Management Program
- Implement Strong Access Control Measures
- Regularly Monitor and Test Networks
- Maintain an information security policy

What assessments are required to be performed to prove compliance?

The PCI Data Security Standard establishes four levels based primarily on the volume of transactions processed annually irrespective of acceptance channel. Swindon Borough Council is a level 3 merchant. Level 3 includes merchants who process 20,000 to 6 million transactions a year. The PCI DSS standard requires an annual self-assessment questionnaire be completed with quarterly network vulnerability scans. Onsite assessments and network vulnerability scans are performed by vendors appointed by the card schemes known as Qualified Security Assessor (QSA)

What is Swindon doing to become PCI compliant?

The key IT system to be overhauled is that used for taking payments at the One Stop Shop and the Contact Centre. They are due to be replaced by a system called "Paye.net" before Christmas, and will provide the data security around taking card payments that are necessary to comply with the standard.

Paye.net is effectively software which sits on an internet connected PC, and enables payments to be taken via a "Chip & Pin" machine linked to the PC. In addition, "customer not present" transactions such as when payments are taken over the phone can be processed using Paye.net in a PCI compliant manner.

In addition, all areas of the Council where card payments are taken are under review, and may also utilise Paye.net if this is required as a solution. The major areas that do not require this upgrade are leisure sites who use the "Flex" system as it's already PCI compliant.

PCI training

PCI compliance is also about the policies and procedures in place when staff take payments using debit and credit card. Therefore, all staff that handle card payments have or will receive specific PCI training and a list of “Do’s and Don’ts” will also be circulated and posted on the Councils intranet as a source of information.

INTERNAL AUDIT FOLLOW UP FORM

AUDIT REPORT DATED	Payment Card Industry Standards 29 July 2010	PREPARED BY REVIEWED BY	Lorraine Sarson	DATE PAGE	29 October 2010 1OF 6
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NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	MANAGEMENT RESPONSE	CURRENT COMMENTS
1	Risk: Identity and Financial Theft - Corporate Policies and Procedures					
1.1	The current Retention and Disposal policy should be updated to include the length of time credit/debit card receipts should be retained and how they should be disposed off for both chip and pin, and non chip and pin transactions. Priority: Medium	Data Protection Officer	August 2010		This will be updated as part of the re-continuation of the PCI compliance project. This area can be targeted for immediate update.	Being implemented
2	Risk: Identity and Financial Theft - Testing of sites with payment card facilities.					
2.1	All debit/credit card machines should be re-programmed to comply with the PCI guidance that only the first 6 and last 4 digits should be visible as a maximum. Priority: High	Group Finance Manager - Technical	August 2010		Agree	Implemented
2.2	All receipts should be held securely to prevent unauthorised access to confidential information. Priority: Medium	General Manager – Enterprise Works	August 2010		Agreed – will be taken up with the Enterprise Works Manager	Implemented - During the month all receipts are held securely in a locked safe and at month end after reconciliation they are transferred to a locked cabinet in our archive area.

Status: 1=Implemented, 2=Being Implemented, 3=Not Implemented, 4=Superseded, 5=Other

INTERNAL AUDIT FOLLOW UP FORM

AUDIT REPORT DATED	Payment Card Industry Standards 29 July 2010	PREPARED BY REVIEWED BY	Lorraine Sarson	DATE PAGE	29 October 2010 2OF 6
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NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	MANAGEMENT RESPONSE	CURRENT COMMENTS
2	Risk: Identity and Financial Theft - Testing of sites with payment card facilities.					
2.3	Clarification should be provided by Corporate Finance to advise the correct length of time that credit/debit card receipts should be retained and then communicated to all departments. Records held that are over 7 years old should be disposed of securely. Priority: High	Group Finance Manager - Technical General Manager – STEAM	August 2010 August 2010		Agreed	Being implemented – policy being amended to 6 months retention as needed for chargebacks
2.4	Telephone Payment Request sheets should be disposed of promptly and securely once the transaction has been processed electronically.	Information Centre Manager	August 2010		Response by J Leard, Visitor Information Centre Manager As soon as the transaction has been processed the Telephone Payment Request sheets are promptly held in the safe, which is only accessible by the responsible key holders. After a period of 6 months they are shredded by a cross-shredder. They are kept for a period of 6 months, as this is a requirement in case of charge-backs.	Implemented and confirm all completed records are held in the safe and records older than 6 months are cross-shredded.

Status: 1=Implemented, 2=Being Implemented, 3=Not Implemented, 4=Superseded, 5=Other

INTERNAL AUDIT FOLLOW UP FORM

AUDIT REPORT DATED	Payment Card Industry Standards 29 July 2010	PREPARED BY REVIEWED BY	Lorraine Sarson	DATE PAGE	29 October 2010 3OF 6
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NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	MANAGEMENT RESPONSE	CURRENT COMMENTS
2	Risk: Identity and Financial Theft - Testing of sites with payment card facilities.					
2.5	Cardholder's security codes should not be kept once payment has been processed, as this is in breach of PCI requirements. Priority: High	Information Centre Manager	August 2010		Response by J Leard, Visitor Information Centre Manager We will promptly devise a system whereby the 3-digit card security number is not recorded on the Telephone Payment Request sheet and once the transaction is processed the security number will be destroyed.	Implemented
2.6	The Council should introduce an additional security check to mitigate the chances of fraudulent payments being made to the Council. Priority: High	Group Finance Manager - Technical	August 2010		'For cardholder present transactions 'chip and pin' machines are to be used. The security number is not required for these transactions. For transactions where the cardholder is not present, the introduction of the paye.net system later in 2010 will allow for security card numbers to be taken. The use of these will be considered during its implementation. The Axis system does not have a 'field' for security numbers.'	Being implemented December 2010

INTERNAL AUDIT FOLLOW UP FORM

AUDIT REPORT DATED	Payment Card Industry Standards 29 July 2010	PREPARED BY REVIEWED BY	Lorraine Sarson	DATE PAGE	29 October 2010 40F 6
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NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	MANAGEMENT RESPONSE	CURRENT COMMENTS
3	Risk: Identity and Financial Theft - Testing of departments taking payment information over the telephone.					
3.1	The 3-digit security code should not be retained once processing has been undertaken, this information should be removed from any forms being held within the departments. Priority: High	Head of Finance Admin (Capita)	August 2010		Agreed	Implemented - everything is securely stored via the cashier process. During the training, the need to not record the 3 digit number will be re-iterated
Pg 30	Any employee responsible for taking credit/debit card payments over the telephone should be aware of the Payment Card Industry standards and be advised on the issue of best practice. Priority: Medium	Group Finance Manager - Technical	August 2010		All employees identified as responsible for taking payments were identified and invited to attend general PCI training, which includes some of the sections highlighted at 3.2 Training will again be undertaken as part of the restart of the PCI project.	Being implemented as part of training

Status: 1=Implemented, 2=Being Implemented, 3=Not Implemented, 4=Superseded, 5=Other

INTERNAL AUDIT FOLLOW UP FORM

AUDIT REPORT DATED	Payment Card Industry Standards 29 July 2010	PREPARED BY REVIEWED BY	Lorraine Sarson	DATE PAGE	29 October 2010 50F 6
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NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	MANAGEMENT RESPONSE	CURRENT COMMENTS
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Risk: Identity and Financial Theft - Testing of departments taking payment information over the telephone.						
3.3	Procedures need to be introduced to ensure all departments are aware of their responsibilities and that the practice of receiving payment card information over the telephone is consistent across the Council. Priority: High	Group Finance Manager - Technical	August 2010		Response by F Pearce Responsibility for reconciliation of TIC cash / card takings is the responsibility of Capita Finance Admin therefore we have to have the merchant copies. I would question this recommendation as the storage of merchant copies in central finance admin is more secure than TIC and does not negatively impact procedures, policy or security. Introducing Paye.net will address this issue.	Being implemented as part of PCI training
4	Risk: Financial loss to the Authority					

Status: 1=Implemented, 2=Being Implemented, 3=Not Implemented, 4=Superseded, 5=Other

INTERNAL AUDIT FOLLOW UP FORM

AUDIT REPORT DATED	Payment Card Industry Standards 29 July 2010	PREPARED BY REVIEWED BY	Lorraine Sarson	DATE PAGE	29 October 2010 6OF 6
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NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	MANAGEMENT RESPONSE	CURRENT COMMENTS
4.1	A list of sites included should be held with the contract and kept up to date, new sites should be added when identified as requiring this service. Priority: Medium	Group Finance Manager - Technical	August 2010		Unclear what the purpose of this recommendation is and what advantages this would bring.	Implemented

Internal Audit reports identifying significant risk or 'of concern':

SECTION 38 AGREEMENT

AUDIT COMMITTEE

Date: 23rd November 2010

Author: Head of Internal Audit

Wards Affected: None

Purpose

Members requested that at least one individual audit report be presented to each meeting of the Committee. This report should be one that has been classified as being of 'significant risk' or 'of concern', if one had been issued since the previous meeting of the Committee. If not, then a report would be selected in liaison with the Chair of the Audit Committee.

Audit Committee requested that the Internal Audit report on Section 38 Agreements be presented to the committee.

Recommendation

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

1 Reasons

- 1.1 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.
- 1.2 Internal Audit's terms of reference require that at least one individual audit report be submitted to each meeting of the Committee.
- 1.3 Audit Committee requested that the Internal Audit report on Section 38 Agreements be presented to the November meeting of the Audit Committee.

2 Detail

- 2.1 A copy of the report following the internal audit review of the Council's regarding Section 38 Agreements is attached as Appendix 1. The report was finalised on 7th September 2010 and an overall risk assessment of only 'Moderate' was given. The audit found 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. The initial management response is also included in this report.
- 2.2 Recommendations made in the report to achieve the improvements required include:

Internal Audit reports identifying significant risk or 'of concern':

SECTION 38 AGREEMENT

AUDIT COMMITTEE

Date: 23rd November 2010

- To maintain the quality of record keeping and ensure due process is followed, a quality assurance programme should be introduced. This will provide a systematic monitoring and evaluation process at the various stages and approvals required to successfully complete a S38 agreement.
 - To ensure the fees received are realistic and fully cover the cost of the service provided, individual trading accounts should be introduced for the higher value jobs. This would include charging time against each project. Currently the section cannot demonstrate whether fees charged reflect the true cost of the work carried out i.e. break even.
 - Regular management reporting should be introduced so that management can monitor overall service performance and address any significant issues that may need escalating on a timely basis i.e. agreements where developers are not undertaking remedial work promptly, quality standards are not achieved leading to re-inspections or lengthy delays in completing a S38 Agreement (4 current files reviewed during the audit were up to 10 years old). To facilitate this a set of S38 agreement performance indicators should be developed and periodically reported on. These should feed into the LPAR process to demonstrate how the S38 Team provides a cost effective service and meet the needs of their customers and communities.
- 2.3 The Head of Highway Network Management has provided a point-by-point update of progress in implementing each of the recommendations is also provided (see Appendix 2).
- 2.4 The audit report, management responses and updates on progress are submitted for Members consideration.
- 2.5 The Head of Highway Network Management will be attending the meeting to answer any questions that Members may have.

Alternative Options

Not Applicable.

Internal Audit reports identifying significant risk or 'of concern':

SECTION 38 AGREEMENT

AUDIT COMMITTEE

Date: 23rd November 2010

Risk Management

Financial and Procurement Implications

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/Human Rights Implications

Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2006. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)

Effective systems of internal control within the Council will help to ensure that the objectives set out in the Corporate Plan and Swindon 2010 are achieved.

Consultees

The Director of Finance (Section 151 Officer) and the Director of Law and Democratic Services (Monitoring Officer) are consulted on all reports.

Various other officers – as listed in the attached audit report (see Appendix 1)

Appendices / Background papers

Appendix 1 – Internal Audit Report: Section 38 Agreements

Appendix 2 – Update on individual Internal Audit recommendations

Key Decision/Decision in Forward Plan

Not Applicable

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Swindon Internal Audit Services

Chief Executive's

Strictly Private and Confidential

Section 38 Agreements (Adoption by Agreement)

Report status: Final

Report date: 7th September 2010

Report Reference: ER&C/S38/SH

Auditor: Steve Hayward

Issued by: Lorraine Sarson - Principal Auditor

Contents	Page
Section 1	Executive Summary
Section 2	Introduction
Section 3	Approach
Section 4	Risk Areas Examined
Section 5	Overall Opinion
Section 6	Secure Procedures
Section 7	Acknowledgement
Section 8	Action Plan

Appendices:

A: Standard Audit Opinions

Report distribution:

Draft for discussion issued 25th June 2010:

Claire Cornelius	Transport Development Manager
Gwillam Lloyd	Head of Highway Network Management

Draft issued 4th August 2010:

Claire Cornelius	Transport Development Manager
Gwillam Lloyd	Head of Highway Network Management

Final issued 7th September 2010:

Claire Cornelius	Transport Development Manager
Gwillam Lloyd	Head of Highway Network Management
Celia Carrington	Group Director of Environment, Regeneration and Community
Dave Potter	Director of Planning and Transport
Adrian Arnold	Head of Finance – Environment, Regeneration and Community

1 Executive Summary

- 1.1 This review was undertaken as part of Internal Audit's annual plan for 2010/11 in order to provide assurance to the Director of Planning and Transport that the risk and control environment around S38 Agreements work is effectively managed and delivered in accordance with the Highways Act 1980.
- 1.2 Section 38 (S38) Agreements is the statutory service provided for under the Highways Act 1980 Section 38. These agreements allow for roads built by developers, as part of a development on private land, to be adopted and maintained by the relevant local authority. Developers do not have to offer roads for adoption, but if they wish to do so they must enter into a S38 Agreement. Such agreements are legally binding.
- 1.3 All work is undertaken at the developers expense but the agreement sets out the agreed location and standards the road(s) need to be constructed to. This is achieved by including, as part of the agreement, approved technical drawings/specifications.
- 1.4 It is only in the last year or so that the service has returned fully in-house after a period when it was out sourced to a partner organisation. The audit found that the approach to S38 work was very task focussed i.e. managing individual agreements. In doing this the staff showed considerable knowledge of the process and individual agreements.
- 1.5 However, there was an absence of formalised management controls for the S38 service, although this does not appear to have compromised the statutory service provision. These included the absence of:
- Monitoring the cost of the service.
 - Regular, formal management information.
 - Quality assurance activity.
 - Setting and monitoring performance indicators.
- 1.6 S38 Agreements are important in ensuring the Council adopts suitably constructed roads to ensure future maintenance costs are minimal. The process is therefore deemed to be of medium materiality and impact. This combined with mitigating controls concerning identified risks deemed satisfactory, gives an overall risk assessment to the Council of **moderate**.
- 1.7 The main recommendations from the audit work to improve the risk and control environment are:
- To maintain the quality of record keeping and ensure due process is followed, a S38 quality assurance programme should be introduced. This will provide a systematic monitoring and evaluation process at the various stages and approvals required to successfully complete a S38 agreement.

- To ensure the fees received are realistic and fully cover the cost of the service provided, individual trading accounts should be introduced for the higher value jobs. This would include charging time against each project. Currently the section cannot demonstrate whether fees charged reflect the true cost of the work carried out i.e. break even.
- Regular management reporting should be introduced so that management can monitor overall service performance and address any significant issues that may need escalating on a timely basis i.e. agreements where developers are not undertaking remedial work promptly, quality standards are not achieved leading to re-inspections or lengthy delays in completing a S38 Agreement (4 current files reviewed during the audit were up to 10 years old). To facilitate this a set of S38 agreement performance indicators should be developed and periodically reported on. These should feed into the LPAR process to demonstrate how the S38 Team provides a cost effective service and meet the needs of their customers and communities.

2 Introduction

- 2.1 This review was undertaken as part of Internal Audit's annual plan for 2010/11 in order to provide assurance to the Director of Planning and Transport that the risk and control environment around S38 Agreements work is effectively managed and delivered in accordance with the Highways Act 1980.
- 2.2 The Council's S38 service has had staffing issues in recent years with difficulty in recruiting suitable experienced and qualified staff and having no manager for a while. This led to work being outsourced to partner organisations, mainly Halcrow. It is only in the last year or so that the in-house position has stabilised with the appointment of a Transport Development Manager and support staff to deliver the S38 service.
- 2.3 At the time of the audit there were 89 formal S38 agreements in place, together with another 119 awaiting final agreement or in progress. Total income received in 2009/10 financial year was approximately £425k.
- 2.4 S38 activity is triggered as part of the planning application process. The developer is contacted (unless they have already contacted Swindon Borough Council) with a view to entering into a S38 agreement. If they wish to have a S38 Agreement, a fee is calculated based on the size of the development and agreed with the developer.
- 2.5 The developer is responsible for producing a set of technical drawings and specifications for the road proposed to be adopted under a section 38 agreement. Subject to Council approval, the developer builds the road(s) at their own expense and to the agreed standard. During road construction there are several staged inspections to ensure works are delivered as agreed i.e. at Part 1, Part 2 and Final stage. Between Part 2 and the Final certificate stage there is a 12-month maintenance period during which time the developer is responsible for maintaining the road. On satisfactory completion of the 12-month period the Final Certificate is issued. At this point, the road(s) is formally adopted and responsibility for conducting and funding future maintenance is passed to the Council with the road added to the Highways Asset Management Register.
- 2.6 The Council's costs of operating the S38 service are recovered through the fees charged. The service must break even as a minimum requirement.

3 Approach

- 3.1 Managers determine the extent of internal control in their systems and are responsible for providing an environment that ensures that resources are properly applied, value for money is secured, fraud and other losses prevented, and the Council's Financial Regulations are complied with.
- 3.2 Internal Audit, as a service to the Directorate and the Council as a whole, contributes to internal control by examining and evaluating its adequacy and effectiveness. The

auditor's responsibility is to form an independent opinion, based on the audit work undertaken, on the reliability of the systems of internal control, risk management and governance, reviewed and report this to the Director of Planning and Transport and to other relevant Managers.

- 3.3 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.
- 3.4 The appropriate managers and senior staff in Transport Development were consulted during the course of the review and examination and testing of relevant documentation and procedures took place within departments.

4 Risk Areas Examined

- 4.1 The key risks to the achievement of the business objectives were discussed and agreed with the Director of Planning and Transport before the commencement of the audit. The table below summarises the Risk Areas examined during the review and provides an assessment of the adequacy of the mitigating controls in place for each area of risk examined:

Risk Area Examined	Audit Conclusion re mitigating controls
<ul style="list-style-type: none"> S38 Agreements, technical specifications and inspections are not satisfactorily completed. Unfit roads are adopted and the Council exposed to unnecessary road maintenance responsibilities and budget pressures. 	Satisfactory
<ul style="list-style-type: none"> S38 income is not identified, charged, banked or accounted for in accordance with the Council's Financial Regulations. 	Satisfactory
<ul style="list-style-type: none"> S38 Agreements are not monitored, managed and delivered in an efficient, effective and cost effective manner. Service performance is poor and the service is operated at a loss. 	Significant improvements required

5 Overall Opinion

- 5.1 **Materiality and impact: Medium.** The work undertaken by the S38 Team is important to ensure roads are constructed to the Council's requirements and are fit for purpose; the cost and upkeep are the developers' responsibility until adoption. Once adopted it is Swindon Borough Council's responsibility, inline with Code of Practice for Highway Maintenance Management. The fees charged are intended to cover Swindon Borough Council's costs in providing the S38 Agreement service e.g. reviewing, commenting and agreed technical drawings, performing inspections and

issuing certificates. Last year, 2009/10, total fees received were approximately £400k.

- 5.2 **Opinion on system controls: Satisfactory** (see Appendix A) i.e. 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.
- 5.3 **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

- 5.4 The following recommendations should be implemented in order to achieve the improvements required:
- To maintain the quality of record keeping and ensure due process is followed, a quality assurance programme should be introduced. This will provide a systematic monitoring and evaluation process at the various stages and approvals required to successfully complete a S38 agreement.
 - To ensure the fees received are realistic and fully cover the cost of the service provided, individual trading accounts should be introduced for the higher value jobs. This would include charging time against each project. Currently the section cannot demonstrate whether fees charged reflect the true cost of the work carried out i.e. break even.
 - Regular management reporting should be introduced so that management can monitor overall service performance and address any significant issues that may need escalating on a timely basis i.e. agreements where developers are not undertaking remedial work promptly, quality standards are not achieved leading to re-inspections or lengthy delays in completing a S38 Agreement (4 current files reviewed during the audit were up to 10 years old). To facilitate this a set of S38 agreement performance indicators should be developed and periodically reported on. These should feed into the LPAR process to demonstrate how the

S38 Team provides a cost effective service and meet the needs of their customers and communities.

- 5.5 Management's response to the Internal Audit recommendations is included in the action plan at section 8 of the report on completion of the audit.
- 5.6 All of the matters arising are detailed in the action plan, together with suitable recommendations, together with an indication as to whether the matters arising are of a high, medium or low priority. The action plan provides a checklist of the findings of the review, potential consequences, and identifies officers responsible for implementing the recommendations and appropriate time-scales.

6 Secure Procedures

- 6.1 It was noted that the following secure procedures are now an integral part of the S38 Agreements system:
- The Team is very tasked focussed on individual agreement work and have a high degree of understanding and awareness of S38 Agreements.
 - Based on the evidence seen from the cases tested the raising and collection of fees was satisfactory.
 - From the cases tested the use of the Agreement Co-ordination (used to monitor the key stages of the process), budget code allocation and fees spreadsheets was satisfactory.
 - All files seen had the file checklist in place and it was evident that it was being used.
 - There have been no significant insurance claims following adoption of new highways.

7 Acknowledgement

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

Name	Job title
Claire Cornelius	Transport Development Manager
Dave Weston	S38 and Highways Agreement Technician
Gwillam Lloyd	Head of Highway Network Management
Mike Witts	Deputy Group Finance Manager (ER&C)

Section 8: Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of S38 Agreements 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	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
1	Risk: S38 agreements, technical specifications and inspections are not satisfactorily completed. Unfit roads are adopted and the Council exposed to unnecessary road maintenance responsibilities and budget pressures.			
1.1 Page 45	<p>Evidence of Sign Offs</p> <p>Prior to the issue of the various certificates involved in the S38 process (Part 1, 2 and Final), inspections and approvals are required to ensure standards are met and achieved at each stage. This includes other areas within the Council i.e. lighting, highways, parks, structures, drainage, and traffic signals. For the Final certificate evidence that Thames water is adopting the sewers is required.</p> <p>This is to ensure that work is completed to the agreed and specified standard. Agreement is needed before certificates can be issued.</p> <p>From the testing it was not possible to find all sign offs/returns. The above applied to 4 files reviewed. They were Agreement numbers 8115, 8128, 3041 and 2696.</p> <p>If they are not received it may lead to certificates being issued but with work outstanding. This could become a cost to the Council, as the developer would have a signed certificate indicating they had achieved the standard for that inspection.</p>	<p>All sign offs for Part 1 and 2 and Final certificates to be obtained and filed/stapled together with a copy of the relevant certificate. They should also be provided as evidence to the person who authorises the certificate.</p> <p>The quality assurance program mentioned in 3.2 below, should included sign off stages as trigger points for reviews.</p> <p>Priority: Medium</p>	<p>Transport Development Manager</p> <p>October 2010</p>	<p>Recommendation agreed.</p> <p>This recommendation will prove useful especially for anyone reviewing the file who is unfamiliar with the project.</p>

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
1	Risk: S38 agreements, technical specifications and inspections are not satisfactorily completed. Unfit roads are adopted and the Council exposed to unnecessary road maintenance responsibilities and budget pressures.			
1.2	<p>Authorised Personnel</p> <p>There was no list of authorised personnel/specimen signatures or email addresses authorised to approve drawings, input from other council areas, inspections and certificates.</p> <p>The key phases covered here include:</p> <ul style="list-style-type: none"> • Technical Approval (agreement to the drawings/specifications). • Part 1 and 2 Certificates • Final Certificate <p>Whilst all certificates seen had been signed it was difficult to tell by whom, as they did not include a printed name. Although all had a job designation. One Part 2 certificate seen (Agreement 8128) had a “pp” signature on behalf of the Director of Transport.</p> <p>Key documents may not have been authorised. If issues about the quality of a road come to light later the Council could find itself facing repairs if an unfit road is adopted.</p>	<p>A list of all authorised signatories should be produced; identifying the role that each play in the S38 process and setting out what they can authorise. This should include specimen signature/initials and email address. This list should be maintained and updated accordingly.</p> <p>All forms/certificates (Part 1 and 2 and Final) should include a line for the authorised officer to sign and print their name.</p> <p>Priority: Medium</p>	<p>Transport Development Manager</p> <p>October 2010</p>	<p>Recommendation agreed.</p>

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
1	Risk: S38 agreements, technical specifications and inspections are not satisfactorily completed. Unfit roads are adopted and the Council exposed to unnecessary road maintenance responsibilities and budget pressures.			
1.3	<p>Planning Approval</p> <p>Part of the S38 procedure includes checking that planning permission had been granted. However this action is not evidenced on the S38 file checklist.</p> <p>Unnecessary work and costs may be incurred if planning permission is not granted prior to initiating a S38 agreement.</p>	<p>The S38 file checklist should be updated to include a specific line stating that planning consent has been checked. Thereafter the check that planning permission has been granted should be evidenced through signing and dating the checklist. The planning agreement number should also be recorded.</p> <p>Priority: Low</p>	<p>Transport Development Manager</p> <p>October 2010</p>	<p>Recommendation agreed.</p> <p>Checks are currently performed but not always evidenced.</p>

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
1	Risk: S38 agreements, technical specifications and inspections are not satisfactorily completed. Unfit roads are adopted and the Council exposed to unnecessary road maintenance responsibilities and budget pressures.			
1.4	Spreadsheets The S38 Team use several spreadsheets to track the progress of all agreements, one for budget code allocation and another for fees. One person builds these and the section may find it difficult to maintain if that person left.	Evaluate whether tracking S38 agreements, fees and budget information can be more effectively recorded on the service IT management information system, CAPS Uniform. Following the above, if the spreadsheets are still required they should be assessed as to how critical they are to the business process being managed, in this case the S38 process. Based on this a decision should be made as to if they need to be tested and documented. Going forward, new spreadsheet development should be risk assessed as to the importance to the Team's work and how complex they will be e.g. use of formulas, filters, macros etc. Depending on the result the level of testing and documentation should be agreed, to ensure they work as anticipated and can be supported in the future. Spreadsheets identified as high risk should be formally tested and documented and the evidence of testing retained. Priority: Low	Transport Development Manager July 2012	Recommendation agreed. CAPS is still being fully developed for the highways module and the full extent of its capabilities are being investigated. It is likely that it has the potential to replace the role of S38 spreadsheets but will require further officer time to develop and funding.

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
1	Risk: S38 agreements, technical specifications and inspections are not satisfactorily completed. Unfit roads are adopted and the Council exposed to unnecessary road maintenance responsibilities and budget pressures.			
1.5	File Structure There is no standard file structure for the S38 paper files maintained. This makes it difficult to identify and find important documentation on each file. Key evidence may be lost or mislaid.	Introduce a standard file structure and indexing system to be used. Suggested sections to be included would be fees, legal, technical approvals, inspections and certificates. Priority: Low	Transport Development Manager November 2010	Recommendation agreed.

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
2	Risk: S38 income is not identified, charged, banked or accounted for in accordance with the Council's Financial Regulations.			
2.1	<p>Calculation of Fees</p> <p>All files examined had evidence of fees being calculated and applied. However, there was no evidence of who had undertaken this or of any secondary check to ensure they were correct.</p> <p>Fees may be incorrectly charged leading to a loss of income to the authority.</p>	<p>All fee calculations to be printed and signed by the person who produced it. For projects where the estimated cost of works exceeds £500k they should be checked and authorised by a second person. They should then be filed in the fees section of the file.</p> <p>The fee calculation sheet should be maintained along with all the evidence that the fees have been received as the case progresses.</p> <p>Priority: Medium</p>	<p>Transport Development Manager</p> <p>October 2010</p>	<p>Recommendation agreed.</p>

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
2	Risk: S38 income is not identified, charged, banked or accounted for in accordance with the Council's Financial Regulations.			
2.2	<p>Benchmarking Benchmarking of the fees applied is undertaken, the last time was in Oct 2008, however there is nothing covering other aspects of service and performance such as staffing levels, qualifications, time taken per S38 Agreement and quality of product.</p> <p>Best practice and efficiencies may not be identified.</p>	<p>Besides benchmarking fees the following other areas should be considered:</p> <ul style="list-style-type: none"> • Staffing levels • Qualifications and experience • Average length of time taken to complete up to adoption • Average length of S38 agreements • Relationship management between Local Authorities and developers • Poor developer behaviour, can further fees be charged • Use of external consultants <p>This will ensure the Council adopts best practice.</p> <p>Priority: Medium</p>	<p>Transport Development Manager</p> <p>April 2011</p>	<p>Recommendation agreed. We currently participate in sharing S38 information with other highway authorities in the South West. At present none of the authorities we liaise with have indicated they collate this type of information.</p> <p>Setting up the comprehensive benchmarking suggested will require other authorities cooperation and resources.</p> <p>We will endeavour to lead in this area of benchmarking.</p>

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
3	Risk: S38 agreements are not monitored, managed or delivered in an efficient, effective and cost effective manner. Service performance is poor and the service operating at a loss.			
3.1	<p>Management Information</p> <p>The Team does not produce formal, regular management information, nor have they been asked to, on S38 work or issues. They may be occasionally asked for ad hoc information or to respond to inquiries from officers or members.</p> <p>Management may be unaware of workload and significant issues and not able to make informed business decisions.</p>	<p>Regular management information to be developed. It should be issued and reviewed regularly and include:</p> <ul style="list-style-type: none"> • Reporting on performance indicators with reasons for variations. • Agreements still current after 3 years along with management action/reasons. • Issues with developers' e.g. poor responses to request to undertake remedial action, refusal to take actions. • Budget position together with income received/expected <p>This will enable performance, especially of developers, to be managed more effectively.</p> <p>The CAPS system is used to record most aspects of a S38 Agreement as work progresses. It should be ascertained if queries can be written to produce the management information required. This will ensure the information can be quickly and efficiently produced.</p> <p>Furthermore the reporting process and performance indicators should be integrated into the Local Performance Action Review process.</p> <p>Priority: High</p>	<p>Transport Development Manager</p> <p>November 2010</p>	<p>Recommendation agreed.</p>

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
3	Risk: S38 agreements are not monitored, managed or delivered in an efficient, effective and cost effective manner. Service performance is poor and the service operating at a loss.			
3.2	<p>Quality Assurance</p> <p>There is no quality assurance (QA) activity undertaken, either by peers level or management, to ensure the quality and accuracy of work undertaken on a S38 Agreement. The work and recording of information is down to the officer allocated the case. See also the earlier findings report at 1.3 and 1.6 in this section.</p> <p>Key activity may not take place or relevant information/evidence logged leading to disputes and financial costs for the Council.</p>	<p>An evidenced based Quality Assurance (QA) system should be introduced. At key trigger points in the S38 process QA should be undertaken:</p> <ul style="list-style-type: none"> • Technical Approval. • Part 1 certificate. • Part 2 certificate. • Final certificate. • Hand over to Asset Management on adoption. <p>Each S38 file should be reviewed to ensure everything has occurred and is on file before issue of any authorised documentation appropriate at each trigger stage. This activity should be evidenced on the checklist.</p> <p>This will provide a systematic monitoring and evaluation process at the various stages and approvals required to successfully complete a S38 agreement</p> <p>Priority: High</p>	<p>Transport Development Manager</p> <p>October 2010</p>	<p>Recommendation Agreed</p> <p>Agree to file review at critical stages by senior officer.</p>

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
3	Risk: S38 agreements are not monitored, managed or delivered in an efficient, effective and cost effective manner. Service performance is poor and the service operating at a loss.			
3.3	<p>Performance Indicators</p> <p>There are no performance indicators set for the S38 work by Management. A comment made to Audit, by the Transport Development Manager, was that the Team have to carry out rework and chase up of developers especially to ensure remedial work is completed promptly. This will obviously have time and cost implications, but without indicators in place and management information being available, this statement and its implications cannot be proved.</p> <p>The Council may be incurring unnecessary cost and the service may not be financially viable.</p>	<p>Develop a set of performance indicators. They could include:</p> <ul style="list-style-type: none"> length of time taken for various stages to complete e.g. to give Technical Approval, issue part 1 and 2 certificates, number of times remedial action requested, hours spent per agreement, costs of work per agreement etc. fees to be collected per quarter. <p>These should be reviewed in light of benchmarking exercises.</p> <p>Priority: High</p>	<p>Transport Development Manager</p> <p>November 2010</p>	<p>Recommendation agreed.</p> <p>In relation to commentary on rework by developers then this has already been identified by the team as an issue. As a result adjustments to our model legal agreements are taking place to ensure that poor developer performance i.e. excessive inspections, repeated remedial requests are covered by an additional cost passed on to the Developer. It is anticipated that this will encourage the Developer to undertake their duties in a more timely fashion or at least not incur the Council unnecessary costs.</p>

Final Internal Audit Report – Section 38 Agreements

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
3	Risk: S38 agreements are not monitored, managed or delivered in an efficient, effective and cost effective manner. Service performance is poor and the service operating at a loss.			
3.4	<p>Costs</p> <p>The income received from S38 work can be easily identified but the cost of providing the work undertaken by the Council cannot. This is because S38 activity is not run on a project basis and the staff hours are not costed and reconciled against the income received.</p> <p>Whilst the fees charged are benchmarked the Team do not know if they are an accurate reflection of their time costs. This could lead to a risk that the service provided could actually be costing the Council money and not breaking even.</p>	<p>For work-incurring fees say over £40k (i.e. the minimum fee charged for a project estimated to cost £0.5m), the S38 Team should allocate time (hours by officer/service area) budgets for larger pieces of work and record their actual time. The time costs should be reconciled against income received. Effectively creating individual trading accounts for such pieces of work.</p> <p>Work under the agreed level should have an overall resource budget set for the financial year and record time used against this, then compare it to income received.</p> <p>Depending on the results the fees charged might need to be amended.</p> <p>Priority: High</p>	<p>Transport Development Manager</p> <p>January - December 2011</p>	<p>Recommendation noted.</p> <p>As this recommendation is likely to have a number of resource implications it is proposed to test a sample of agreements to closely examine whether the fees cover the level of officer input. This will need to be undertaken over the course of several agreements, which may take time to complete to enable an accurate representation to be considered.</p> <p>Internal Audit Comment</p> <p>Agree to the trial assessment and review of the results over the period suggested. The Transport Development Manager should ensure that whatever process goes forward following the trial it should demonstrate financial break even of service provided.</p>

Standard Audit Opinions

1. The audit opinion is based on two different criteria the first is the materiality of the system and it's impact on the Council if there was a system failure. This has been spilt into High, Medium or Low.
2. 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 weakness. Each of these categories has a standard opinion (see below).

Standard Audit Opinions on System Control

Audit Opinion 1. *High Standard*

The auditor completing the review concluded the significant system controls are in place and operating effectively and only minor recommendations have been made.

Audit Opinion 2. *Satisfactory Standard*

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.

Audit Opinion 3. *Significant Improvements Required*

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.

Audit Opinion 4. *Fundamental Weaknesses Identified*

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.

3. 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 section 4 of the main report).

INTERNAL AUDIT FOLLOW UP FORM

AUDIT	Section 38 Agreements	PREPARED BY	Steve Hayward	DATE	1 st November 2010
REPORT DATED	7 th September 2010	REVIEWED BY		PAGE	1 OF 8

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
1	Risk: S38 agreements, technical specifications and inspections are not satisfactorily completed. Unfit roads are adopted and the Council exposed to unnecessary road maintenance responsibilities and budget pressures.				
1.1	<p>All sign offs for Part 1 and 2 and Final certificates to be obtained and filed/stapled together with a copy of the relevant certificate. They should also be provided as evidence to the person who authorises the certificate.</p> <p>The quality assurance program mentioned in 3.2 below, should included sign off stages as trigger points for reviews.</p> <p>Priority: Medium</p>	Transport Development Manager	October 2010	1	Procedures and file structure updated.
1.2	<p>A list of all authorised signatories should be produced; identifying the role that each play in the S38 process and setting out what they can authorise. This should include specimen signature/initials and email address. This list should be maintained and updated accordingly.</p> <p>All forms/certificates (Part 1 and 2 and Final) should include a line for the authorised officer to sign and print their name.</p> <p>Priority: Medium</p>	Transport Development Manager	October 2010	1	Authorised signatory list completed and inserted into procedures.
				2	At present editing letters as produced. Changing the standard letter is being taken forward as part of a wider update of S38 teams standard letters.

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
1.3	<p>The S38 file checklist should be updated to include a specific line stating that planning consent has been checked. Thereafter the check that planning permission has been granted should be evidenced through signing and dating the checklist. The planning agreement number should also be recorded.</p> <p>Priority: Low</p>	Transport Development Manager	October 2010	1	Checklist and procedures updated.
1.4	<p>Evaluate whether tracking S38 agreements, fees and budget information can be more effectively recorded on the service IT management information system, CAPS Uniform.</p> <p>Following the above, if the spreadsheets are still required they should be assessed as to how critical they are to the business process being managed, in this case the S38 process. Based on this a decision should be made as to if they need to be tested and documented.</p> <p>Going forward, new spreadsheet development should be risk assessed as to the importance to the Team's work and how complex they will be e.g. use of formulas, filters, macros etc. Depending on the result the level of testing and documentation should be agreed, to ensure they work as anticipated and can be supported in the future. Spreadsheets identified as high risk should be formally tested and documented and the evidence of testing retained.</p> <p>Priority: Low</p>	Transport Development Manager	July 2012	2	Investigations underway with our CAPS Uniform advisor. Initial opinion is that it can be incorporated. Presently looking into whether CAPS is compatible with ORACLE as the current spreadsheet has links / formulas etc to information used by others (Directorate Finance Officer.)

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
1.5	Introduce a standard file structure and indexing system to be used. Suggested sections to be included would be fees, legal, technical approvals, inspections and certificates. Priority: Low	Transport Development Manager	November 2010	1	Discussions with team taken place and new file structure currently in use. Procedures updated. Will be reviewed again in 6 months.
2	Risk: S38 income is not identified, charged, banked or accounted for in accordance with the Council's Financial Regulations.				
2.1	All fee calculations to be printed and signed by the person who produced it. For projects where the estimated cost of works exceeds £500k they should be checked and authorised by a second person. They should then be filed in the fees section of the file. The fee calculation sheet should be maintained along with all the evidence that the fees have been received as the case progresses. Priority: Medium	Transport Development Manager	October 2010	1	Procedures updated.

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
2.2	<p>Besides benchmarking fees the following other areas should be considered:</p> <ul style="list-style-type: none"> • Staffing levels • Qualifications and experience • Average length of time taken to complete up to adoption • Average length of S38 agreements • Relationship management between Local Authorities and developers • Poor developer behaviour, can further fees be charged • Use of external consultants <p>This will ensure the Council adopts best practice.</p> <p>Priority: Medium</p>	Transport Development Manager	April 2011	3	<p>Initial investigations made with Wiltshire and Gloucestershire.</p> <p>Email to be sent to the South West S38 teams inviting interest for a quarterly forum and benchmarking by December.</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
3	Risk: S38 agreements are not monitored, managed or delivered in an efficient, effective and cost effective manner. Service performance is poor and the service operating at a loss.				
3.1	<p>Regular management information to be developed. It should be issued and reviewed regularly and include:</p> <ul style="list-style-type: none"> • Reporting on performance indicators with reasons for variations. • Agreements still current after 3 years along with management action/reasons. • Issues with developers' e.g. poor responses to request to undertake remedial action, refusal to take actions. • Budget position together with income received/expected <p>This will enable performance, especially of developers, to be managed more effectively.</p> <p>The CAPS system is used to record most aspects of a S38 Agreement as work progresses. It should be ascertained if queries can be written to produce the management information required. This will ensure the information can be quickly and efficiently produced.</p> <p>Furthermore the reporting process and performance indicators should be integrated into the Local Performance Action Review process.</p> <p>Priority: High</p>	Transport Development Manager	November 2010	2	<p>Initial performance indicators established. Changes to CAPS to facilitate supply of pi's not complete because of IT issues.</p> <p>Schedule of agreements still current after 3 years produced, action plan developed to progress.</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
3.2	<p>An evidenced based Quality Assurance (QA) system should be introduced. At key trigger points in the S38 process QA should be undertaken:</p> <ul style="list-style-type: none"> • Technical Approval. • Part 1 certificate. • Part 2 certificate. • Final certificate. • Hand over to Asset Management on adoption. <p>Each S38 file should be reviewed to ensure everything has occurred and is on file before issue of any authorised documentation appropriate at each trigger stage. This activity should be evidenced on the checklist.</p> <p>This will provide a systematic monitoring and evaluation process at the various stages and approvals required to successfully complete a S38 agreement</p> <p>Priority: High</p>	Transport Development Manager	October 2010	1	<p>All key stages now have a QA system which involves the responsible officer recommending sign off and those identified on the authorised signatory list as approving officer.</p> <p>Procedures updated to ensure file review at each trigger stage.</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
3.3	<p>Develop a set of performance indicators. They could include:</p> <ul style="list-style-type: none"> length of time taken for various stages to complete e.g. to give Technical Approval, issue part 1 and 2 certificates, number of times remedial action requested, hours spent per agreement, costs of work per agreement etc. fees to be collected per quarter. <p>These should be reviewed in light of benchmarking exercises.</p> <p>Priority: High</p>	Transport Development Manager	November 2010	2	Team have identified and agreed, in consultation with HoS, a number of indicators. Reporting of these is to be implemented by end of month. In addition presently establishing effective / efficient way of recording information.

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
3.4	<p>For work-incurring fees say over £40k (i.e. the minimum fee charged for a project estimated to cost £0.5m), the S38 Team should allocate time (hours by officer/service area) budgets for larger pieces of work and record their actual time. The time costs should be reconciled against income received. Effectively creating individual trading accounts for such pieces of work.</p> <p>Work under the agreed level should have an overall resource budget set for the financial year and record time used against this, then compare it to income received.</p> <p>Depending on the results the fees charged might need to be amended.</p> <p>Priority: High</p>	Transport Development Manager	January - December 2011	2	Outline recording structure identified. This will be implemented once suitable new agreements submitted. Sample set will include small, medium and large developments together with national and local housebuilders.

Accounting Policies

AUDIT COMMITTEE

Date: 23rd November 2010

Author: Director of Finance

Wards Affected: All

Purpose

- To consider an overview of the accounting policies that underpins the Council's annual statement of accounts.

Recommendations

The Audit Committee is asked to:

- Note the content of this report
- Formally approve the accounting policies of Council as they stand,
- Consider if any accounting policy area requires more individual review in a future report.

1. Reasons

- 1.1 The Audit Committee is responsible for the approval of the annual accounts and should consider the policies for approval before the accounts are closed and presented to them.

2. Accounting Policy Framework

- 2.1 The Code of Practice on Local Authority Accounting, defines accounting policies as "the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements." Some of these are prescriptive in their nature by accounting standards, whilst others allow for some local variation. For example, assets such as buildings might fall within one pre-defined classification (e.g. operational) but the way in which the asset is then depreciated is a local choice as long as reasonable.
- 2.2 Where the Code does not specifically apply to any transaction then it is the responsibility of management to apply its judgement in applying accounting policies that are:
 - i.) Relevant to the decision-making needs of users, and
 - ii.) Reliable, in that the financial statements:
 - a) Represent faithfully the financial position, financial performance and cash flows of the entity,
 - b) Reflect the economic substance of transactions, other events and conditions and not merely the legal form,
 - c) Are neutral, i.e. free from bias
 - d) Are prudent, and
 - e) Are complete in all material respects. (The Code 3.3.2.9, page 40)

Further information on the subject of this report can be obtained from *Darren Stevens* on *Direct Dial No.3323* or Email dstevens@swindon.gov.uk.

Accounting Policies

AUDIT COMMITTEE

Date: 23rd November 2010

- 2.3 The Council's accounting policies are the result of both an evolutionary and revolutionary process. Historically there has been a gradual year-on-year change to specific policies to keep abreast of changes to accounting standards. It has generally been the case that the Authority's accounting policies have only been updated when required by wider accounting standards.
- 2.4 For 2010/11 there is a much more revolutionary process underway in the form of International Financial Reporting Standards (IFRS) as reported to Audit Committee previously. This change in focus (from national Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs)) means that 2010/11 is seeing more refinements, and updates, to more accounting policies, than for many years.

3. Accounting Policies

- 3.1 Please refer to the accounting policies' detail in Appendix 1, extracted from the 09/10 statement of accounts. The Appendix gives a brief overview of the purpose of the accounting policies and how the IFRS transition is affecting it.
- 3.2 As a significant transition year, the final wording of the updated policies for 2011/11, and how they will sit in the new statement of accounts document, remains in progress. The document, and any area identified by Committee for more detailed review, will be brought to a future meeting before year-end.

Alternative Options

- Not applicable.

Risk Management

Financial and Procurement Implications

- The accounting policies are the framework over which the Statement of Accounts are pieced together.

Legal / Human Rights Implications

- There are no Legal/Human Rights issues.

Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)

- None.

Consultees

- None

Background Papers and Appendices

- Appendix 1 – Accounting Policy Overview
- Audit Committee Report of 21st September 2010 – Item 7, Appendix 1
- Audit Committee Report of 20th April 2010 – Item 7

Further information on the subject of this report can be obtained from *Darren Stevens* on *Direct Dial No.3323* or Email dstevens@swindon.gov.uk.

ACCOUNTING POLICIES	PURPOSE OF POLICY	IFRS IMPACT
Accounting Standards		
<p>The accounting policies of the Council are set out over the following pages. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and also with relevant Statements of Standard Accounting Practice (SSAP) and Financial Reporting Standards (FRSs) that apply to Local Authorities.</p> <p>The net cost of services within the Income & Expenditure Account has been prepared in accordance with the CIPFA Best Value Accounting Code of Practice (BVACOP), and the Council's borrowing strategy complies with the CIPFA Code of Practice on Treasury Management.</p> <p>Three key accounting concepts are followed within these accounts:</p> <ul style="list-style-type: none"> Accruals <p>Whereby transactions are recorded in the period in which they occurred, not necessarily when a payment was made.</p> <ul style="list-style-type: none"> Going Concern <p>The authority has prepared its accounts on the assumption that it will continue in operational existence for the foreseeable future.</p> <ul style="list-style-type: none"> Primacy of Legislation <p>Accounting concepts in the above standards may not apply in all cases, to the degree that treatment is stipulated in law. "It is a fundamental principle of local authority accounting that, where specific legislative requirements and accounting principles conflict, legislative requirements shall apply." (SORP2008.)</p> <p>In any area where the above standards have not been followed, an explanation will be given in the notes to the accounts.</p> <p>Estimation techniques are methods adopted by the authority to arrive at an estimated value to ensure completeness of balances in the accounts. They are specifically used in the apportionment of support service costs, but could be used in other areas in the absence of known actual values.</p> <p>There are also qualitative aspects to financial information and the areas of relevance, reliability, comparability, understandability and materiality are considered in the accounting treatment of transactions.</p>	<p>The overarching accounting standards are the 'bread and butter' principles that underlies the financial policies. They are a common set of concepts that are fundamental to any set of accounts.</p>	<p>References will change to relevant Code and International Standards but the basic principles will remain the same.</p>
Valuation of Fixed Assets		
<p>All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.</p> <p>The current asset values used in the accounts at 31st March 2010 are based on a formal valuation certificate issued. The sources of information and assumptions made in producing the various valuations are set out in the valuation certificate and report. The current asset values used in the accounts are based upon a certificate issued by the Council's Director of Property and Assets as at 1 April 2009.</p> <p>Financial year 2009/10 was the fifth year of a 5-year rolling programme of asset revaluations. The de minimis level applied is £10,000. All valuations have been carried out by the Council's valuers, who are RICS qualified.</p> <p>Their bases for valuation are as follows: <u>Type of Asset - Basis of Valuation</u> Council Dwellings - Existing Use Value – Social Housing Other Land and Buildings: Operational - Net current replacement cost, using either the existing use value or the depreciated replacement cost (includes plant and machinery) Non-Operational - Open market value Infrastructure - Historic cost (where known) Vehicles, Plant & Equipment - Current written down value Community Assets - Historic cost (where known)</p>	<p>To identify the class of expenditure that is capitalised (added to fixed assets) and who provides the valuation certificate - the formal document that provides assurance on the carrying values of assets.</p>	<p>No impact on what can be capitalised or need for a formal valuation certificate but new requirement to apply a component aspect to assets i.e. each main part of an asset (e.g. roof, wall structure etc) with different life spans should be accounted for separately for depreciation purposes. This is subject to materiality.</p>
	<p>This indicates the type of valuation method that is applied to the relevant type of asset.</p>	<p>There will be some asset valuation method impact where assets are reclassified under more specific type.</p>
Intangible Assets		
<p>Intangible assets, mainly software licenses, are considered annually against capital materiality and the impact of non-inclusion on the balance sheet position. No intangible assets have been identified.</p>	<p>To state the position in respect of intangible assets.</p>	<p>None directly.</p>

ACCOUNTING POLICIES	PURPOSE OF POLICY	IFRS IMPACT
Financial Instruments		
<p>Investments have been valued at fair value through profit or loss using bid-market price information supplied by Investec or supplemented by reputable sources when not available. Standard market conventions have been used to calculate accrued interest due on securities.</p> <p>All realised and unrealised gains and losses, interest and other items of income and expense associated with financial assets and liabilities are taken to the Income and Expenditure Account.</p> <p>As a bad debt provision is made on aged trade debtors, which are typically not of material value in total, impairment has not been undertaken through the accounts. Trade debtors and creditors themselves are shown at fair value within the accounts.</p> <p>Further information on financial instruments can be found in note 24 of the accounts.</p>	<p>To provide information on the way in which financial instrument transactions are processed through the financial accounts.</p>	<p>The introduction of financial instruments accounting standards for local government in 2008/09 was a prelude to the IFRS agenda and will only be impacted on if current IFRSs are changed.</p>
Depreciation of Assets		
<p>FRS 15 requires that all operational assets be depreciated, unless the depreciation concerned is immaterial. Any asset not depreciated within the accounts is the subject of a formal impairment review and, where there is reason to believe that its value has changed materially during the accounting period, the valuation is adjusted. Examples of events and changes in circumstances that could indicate a reduction in value may include physical damage to a building or a decline in market value.</p> <p>The Council uses the straight-line method of calculating depreciation on all its Fixed Assets, with the exception of non-depreciable land, community assets, investment properties and vehicles. Straight-line depreciation is the method in which the cost of an asset is split equally over the period of its estimated useful life.</p> <p>Depreciation is charged in the year of acquisition but not in the year of disposal.</p> <p>Depreciation of assets is charged against relevant services to show the cost of their use of assets in provision of the service. This depreciation charge is reversed out in the I&E adjustment statement and subsequently has no impact on Council Tax levels.</p> <p>Due to the Right-to-Buy scheme where the stock is reducing each year, it is more appropriate for the Council to use the average value of the stock to calculate depreciation on Council Dwellings (as below).</p> <p>The following table summarises the estimated useful lives of the different asset classes:</p> <p>Type of Asset - Useful Life Council Dwellings - 70 years Operational Assets - 20-70 years dependant on the assessed expected useful life Infrastructure - 20 years Plant, Equipment & ICT - Normally 5 years dependent on the assessed expected useful life Vehicles - Based on an annual valuation of each vehicle</p>	<p>To state the way in which assets are depreciated. Depreciation is the value charged through revenue (which is reversed back out) to show the cost of holding/using fixed assets.</p>	<p>No change in depreciation requirement but may be impact on annual values through new requirement to split material items into major components and depreciate each component separately.</p>
	<p>This shows the basic life spans assumed on the type of assets. Assets are depreciated over their relevant useful life.</p>	<p>None - any change in useful life is a local decision as long as reasonable.</p>
Capital Receipts		
<p>Capital receipts are the monies received by the Council from the sale of land, buildings and other assets. These are available, subject to Government restrictions, to finance new capital schemes. The usable percentage for receipts arising from the sale of non-HRA land and property was 100%. A receipt under £10k from disposal of fixed assets is taken as revenue in line with the revaluation de minimis.</p> <p>The Local Government Act 2003 introduced the principle of 'pooling' HRA capital receipts with effect from 1 April 2004. Under this system, 75% of the capital receipt from the disposal of a dwelling from the Right-to-Buy scheme must be paid over to Central Government, with the remaining 25% being available to the Council to fund capital expenditure. With regards to the disposal of HRA land and surplus assets, the local authority can retain 100% of the capital receipt, providing the receipt is used to fund affordable housing.</p>	<p>By definition income from the sale of fixed assets are capital receipts and should be used only in the funding of new capital expenditure. Within that remit it is possible for immaterial amounts to be taken to revenue as the sold asset is not a significant capital asset. For ease, that value was aligned with the capitalisation de minimis.</p>	<p>None directly.</p>

ACCOUNTING POLICIES	PURPOSE OF POLICY	IFRS IMPACT
Disposal of Assets		
Surplus asset are revalued on identification and on their disposal their carrying value (Gross Book Value less Accumulated Depreciation) is written out to the I&E account. Sale proceeds from the disposal are also credited to the I&E to give a net profit or loss on disposal. These values are then transferred to the capital adjustment account via the Statement of Movement on General Fund Balance. Associated costs of disposal are contained within the net cost of services analysis, as part of apportioned central support costs.	Explains how values are taken out of the balance sheet when assets are disposed of.	None directly.
Capitalisation		
Per FRS15, interest costs in relation to a Capital Project which has a total projected spend in excess of £25m, will be capitalised until the year in which the asset comes into use. Individual contracts within the overall project value will be considered on a case-by-case basis	Explains that the interest of financing costs on long term major capital projects will be capitalised until the asset comes in to use.	None directly.
Revenue Funded from Capital		
There are certain costs of the authority that are classified as capital expenditure under statute that do not result in the creation or enhancement of a council asset. These costs are shown as revenue expenditure within the net cost of services but with a compensatory reversal through the statement of movement on general fund balance to capital accounts. This could include capital grants to third parties.	Explains that some spend on assets that are not the Council's (e.g. disabled facilities grants) but which are funded by capital under statute is shown through the revenue account	None directly.
Redemption of Debt		
Under the Prudential Code, local authorities are required to charge to their revenue account a minimum revenue provision (MRP) for debt redemption. Revised regulations applicable to 2007-08 and subsequent years replaced a detailed calculation based on 4% of the capital financing requirement with a requirement that local authorities calculate an amount of MRP that they consider to be prudent. One of the options the Prudential Code for Capital Financing recommends is linking the MRP to the useful life of the asset that is being funded. This is the approach the council has adopted for major capital schemes from 2007/08 onwards. The Council also now defers charging MRP until the year after an asset becomes operational, as allowed by the code.	This details why/how the Council needs to set aside revenue funding to repay its debt portfolio from borrowing.	None directly.
Premiums and Discounts		
The 2007 SORP introduced a change in accounting policy with regard to premiums and discounts whereby they were de-recognised and taken immediately to the Income and Expenditure account, other than where considered part of a debt restructuring exercise. The regulations and statutory guidance allow (or in the case of discounts require) any premiums and discounts arising from 1 April 2007 that are required under the SORP to be taken immediately to the Income and Expenditure account to be amortised to Revenue over the various periods specified in the regulations/guidance or in the case of premiums such shorter period as the authority may choose.	Explains the requirement that any premium or discount on borrowing costs should be taken through the income and expenditure account.	None directly.
Exceptional Items		
In the normal course of service provision income and expenditure can be classified to service streams or to corporate transactions. There are some situations that arise, however, where transactions are relatively unique and although should form part of the annual net cost of services would severely affect the usefulness and accuracy of year on year comparison. Such events are taken as being exceptional items and shown separately below service line but still within net cost of service totals.	This details that any non-routine expenditure related to services will be shown separately as an exceptional item. Such an item is usually so material that inclusion in a service line would distort the underlying routine service costs.	None directly.

ACCOUNTING POLICIES	PURPOSE OF POLICY	IFRS IMPACT
Leasing		
<p>The Council leases many items such as vehicles, plant and equipment from finance companies. Leases can be a finance lease, (one that transfers substantially the risks and rewards of ownership of a fixed asset to a Lessee (i.e. the Council) and would appear as an asset / liability on the balance sheet), or an operating lease, which are all other cases and constitute a revenue payment.</p> <p>The Authority classifies leases as per the requirements of SSAP 21 and FRS 5. For a finance lease to be classified substantially all the risks and rewards relating to the leased property should transfer to the Council, with the present value of the minimum lease payments worth 90% or more of the fair value of the leased asset. In this assessment the true substance of the transaction will also be considered.</p> <p>For leases that are not considered finance leases, a classification as an operating lease is given. The Council also has a number of premises it makes available on a lease basis as disclosed in note 18 to the financial statements.</p>	To explain how any leases entered into are classified.	Small changes in the underlying IFRS leasing standards in comparison to FRGSs have resulted in substantial review work being undertaken and tightening down of lease classification criteria. It is not expected that there will be material change to the accounts at the end of the process.
Value Added Tax (VAT)		
Swindon Borough Council complies with the statutory requirements of the VAT Act 1994. It seeks to maximise VAT recovery according to Section 33 of the Act, which includes Local Authorities and enables certain bodies to recover VAT on costs relating to non-business activities.	Explains the Council's position on VAT.	None directly.
Stocks and Work in Progress		
Stocks are valued at the lower of cost or net realisable value as required by SSAP 9. Work in Progress has been valued at the cost of labour, materials and other resources used, including the appropriate apportionment of indirect costs and overheads but excluding any profit.	States the valuation method for stocks held and work in progress.	None directly.
Debtors and Creditors (Accruals)		
<p>The Council's revenue and capital accounts are prepared on an accruals basis in accordance with the accounting conventions of FRS18. This means that amounts due to (debtors) or owed from (creditors) the Council in the financial year are accounted for whether or not the cash payment has been made. Where final invoices are not available, prudent estimates will be made in making debtor and creditor provisions.</p> <p>Where outstanding debtors are considered doubtful that they will be fully received, a prudent bad debt provision is provided for, which reduces the level of income expected in the accounts.</p> <p>As part of the accrual process a de minimis level of £200 is applied to year-end service accruals to reflect materiality thresholds. For cyclical periodic payments, such as utility bills, the accounts aim to reflect a full twelve months in the accounting year, which may not necessarily be April to March, but will reflect 12 months worth of costs.</p>	Explains how accruals (the recording of income/expenditure to the correct accounting period even if cash hasn't changed hands) are applied to the accounts.	None directly.
Pensions		
<p>Swindon Borough Council employees belong to one of two pension schemes:</p> <ul style="list-style-type: none"> The Wiltshire Pension Fund, which is managed in accordance with the Local Government Pension Scheme, or, The Teachers Pension Scheme. <p>Wiltshire County Council, on behalf of all the Local Authorities in Wiltshire, manages the Wiltshire Pension Fund. The Council's contribution to the Pension Fund has been determined on the basis that contribution rates are set to meet 100% of the liabilities of the Pension Fund over the longer term, in accordance with relevant Government Regulations and the requirements of the Fund Actuary.</p>	Indicates which pension schemes the Council employees belong to.	None directly.

ACCOUNTING POLICIES	PURPOSE OF POLICY	IFRS IMPACT
Government Grants Deferred Account		
<p>The Code of Practice requires fixed assets to be included in the balance sheet at their continuing value to the Council, even when grants or contributions have been received towards their financing. This account is therefore credited with the amounts of grants and contributions used in financing of capital expenditure. Amounts are released under the matching principal using the same lifespan as depreciation is calculated, thereby to offsetting depreciation charged to the revenue account, and are shown as credits to the revenue account and debited out through the Statement of Movement on the General Fund Balance.</p>	<p>Explains that grants used to fund asset spend will be released as income into the revenue account on the same basis as depreciation for the relevant asset.</p>	<p>This account will be removed from the balance sheet under IFRS as grants will either be taken in full to the capital adjustment account or will be recorded as creditors (if the grant may need repaying) or as receipts in advance (if there are no repayment clauses).</p>
Unapplied Grants and Contributions Account		
<p>This account shows amounts received to support capital enhancements but which are not yet applied to assets. Once applied to assets the contribution will be transferred to the government grants deferred account. The contribution is applied when the asset becomes operational.</p>	<p>Indicates that grants are held in this account until they are applied to assets.</p>	<p>This account will be removed under IFRS as per the government grants deferred account.</p>
Post Balance Sheet Events		
<p>Where a significant event occurs after the balance sheet date, prior to the year-end financial statements being authorised for publication, that has a bearing upon the financial position of the Council at the 31 March, the accounts are adjusted with details of the event set out in notes to the accounts. Significant non-adjusting events are also disclosed (note 28).</p>	<p>Explains the requirement for the accounts to reflect any significant event that happens between the 31 March and the date the accounts are authorised that has a bearing on the financial position of the council.</p>	<p>None directly.</p>
Landfill Allowance Trading Scheme (LATS)		
<p>The Waste and Emissions Trading Act 2003 placed a duty on waste disposal authorities (WDA) to reduce the amount of biodegradable municipal waste deposited within landfill sites. It also provides the legal framework for the LATS. The scheme allocates tradable landfill allowances to each WDA in England.</p> <p>The value of the LATS allowances has been determined based on the weighted average cost of trading volumes to date, previously confirmed by DEFRA, and is taken as nil due to limited trading.</p>	<p>Indicates that this scheme is in action and there is a required way to account for it. The market value of LATS has however been defaulted to zero as limited trading occurs.</p>	<p>None directly.</p>
Overheads		
<p>As recommended by the BVACOP, central support services' costs have been fully charged to other services and therefore appear within the net cost of services within the Income & Expenditure Account, as an expenditure item. Individual cost drivers have been identified for each support service, such as gross budget, floor space occupied, number of payslips raised and number of transactions, and these have been used to allocate costs broadly in line with usage.</p>	<p>Explains that corporate overheads are reapportioned across all services to show a 'total cost' of service.</p>	<p>None directly.</p>
Income Recognition		
<p>The Council receives income from many sources for a range of purposes, such as statutory service provision, recreation charges, planning fees etc. In order that the Council can account for this income correctly the following policy is adopted when key income is recognised:</p> <p>Income Source - Recognition</p> <p>Government Formula Grant - The Council is notified by central government of its level of grant due in the financial year. All income is budgeted for and recognised in the year it is due to the Council.</p> <p>Council Tax - Council Tax is typically collected from Borough taxpayers on a monthly basis. The amount recognised in the I&E is the amount due to the Council for that financial year. The amount is adjusted for in the balance sheet for any arrears, bad or doubtful debts.</p> <p>Other Government Specific Grants - Other government grants are given to the Council for specific uses or projects. The terms of the individual projects will dictate the precise requirements of the grant. However, if grant covers or spans more than one financial year, only the amount of grant that has been spent in the reporting year will be recorded as income, the remainder will be carried forward on an accruals basis.</p> <p>Fees for Goods & Services - Income from fees and charges are recognised at the point when goods or services are provided. Income received in one financial year relating to goods / services being provided in the next financial year, will be carried forward under the matching principle.</p> <p>Developer Deposits & Capital Receipts - Monies received from developers and capital receipts are recorded at the time that the contribution is received, but may be utilised at a later date.</p>	<p>Explains the major income streams and when they are shown in the revenue account.</p>	<p>None directly.</p>

ACCOUNTING POLICIES	PURPOSE OF POLICY	IFRS IMPACT
Collection Fund / Agency Arrangements		
<p>The Collection Fund is a separate account required through statute by billing authorities. It presents the amounts collected as income and the amounts paid out as precepts to precepting authorities (e.g. the Fire Authority). After changes in the accounting guidance, the Council will be recording on an agency basis only the amounts that relate to its own balances. Debtors / Creditors and other balances relating to preceptors are no longer recorded on the Council's balance sheet.</p>	States how agency arrangements are dealt with in the council accounts.	None directly.
Provisions, Reserves and Contingencies		
<ul style="list-style-type: none"> Provisions <p>Provisions are amounts set aside for losses or liabilities that are likely or certain to be incurred in future periods and where the financial effect can be assessed with reasonable accuracy. They are created by charging the revenue account and appear as charges within the net cost of services in the Income and Expenditure Account.</p> Reserves <p>Reserves are amounts set aside from the Council's General Reserves for specific purposes that fall outside the definition of provisions. Transfers to and from reserves fall outside the net cost of services and are shown within the Statement of Movement on the General Fund Balance.</p> <p>Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the council – these reserves are highlighted in note 26.</p> Contingencies <p>In planning and budgeting for future financial years the Council has taken the prudent view to allow for contingencies. Such contingencies are to mitigate a range of risks of unknown value, and therefore cannot constitute provisions. They are also not for specific activities or events and therefore cannot constitute earmarked reserves. Contingencies are only budgeted for within a single financial year, and any element remaining at year-end would be reintegrated in to general reserves, unless satisfying criteria for transfer as a provision or earmarked reserve.</p> Insurance <p>To obtain insurance in the most cost effective manner, the Council has chosen to carry "excesses" in respect of property and other insurances, subject to annual stop-loss limits. A reserve has been created from the Council's internal funds with a view to covering uninsured risks. In addition, the Council also has provisions for earlier years' claims from which it will meet the cost of those claims, below the excess levels, that may arise in future years relating to incidents occurring since 2001/02.</p> 	<p>This section details provisions, reserves, contingencies and insurance funding. Provisions are required to be set up for specific, known events whilst reserve are set aside for less sure events i.e. where it is known that a cost will be incurred but not necessarily when or how much.</p>	None directly.

ACCOUNTING POLICIES	PURPOSE OF POLICY	IFRS IMPACT
Group Relationships		
<p>Swindon Borough Council, as sole shareholder and therefore parent organisation of Thamesdown Transport Limited (TTL) and Swindon Commercial Services Limited (SCSL), is required to produce group financial statements for the combined entities. In collation of these accounts it is necessary that the accounting policies of the parent be used for the Group as a whole. In the publication of the Group accounts it is also required that UK GAAP be the accounting standards that are followed, and the SORP has provided guidance to allow this.</p> <p>The main accounting policies for Group Accounts are those given previously, adapted for SORP interpretation of UK GAAP, with specific issues on consolidation disclosed below.</p> <p>The accounting policies that the group statements follow are those of the Authority, and the following have been the policy changes to align the subsidiary and parent undertakings:</p> <ul style="list-style-type: none"> Fixed Asset Depreciation / Valuation <p>The straight-line method of depreciation is used. Useful life of assets has been considered as corresponding between parties. One new class of asset, namely buses, is disclosed for the group statements, using a 10-15 year basis.</p> <p>No other material policy adjustments are noted.</p> <p>Accruals and transactions between the group entities have been removed from the group statements using information from the subsidiary and authority records.</p> <p>As per the SORP, notes to the group accounts are only included where material amounts or details over the single entity accounts are witnessed.</p>	<p>States the entities considered as part of the group - those other organisations that fall under the Council's control - and any area where accounting policies required separate alignment.</p>	<p>None directly.</p>
PFI (Private Finance Initiative) and Similar Arrangements		
<p>Until the 2009/10 change in accounting standards the Council's PFI scheme was accounted for off-balance sheet as a revenue cost charged as incurred.</p> <p>The result of the accounting changes mean that PFI contracts are considered to be agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the council at the end of the contracts, the council carries the fixed assets used under the contracts on the Balance Sheet.</p> <p>The original recognition of these fixed assets was balanced by the recognition of a finance lease liability for amounts due to the scheme operator to pay for the assets. For the PFI schools, the balance sheet finance lease liability was written down by an initial contribution of £10m, recognised at the latter of the payment being made or the assets coming into use. In a departure from the SORP, lifecycle costs are recorded through revenue as modelled, rather than carried forward as a payment in advance if renewal works have not been undertaken. This ensures a consistent flow through revenue and limits the impact of significant prepayment balances building up over the duration of the contract.</p> <p>Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council, and a valuation undertaken on a rolling 5-year cycle.</p> <p>The amounts payable to the PFI operators each year are analysed into five elements: Fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account</p> <p>Finance cost – an interest charge of 13% on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account</p> <p>Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income and Expenditure Account</p> <p>Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator</p> <ul style="list-style-type: none"> Lifecycle replacement costs – recognised as fixed assets on the Balance Sheet. <p>Though a change in policy requires restatement of prior period figures, there is no change to the Council Tax requirement, as changes to the minimum revenue provision are balanced out within the income and expenditure account, resulting in a net nil impact.</p> <p>PFI remains the significant arrangement of this type but similar arrangements would be accounted for along these lines if entered into.</p>	<p>To explain how assets that are not the Council's are required to be recorded on our balance sheet under certain situations in order to show to underlying benefits gained. It specifically focuses on PFI as the only identified arrangement of this sort.</p>	<p>This was an early adoption of an IFRS requirement but may ultimately include additional items as more specific classifications of other underlying standards come in to force.</p>

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Annual Audit Letter

Swindon Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 7).**

I have reported only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified audit opinion on your financial statements for 2009/10, on 30 September 2010. My audit did not highlight any material errors in the financial statements.

Value for money

2 I issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (the value for money conclusion) on 30 September 2010.

Current and future challenges

Impact of the economic downturn

3 The downturn in the economy continues to impact adversely on Council budgets. Reduced income from both revenue and capital sources have left the Council with a budget gap of over £5 million in the current financial year (2010/11) and potentially greater challenges beyond that.

4 In response to the current situation the Council has started to reduce its workforce and continues to look for innovative ways of delivering services and reduce costs.

Supporting Vulnerable people

5 The Council has decided that the provision of support to vulnerable people is an area of significant risk. In a time of budget pressures, the demand for these services continues to increase and this trend is expected to continue in the future as people live longer and the population continues to grow. The Council's responsibilities in relation to the health of its population will increase as a result of the recently announced changes in the local and national structural of the National Health Service.

The Spending Review

6 The Treasury announced the results of its Spending Review in October 2010. This sets out the expected cuts to be delivered across the public sector to help tackle the government budget deficit. The overall decrease in local government budgets has been set at 28.4 per cent over the next four years; the Council's initial projection for Swindon is that this equates to a further £45 million of revenue savings each year, or about a third of the current net budget.

7 Swindon Borough Council, like most other councils, needs to identify how it can make the required savings while maintaining value for money in the services it provides. In order to help achieve an appropriate balance between these at times competing priorities, the Council's Medium Term Financial strategy is fundamentally important.

Recommendation

R1 Members should continue to ensure that the Council's Medium Term Financial Strategy and risk management processes are resilient in the short and medium term to help the Council respond to the significant challenges it faces.

Implementation of International Financial Reporting Standards (IFRS)

8 2010/11 is the first full year of accounting using the International Financial Reporting Standards (IFRS). I am satisfied from my discussions to date with officers that the Council is well prepared for this significant change. Nevertheless it will be a significant challenge to produce fully compliant Financial Statements for 2010/11.

Independence

9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, before the statutory deadline.

Overall conclusion from the audit

Significant Issues arising from the audit.

10 Before giving my opinion I discussed a report (the Annual Governance Report) with the audit committee, setting out the main issues arising from my audit. These are summarised below.

11 The draft financial statements contained no material errors.

12 Six non-trivial errors were identified. Management decided not to amend three of these errors as they were not material; these related to:

- non-accrued pension liabilities (£1.89 million);
- Private Finance Initiative life cycle costs (£353,000), and
- incorrect capitalisation of revenue spending (£100,000).

13 I issued an unqualified audit opinion on 30 September 2010 stating that the 2009/10 financial statements give a true and fair view of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

Accounting practice and financial reporting

14 I considered the qualitative aspects of your financial reporting.

15 The most significant issue identified this year was that the cash flow statement had not been prepared on a cash basis. This meant that information in the cash flow statement did not provide a clear picture of the cash movements in the financial statements. I concluded that this problem did not fundamentally change the readers understanding of the Council's financial position as a whole. I recommended that this issue should be addressed during the preparation of next year's financial statements.

16 In my Annual Governance Report dated September 2010 I made several other recommendations to improve accounting practice or financial reporting in future. Including the need to:

- provide evidence at the start of the 2010/11 audit to show all potential service arrangements have been individually considered as part of the requirements of implementing IFRS
- obtain Audit Committee approval of accounting policies each year before adoption of the draft accounts.
- obtain related party transaction returns from all councillors in future to ensure all such transactions are identified.

Significant weaknesses in internal control

17 The Council's financial systems are generally working well.

18 One weakness highlighted by my audit is that the Council does not carry out any specific procedures to confirm the existence of assets once these have been included in the fixed asset register. I was satisfied from the testing carried out during the audit and the assurances brought forward from previous audits that that this weakness did not lead to material loss or mis-statement in 2009/10. Management have already accepted a recommendation to introduce procedures to eliminate this weakness.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

19 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on the Comprehensive Area Assessment (CAA) would cease with immediate effect. Because of this, the Commission would no longer issue scores for its use of resources assessments.

20 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

21 I report below the significant findings from this work.

VFM conclusion

22 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. My findings are summarised in the table below.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

23 I issued an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Risk-based performance reviews

24 My fee plan for 2009/10 included proposed work in response to two risks identified during my initial planning for the VFM conclusion. The risks were related to the medium-term funding gap and the connecting people-connecting places agenda. My work in response to these risks was carried out as part of my overall use of resources review and I have not issued separate reports for them.

Approach to local value for money work from 2010/11

25 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

26 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

27 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Challenges

28 The Council has so far responded positively to the financial challenges it faces. The 2010/11 budget has been revised and reapproved at Cabinet meetings in July and September 2010, and a programme of savings has been agreed..

29 Swindon, like many councils, is trying to respond to the difficult situation of funding the increasing cost of supporting vulnerable people. Longer-term, the Council is dependent on national decisions yet to be made on how these services will be funded in the future. In the short and medium term, it is as far as is possible addressing the issue by emphasising working with its partners, particularly the Primary Care Trust, to identify ways of reducing costs.

Future developments

30 The continued tightening of the financial environment will clearly put more pressure on the Council's limited resources. The Council has already pre-empted these reductions by reviewing its budget setting strategy and starting consultation on identifying what the core services the public wants to be provided. Our work in 2010/11 to review arrangements for achieving value for money will focus on considering the ways in which the Council is proposing to deliver the required savings, while as far as possible maintaining value for money in the services it provides.

31 2010/11 financial year is the first full year of accounting using the International Financial Reporting Standards. Good progress has been made to date and I will continue to discuss with the Council emerging issues and preparatory work for the transition.

Closing remarks

32 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 23 November 2010 and will arrange for copies to be provided for all council members.

33 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the following reports I issued to the Council during the year:

Report	Date issued
Fee letter	April 2009
External Opinion Plan	September 2010
Annual Governance Report	September 2010

34 The Council has taken a positive and helpful approach to our audit. I wish to thank the Councils staff for their support and cooperation during the audit.

Martin Robinson
District Auditor

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£152,050	£152,050	0
Value for money	£162,950	£162,950	0
Total audit fees	£315,000	£315,000	0
Non-audit work	£40,000	£58,600	-£18,600
Total	£355,600	£373,600	-£18,600

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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- any director/member or officer in their individual capacity; or
- any third party.



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November 2010

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Head of Internal Audit Update

AUDIT COMMITTEE

Date: 23rd November 2010

Author: Head of Internal Audit

Wards Affected: None

Purpose

To present Members with a summary of the main issues arising from the Internal Audit reports finalised since the Audit Committee meeting in September 2010, and to update Members with regard to progress against the annual internal audit plan.

Recommendation

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

1 Reasons

- 1.1 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.
- 1.2 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 Detail

Reports Issued

- 2.1 Details of Internal Audit reports finalised since the September Audit Committee are set out in Appendix 1. The appendix sets out a summary of the audit recommendations made along with the overall risk assessment to the Council.

Progress on completion of Internal Audit Plan 2010/11

- 2.2 From April to August we have completed 43% of the number of audits in the 2010/11 Internal audit annual plan against a target of 47% (see Appendix 2).

Head of Internal Audit Update

AUDIT COMMITTEE

Date: 23rd November 2010

Alternative Options

Not Applicable

Risk Management

Financial and Procurement Implications

There are no direct financial implications arising from this report however individual audit reports address the suitability of internal controls within the systems examined.

Legal/Human Rights Implications

Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2006. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)

Internal Control, Audit Committee and the Statement on Internal Control all feature significantly in the CPA Use of Resources Assessment. Effective systems of internal control within the Council will help to ensure that the objectives set out in the Corporate Plan and Swindon 2010 are achieved.

Consultees

The Director of Finance (Section 151 Officer) and the Director of Law and Democratic Services (Monitoring Officer) are consulted on all reports.

Appendices / Background papers

Appendix 1 – Internal Audit Reports finalised since the September 2010 Audit Committee.

Appendix 2 – Progress against 2010/11 Internal Audit plan.

Key Decision/Decision in Forward Plan

Not Applicable

Audit Title:	Capital Programme – Follow Up			Date of Audit:		July 2010
Number of High Priority Recommendations:	3	Current Audit Opinion:	2	Previous Audit Opinion:	3	Overall Evaluation (Risk):
<u>Key Findings and Recommendations</u> <p>This audit followed up the 2008/2009 Capital Programme audit. The main development since that audit has been the establishment of the Project Management Office (PMO), and following this:</p> <ul style="list-style-type: none"> • Review of the terms of reference of the Officers' and Members' Asset Management Groups, • Clarification of roles and responsibilities for project management, • A requirement for all projects to demonstrate clear links to Council objectives, • The PMO intranet pages now include a step-by-step guide, in narrative and diagrammatic form, for obtaining approval for a capital project. <p>The key recommendations made as a result of the follow up are:</p> <ul style="list-style-type: none"> • The PMO and Corporate Finance should jointly develop a report that shows progress and expenditure against budgets for the full range of capital projects in a single document. • Budgetary control arrangements for capital projects should be promoted by the PMO as part of overall project management arrangements. • Quarterly capital programme monitoring reports should show summaries by Local Transport Plan (LTP) work package, so as to increase accountability to Members for schemes within the LTP. 						
						Moderate

Audit Title:	Drove Primary School			Date of Audit:		November 2010
Number of High Priority Recommendations:	N/A.	Current Audit Opinion:	Met	Previous Audit Opinion:	Met	Overall Evaluation (Risk):
<u>Key Findings and Recommendations</u> <p>The key recommendations made as a result of the review are:</p> <p>Drove FMSIS only - Passed.</p>						
						n/a

Audit Title:	Arrangements re. Potential Fraudulent Schools Admissions Applications			Date of Audit:		October 2010
Number of High Priority Recommendations:	0	Current Audit Opinion:	2	Previous Audit Opinion:	N/a	Overall Evaluation (Risk):
Moderate						
<p><u>Key Findings and Recommendations</u></p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> Where a school that is oversubscribed by the number of first preferences over a certain percentage (say 50% or more), a sample of 5 applications or 15% of the applicants (whichever is higher) should be required to provide proof of addresses. Where fraudulent applications are identified a decision needs to be made whether to withdraw places. This should be incorporated in the School Admissions Policy / Guides. In conjunction with the recommendations in this report to employ the recommendations made in the Chief School Adjudicator's report on fraudulent applications for school admissions, dated 28th February 2010. The Declaration statement on (both manual and online) Admissions forms should be made clearer to include the action that would be taken if not adhered to. The deadline for moving into a new address should be set and clearly stated in the Schools Admissions guides. The actions to be taken by the Authority should parents fail to keep to the period, and requirements stipulated concerning 'moving-in-progress' applications should be determined and also included in the guidance. 						

Audit Title:	Procurement Card Investigation			Date of Audit:		October 2010
Number of High Priority Recommendations:	N/a	Current Audit Opinion:	N/a	Previous Audit Opinion:	N/a	Overall Evaluation (Risk):
N/a						
<p><u>Key Findings and Recommendations</u></p> <p>Internal audit were asked to conduct a preliminary investigation into the use of a procurement card for non-council purchases. During the course of this investigation work, the member of staff concerned resigned before disciplinary action could be taken, having agreed with HR to repay the monies spent fraudulently.</p>						

Sickness Monitoring Follow-up			Date of Audit:		September 2010
Audit Title:	Sickness Monitoring Follow-up		Previous Audit Opinion:	N/a	Overall Evaluation (Risk):
Number of High Priority Recommendations:	3	Current Audit Opinion:	N/a		N/a
<p><u>Key Findings and Recommendations</u></p> <p>This follow-up review was conducted to provide assurance that the sickness absence reporting procedure was robust and providing accurate management information for Promise 7. Testing was conducted to ensure that recommendations made in the 2008/09 audit had been implemented and that system controls were effective. Of the previous 6 recommendations, 5 were implemented fully or partially, and 1 was not implemented.</p> <p>The key recommendations made as a result of this review are:</p> <ul style="list-style-type: none"> • Sickness absence reporting procedures should be reiterated to line managers. HR First Response should enforce the procedure for form completion at each stage of the sickness absence process to ensure a clear management trail for each absence. • Line Managers should be encouraged to check their sickness absence data promptly to ensure that any discrepancies can be identified and resolved. This internal control check is essential in ensuring the accuracy of the sickness absence data. HR First Response must be notified as soon as an employee is absent to ensure the accuracy of any sickness data. • Consideration should be given to the practicalities of amending the current sickness absence reports so that they can take account of any bank holidays during each month. 					

Audit Title:	Supporting People 2010/11			Date of Audit:		August 2010
Number of High Priority Recommendations:	5	Current Audit Opinion:	2	Previous Audit Opinion:	2	Overall Evaluation (Risk):
Moderate						
<p><u>Key Findings and Recommendations</u></p> <p>This audit review was commissioned to provide assurance to the Director of Housing and Leisure that the current Supporting People Service was best placed to deliver the objectives of the Supporting People Strategy, within an environment of increasing demand and ever decreasing levels of funding. The scope included a review of both governance, contracting and budget monitoring processes. The Audit review also followed up on the findings of the last review by the Audit Commission and those coming out of the previous Internal Audit review of 2006 to ensure any recommendations had been implemented in the intervening period. The key recommendations made as a result of this review are:</p> <ul style="list-style-type: none"> • Consideration of a review of procurement and administrative processes, to deliver possible savings through the development of a generic commissioning service. • Finalisation of the revised Supporting People Strategy with the inclusion of prioritised targets to deliver the required budget savings. • The provision of a clear management trail to support the payments being made to contractors supported by contracts or variations that detail the contract value and demonstrate authorisation by the Budget Holder. • Budget monitoring should be reviewed more frequently, at least by the Supporting People Team, to ensure that any changes to service delivery are having the desired outcomes. • The format of the minutes of the Partnership Board should be amended to include an action plan that allows the progress in implementing actions to be followed clearly. The action plan should include the responsible officers, priority, date action point raised and date completed. Members attending the meetings should also be encouraged to attend regularly to ensure that continuity in any decision-making processes is not compromised. 						

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