

Swindon Borough Council

Audit Committee

Tuesday, 28 June 2011

Committee Room 6, Civic Offices

At 6.00 p.m.

Conservative Councillors

Michael Dickinson
(Chair)
Fionuala Foley
Mary Martin
Peter Stoddart
Vera Tomlinson

Labour Councillors

Des Moffatt (Vice-
Chair)
Steve Allsopp

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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 - 2)

To receive the minutes of the meeting held on 26 April 2011

5. Treasury Management Strategy Statement 2011/12 (DF-CE) (Pages 3 - 26)

6. Internal Audit reports identifying significant risk or 'of concern': Corporate manslaughter/ Health Safety and Wellbeing Update (HIA-CE) (Pages 27 - 30)

7. Draft Accounts 2010-11 (DF-CE) (Pages 31 - 34)

8. Future of local public audit (HIA-CE) (Pages 35 - 48)

9. **Audit Committee: Annual Report for the year 2010/11** (HIA-CE) (Pages 49 - 54)
10. **Audit Committee - Terms of Reference** (HIA-CE) (Pages 55 - 62)
11. **Internal Audit's Annual Report 2010/11** (HIA-CE) (Pages 63 - 80)
12. **Audit Committee: Effectiveness of the system of Internal Audit** (HIA-CE) (Pages 81 - 106)
13. **Anti Bribery Information for the Audit Committee** (HIA-CE) (Pages 107 - 110)
14. **External Audit Progress report** (Pages 111 - 116)
15. **Head of Internal Audit Update** (HIA-CE) (Pages 117 - 126)

Date of Despatch: 20 June 2011

Key:

DF-CE - Director of Finance
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.

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AUDIT COMMITTEE

TUESDAY, 26 APRIL 2011

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

50. Declarations of Interest

There were no declarations of interest

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There were no declarations of interest

51. Public Question Time

Mr Des Morgan put questions regarding the accuracy of statements made in the Internal Audit report on the Council's Wi-Fi project, considered by the Committee at its meeting on 20th April, 2010. Mr Morgan also thanked the Committee for its resolution, at Minute 39, that consideration of a forensic investigation being undertaken by Internal Audit into all aspects of the loan by the Council to Digital City (UK) Ltd be considered as part of the Committee's consideration of its work programme for 2011/12.

The Chair thanked Mr Morgan for his questions and tabled responses that had been prepared by the Group Director, Business Transformation.

52. Future of Local Public Audit

The Head of Internal Audit submitted a report concerning the details of the Department of Communities and Local Government's Consultation Paper on the 'Future of local public audit' that sought views on the revised arrangements for the audit of local public bodies, including all councils, after the abolition of the Audit Commission.

The Committee discussed the Governments proposals, recommending that:

- the Council's Audit Committee should be independently chaired
- independent examinations be introduced for bodies with income and expenditure between £1,000 and £6.5 million
- School Academies should not be required to use their Council's Internal Audit service.

The Committee expressed its concern that a requirement that one third of the members of the Audit Committee to have recent and relevant financial experience could undermine the democratic process.

Resolved – (1) That the Head of Internal Audit circulate an electronic copy of the consultation paper to members of this Committee for information.

(2) That the Chair of the Committee for 2011/12 be provided with a hard copy of the report for information and retention.

(3) That members forward their individual comments on the consultation paper to the Head of Internal Audit for incorporation into the Council's formal response.

53.

Minutes

Resolved - That the minutes of the meeting held on 22nd March 2011, be confirmed and signed.

54. Internal Audit reports identifying significant risk or 'of concern' - Corporate Manslaughter/Health, Safety and Wellbeing Update

It was agreed that the Group Director, Business Transformation attend the next meeting of the Audit Committee to present this report.

55. Draft Internal Audit Annual Plan 2011/12

The Head of Internal Audit submitted a report setting out the draft Audit Annual Plan for 2011/12.

Resolved – That the draft Internal Audit Plan for 2011/12 be approved, subject to a review of the work programme at the commencement of the 2011/12 Municipal Year.

56. 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 March 2011 and progress made against the Annual Audit Plan.

Resolved - (1) That the report be noted.

(2) That the EOTAS (Education other than at schools) Audit, be considered at the next meeting of the Committee and that relevant officers be invited to attend the meeting to present the report and respond to members' questions.

Agenda Item 5

Treasury Management Strategy Statement 2011/12

Audit Committee

Date: 28th June 2011

Author: Cabinet Member for Finance and Benefits and Director of Finance

Purpose

To report:

- the Treasury Management Strategy for 2011/12, including the Annual Investment Strategy,
- the Minimum Revenue Provision Policy Statement,
- Prudential Indicators for the period 2010/11 - 2013/14.

Recommendation

That Cabinet;

- Notes the Prudential indicators for 2010/11 -2013/14.
- Recommends the Treasury Management Strategy for approval by Full Council on 17th February.

1 Reasons

- 1.1 To report the Treasury Management Strategy for 2011/12 including the Annual Investment Strategy, Minimum Revenue Provision Policy Statement, and the Prudential Indicators for the period 2010/11 - 2013/14, attached as Appendix 1 to this report.

2 Detail

- 2.1 Treasury Management is defined as the “management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- 2.2 The statutory requirements that apply are in the Local Government Act 2003 (the Act) and supporting regulations, which require the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA’s) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.
- 2.3 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included within the Treasury Management Strategy at Appendix 1). This sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

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

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- 2.4 The Department of Communities and Local Government has issued revised investment guidance, which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009, which were reported to Cabinet last year.
- 2.5 This year's strategy is broadly in line with previous years, the only significant change is that the Council's policy of reducing balances rather than taking external borrowing will change as balances become lower, therefore it is likely that the Council will undertake external borrowing in the forthcoming financial year.

3 CIPFA Requirements

- 3.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 22nd February 2010. The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy, for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

4 Economic Background

- 4.1 Following the general election in May 2010, the coalition government has put in place an austerity plan to reduce the public sector deficit over the next five years. Against this backdrop, which is unprecedented in recent history, it is currently difficult to have confidence as to exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market.
- 4.2 The view of the Council's treasury advisor, Sector, is that GDP growth is likely to have peaked in the current period of recovery at 1.2% in

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quarter 2 of 2010. The first estimate of +0.8% for quarter 3 was also unexpectedly high. However, the outlook is for anaemic growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.

4.3 The trend of falling unemployment (on the benefit claimant count) has now been replaced since July 2010 with small increases which may represent the start of a new trend for some years ahead of rising unemployment.

4.4 The Consumer Prices Index (CPI) has remained high during 2010. It peaked at 3.7% in April and has gradually declined to 3.1% in September, when the Retail Prices Index (RPI) stood at 4.6%. Although inflation has remained stubbornly above the Monetary Policy Committee's 2% target, the MPC is confident that inflation will fall back under the target over the next two years after another rise back up to about 3.5% by the end of 2010.

4.5 Sector's view is that there is unlikely to be any increase in Bank Rate until the end of 2011.

5 Treasury Management Strategy for 2011/12

5.1 The suggested strategy for 2011/12 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by Sector.

5.2 The Strategy, (the full text of which is contained in appendix 1) covers:

- Treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers

5.3 In its Treasury Management Strategy document the Council also includes the following:

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

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- Minimum Revenue Provision Policy Statement
- Detailed Prudential and Treasury Indicators
- List of Specified and Non Specified Investments
- Treasury Management Scheme of Delegation
- The Treasury Management role of the S151 Officer.

6 Balanced Budget Requirement

6.1 It is a statutory requirement, under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future

Alternative Options

Alternative options for specific areas are set out within the report and appendices

Risk Management

Financial and Procurement Implications

There are no direct financial implications arising from this report. The Prudential Code requires the following matters to be taken into account when setting or revising prudential indicators:-

- (a) Option appraisals for all capital projects (to demonstrate value for money)
- (b) Asset management (to demonstrate stewardship of the Councils assets)
- (c) Strategic planning for the authority (to demonstrate service objectives prioritisation.
- (d) Achievability of the forward plan (to demonstrate the realism of the plan)

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(e) Implication for external borrowing (i.e. prudence)

(f) Implication for Council Tax and housing rents (i.e. affordability)

Items (a)-(c) are largely considered in the current arrangements as part of the asset management planning/corporate capital strategy processes; items (d) and (f) - in financial terms - are dealt with as part of the Medium Term Financial Planning and Budget setting processes; and item (e) is inherent to the prudential indicator setting process itself.

Legal/Human Rights Implications

(a) Guidance issued by the Secretary of State under section 219(1A) of the Local Government Act 2003 states that a local authority must before the start of the year take an annual policy on making MRP to the full council. Any proposals to vary the terms of the original statement during the year should also be put to the full council at that time.

(b) Legal and Human Rights implications have been considered in the preparation of this report.

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

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

Consultees

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

Background Papers and Appendices

Appendices

- Appendix 1 - Treasury Management Strategy 2011/12

Key Decision / Decision in Forward Plan

- This is not a key decision for the Cabinet (as the approval of the full Council is required) and is included in the Cabinet Forward Plan for June 2009.

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

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TREASURY MANAGEMENT STRATEGY 2011/12

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 - ANNEX 2 – LIST OF SPECIFIED AND NON- SPECIFIED INVESTMENTS**
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1. CURRENT PORTFOLIO POSITION

1.1. In common with other local authorities, the Council has significant levels of both debt and investments at any one time. The treasury portfolio position at 5th January 2011 was as follows:

		Principal	
		£m	£m
Fixed rate funding	PWLB	65.98	
	Market	20.00	85.98
Variable rate funding	PWLB	Nil	
	Market	30.00	30.00
Other long term liabilities			Nil
Gross External Debt			115.98
Total Investments			59.85
Total Net debt			56.13

1.2. The Treasury Management Strategy sets out the way in which the Treasury team will manage both debt and investments during the forthcoming year, taking into account interest rate predictions and the expected level of capital investment.

2. PROSPECTS FOR INTEREST RATES

2.1. The Director of Finance has appointed Sector as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. This draws together a number of current City forecasts for short term and longer fixed interest rates. The following table gives the Sector view of future Bank Rates and new borrowing rates for the Public Works Loans Board (PWLB).

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Mar-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5yr PWLB rate	3.00%	3.00%	3.10%	3.20%	3.30%	3.50%	4.40%	5.00%
10yr PWLB rate	4.10%	4.10%	4.10%	4.20%	4.30%	4.40%	5.00%	5.40%
25yr PWLB rate	5.00%	5.10%	5.20%	5.30%	5.30%	5.40%	5.50%	5.70%
50yr PWLB rate	5.10%	5.20%	5.30%	5.40%	5.40%	5.50%	5.60%	5.70%

3. BORROWING - TREASURY LIMITS FOR 2011/12 TO 2013/14

- 3.1. It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.
- 3.2. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.
- 3.3. Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

4. BORROWING REQUIREMENT

- 4.1. The Council is estimated to have a long term borrowing requirement of £37.5m in 2011-12, which comprises a new borrowing requirement of £27.5m and Replacement Borrowing of £11m .
- 4.2. Approval of further capital schemes financed from borrowing will increase these figures.
- 4.3. The most significant cost pressure within the 2011/12 Budget which results in a net increase over 2010/11 of circa £1m
 - An increase in the Minimum Revenue Provision due to the impact of Capital Programme spending which is funded through borrowing (both internal and external).
 - An increase in interest payable due to anticipated external borrowing in 2011/12

5. BORROWING STRATEGY

5.1. The Council's borrowing strategy will give consideration to the following when considering the borrowing requirement

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years
- The potential value of PWLB variable rather than rate loans for up to 10 years
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under 10 years, where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt
- It may be possible to get better value for money using PWLB borrowing by annuity and EIP loans instead of to maturity loans
- Rates are expected to gradually increase during the year so it should therefore be advantageous to time new borrowing for the start of the year.

5.2. Sensitivity of the forecast - In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it were felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

External v Internal Borrowing

- 5.3. The Council currently has a predicted difference (out-turn 2010/11) between gross external debt and net debt (after deducting cash investment balances), of £20m.
- 5.4. The general aim of this treasury management strategy has been to reduce the difference between the two debt levels over the last two years, as it has been cheaper to disinvest rather than take out more expensive external borrowing. However, measures taken in the last year have already reduced substantially the level of investments it is therefore likely that external borrowing will be undertaken in the next financial year.
- 5.5. Short term savings by avoiding new long term external borrowing in 2011/12 will be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.
- 5.6. Against this background, caution will again be adopted with the 2011/12 treasury operations. The Director of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.
- 5.7. The Council Policy on borrowing in advance of need is
- “The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.”
- 5.8. In determining whether borrowing will be undertaken in advance of short-term need, but where there is an underlying long-term requirement, the Council will: -
- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
 - ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
 - evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
 - consider the merits and demerits of alternative forms of funding
 - consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them

6. DEBT RESCHEDULING

6.1. The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

6.2. As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a skew towards longer dated PWLB. The reasons for any rescheduling to take place will include: -

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the strategy outlined in paragraph 7 above
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

6.3. Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

7. ANNUAL INVESTMENT STRATEGY

7.1. **Investment Policy** - The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

- The security of capital and
- The liquidity of its investments.

7.2. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

7.3. **Creditworthiness policy** - This Council uses the creditworthiness service provided by Sector. This service has been progressively enhanced over the last year and now uses a sophisticated modeling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- CDS spreads (similar to insurance ratings) to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

7.4. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

7.5. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands : -

- Purple - 2 years

- Blue -1 year (applies to nationalised/semi nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green - 3 months
- No Colour - not to be used

- 7.6. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's tend to be more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
- 7.7. All credit ratings will be monitored at least weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.
- 7.8. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 7.9. In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 7.10. No investment will be made by the council without reference to the most up to date creditworthiness information.
- 7.11. The Council will not invest more than £10m with a single institution or more than £20m with any group of institutions.
- 7.12. The Council's in house funds derive both from the timings of its cash flows and from some core balances such as S106 contributions. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 7.13. The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile, and within the risk parameters set by this council.

- 7.14. For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 15 and 30 day accounts, money market funds and short to medium dated deposits (overnight to 12 months) in order to benefit from the compounding of interest.
- 7.15. £21.5m of the Council's funds are externally managed on a discretionary basis by Investec. The Council's external fund manager will comply with the Annual Investment Strategy. The agreement between the Council and the fund manager additionally stipulate guidelines and duration and other limits in order to contain and control risk.
- 7.16. The minimum credit criteria to be used by the cash fund manager are as follows: -

	Fitch	Standard and Poors
Long Term	A+	A+
Short Term	F1+	A-/1+
Individual/Financial Strength	C	N/A
Support	2	N/A

- 7.17. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.
- 7.18. The Council uses Sector as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review

8. MINIMUM REVENUE PROVISION POLICY STATEMENT 2011/12

- 8.1. The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2011/12 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
- 8.2. The major proportion of the MRP for 2011/12 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 / option 2 (please choose) of the guidance. Certain expenditure reflected within the debt liability at 31st March 2010 will under delegated powers be subject to MRP under option 3 / option 4 (please choose), which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (or annuity method if preferred). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.
- 8.3. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.
- 8.4. As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

ANNEX 1 - PRUDENTIAL AND TREASURY INDICATORS

PRUDENTIAL INDICATORS	09/10	10/11	11/12	12/13	13/14
Extract from budget and rent setting report	actual	est	est	est	est
	£'000	outturn	£'000	£'000	£'000
Capital Expenditure					
Non - HRA	76,872	108,128	27,704	19,268	14,375
HRA	8,730	8,125	11,975	9,675	9,675
TOTAL	85,602	116,253	39,679	28,943	24,050
Ratio of financing costs to net revenue stream					
Non - HRA	2.03%	3.29%	4.32%	5.47%	6.74%
HRA	12.64%	12.44%	12.43%	12.05%	12.11%
Net borrowing requirement					
brought forward 1 April	85,475	103,049	95,988	106,785	115,345
carried forward 31 March	103,049	95,988	106,785	115,345	127,001
in year borrowing requirement	17,574	-	10,797	8,560	11,656
Capital Financing Requirement as at 31 March					
Non – HRA	106,430	164,875	177,863	189,112	203,487
HRA	11,915	12,415	12,915	13,415	13,915
TOTAL	118,345	177,290	190,778	202,527	217,402
Annual change in Cap. Financing Requirement					
Non – HRA	44,001	57,100	10,297	8,060	11,156
HRA (applies only to housing authorities)	-	500	500	500	500
TOTAL	44,001	57,600	10,797	8,560	11,656

TREASURY MANAGEMENT INDICATORS	09/10	10/11	11/12	12/13	13/14
	actual	est	est	est	est
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p
Increase in council tax (band D) per annum *	26.69	87.64	126.84	135.86	145.04
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	171,500	198,100	216,397	224,957	236,613
other long term liabilities	5,000	7,500	7,500	7,500	7,500
TOTAL	176,500	205,600	223,897	232,457	244,113
Operational Boundary for external debt -					
borrowing	145,500	178,100	196,397	204,957	216,613
other long term liabilities	5,000	7,500	7,500	7,500	7,500
TOTAL	150,500	185,600	203,897	212,457	224,113
Actual external debt	103,049	95,988	106,785	115,345	127,001
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments OR:-	30%	30%	30%	30%	30%
Upper limit for total principal sums invested for over 364 days					
(per maturity date)	Nil	Nil	10,000	10,000	10,000

Maturity structure of fixed rate borrowing during 2011/12	upper limit	lower limit
under 12 months	15%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	65%	0%

ANNEX 2 – LIST OF SPECIFIED AND NON- SPECIFIED INVESTMENTS

1. Specified Investments *(These investments are all for periods of under 1 year, with institutions of high credit quality and involve minimum procedural formalities)*

Balance at time of writing report 06/01/2011

Institution	Balance £'000	Maturity Date	Rate
Bank of Scotland instant Access	£9,975	Call	0.75%
Black Rock Asset Management	£10,000	Call	0.65%
Goldman Sachs	£9,870	Call	0.55%
Natwest	£10,000	90 Day Call	1.15%
Lloyds TSB	£5,000	11/08/2011	1.60%
Lloyds TSB	£5,000	15/03/2011	1.17%
Santander	£5,000	11/05/2011	1.33%
Santander	£5,000	27/07/2011	1.80%
Total	£59,845		

2. Unspecified Investments *(These Investments tend to be more complex, can be for longer terms and require greater expertise to manage)*

The Council does not currently hold any investments that it classifies as unspecified.

ANNEX 3 - TREASURY MANAGEMENT SCHEME OF DELEGATION

1. Full Council

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

2. Cabinet

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment.

3. Body/person(s) with responsibility for scrutiny - Audit Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

ANNEX 4 - THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 officer is responsible for

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers.

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

CORPORATE MANSLAUGHTER / HEALTH SAFETY AND WELLBEING UPDATE

Audit Committee

Date: 28th June 2011

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. A report on Corporate Manslaughter was presented to the September 2010 meeting. Members requested 'That a further report on progress in implementing the Management response to the Internal Audit recommendations be submitted to the Committee in approximately 6 month's time.'

This report provides the update requested by Members.

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 Members requested that at least one individual audit report be presented to each meeting of the Committee. A report on Corporate Manslaughter was presented to the September 2010 meeting. Members requested 'That a further report on progress in implementing the Management response to the Internal Audit recommendations be submitted to the Committee in approximately 6 month's time.'

2 Detail

- 2.1 A report following the internal audit review of the mitigating controls in place to prevent a case of Corporate Manslaughter was finalised on 14th May 2010 and an overall risk assessment of '**Of Concern**' was given.
- 2.2 Key recommendations made in the report to achieve the improvements required included:

Further information on the subject of this report can be obtained from *Nick Hobbs* on *Direct Dial No. 01793 463940* or Email nhobbs@swindon.gov.uk.

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

CORPORATE MANSLAUGHTER / HEALTH SAFETY AND WELLBEING UPDATE

Audit Committee

Date: 28th June 2011

- Operations Board, Corporate Board and the Chief Executive must ensure that urgent action is taken to ensure that there is an effective framework and escalation process to improve the operation and consistency of health and safety management controls within the organisation. This is to ensure sharing of Health and Safety best practice and uniformity of implementation.
- Governance arrangements for groups within the reporting structure with Health and Safety roles and responsibilities must be reviewed to ensure effective communication and escalation processes.
- The Corporate Health and Safety Strategy and Policy must be updated and include the key controls identified in the Corporate Manslaughter Act. This should also reflect organisation changes in the Council and involvement of significant partners. An agreed project plan with RAG indicators should be put in place to underpin delivery of the strategy with regular progress reports to Operations Board and Corporate Board for action where necessary.
- A Health and Safety risk, relating to Corporate Manslaughter is recorded on the Corporate Risk Register, but monitoring of the supporting departmental and service related action plans is not considered effective for mitigation.
- The 2003 Health and Safety Strategy require all service areas and departments to include health and safety risks on their risk registers. This information should be forwarded to the Health, Safety and Wellbeing Team on a regular basis for prioritisation and work planning. This will enable the Health and Safety risks faced by the Council to be quantified and will inform both the compliance work, training and actions required in the Health and Safety Strategy project plan.
- Health and Safety risks identified through risk registers should be co-ordinated to form a matrix of health and safety risks around which planning for mitigating actions can take place and responsibilities for actions can be allocated. Using the RAG (Red, Amber, Green) status to highlight the risks will enable officers and members at the different levels of the revised communication / escalation structure to monitor progress and ensure action is taken where required.

- 2.3 The Group Director: Business Transformation has provided an update and will be attending the meeting to answer any questions Members may have.

Alternative Options

- Not Applicable

Further information on the subject of this report can be obtained from *Nick Hobbs* on *Direct Dial No. 01793 463940* or Email nhobbs@swindon.gov.uk.

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

CORPORATE MANSLAUGHTER / HEALTH SAFETY AND WELLBEING UPDATE

Audit Committee

Date: 28th June 2011

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 One Swindon 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.

Former Head of Health, Safety and Wellbeing

Former Interim Head of Performance and Risk

Appendices / Background papers

Appendix 1 – Update from Group Director: Business Transformation (To Follow)

Key Decision/Decision in Forward Plan

- Not Applicable

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Draft Accounts 2010-11

AUDIT COMMITTEE

Date: 28 June 2011

Author: Director of Finance

Wards Affected: All

Purpose

To provide an update on the Statement of Accounts for 2010-11.

Recommendations

- The Audit Committee is asked to:
- Note the content of the report.

1. Reasons

- 1.1 The Audit Committee is the designated body for approval of the Council's accounts. The final accounts for Committee to approve will be placed before you in September. Statutory regulations now require the Director of Finance / Section 151 (S151) Officer to sign off the draft accounts by the end of 30th June rather than have committee approval.

2. Current Position

- 2.1 The Swindon Borough Council accounts are required to explain in themselves how the old UK GAAP (Generally Accepted Accounting Practice) format balance sheet has moved to IFRS (International Financial Reporting Standards) compliant. They also explain the material adjustments made for transition, including the distinction between accounting changes and updating for corrections as required under IFRS.
- 2.2 The accounts are required to be signed off by the S151 officer and the copy that will be distributed prior to the committee meeting should not be assumed to be the final draft that will go to external audit for their review. Indeed the nature of the transition process is such that discussions with the auditors have continued to prompt ongoing consideration of necessity of adjustments. Any additional agreed changes will therefore need to be incorporated into the final draft.
- 2.3 The SBC only section of the accounts is currently undergoing review and checking. This will be forwarded, as Appendix 2 once the draft is complete. In addition to the finalisation of SBC only accounts, the consolidated group position requires inclusion. This is currently undergoing due process but because of the impact of any change to the SBC only accounts to the group position, it is more efficient to leave final updating until the very end, once SBC

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.

Draft Accounts 2010-11

AUDIT COMMITTEE

Date: 28 June 2011

figures are agreed. The group position will be included in the final draft that is received by the external auditors.

- 2.4 Appendix 1 contains extracts from a CIPFA briefing on the impact of IFRS and provides some commonly raised questions and answers.

3. Ongoing Process

- 3.1 Due to the complexities of this year's transitional accounts, the auditors have already begun their testing at transactional level, even though the accounts are not yet formally sign off. This should enable some of the more routine audit checks to be completed early in the process and leave time for review of the transitional changes.
- 3.2 The audit will progress through the summer with the final accounts coming to Audit Committee on the 20th September. The accounts will be presented after the conclusion of the audit findings in order that Members can be fully aware of the accounts and audit conclusions prior to formal consideration for approval.
- 3.3 If desired, copy of the final draft presented to Audit can be forwarded to Committee Members upon their request in order to allow perusal through the summer months to raise any query that may help in their understanding prior to the formal approval process in September.

Alternative Options

- The annual Statement of Accounts is a statutory requirement.

Risk Management

Financial and Procurement Implications

- Contained in the body of the report.

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 – IFRS Q&A
- Appendix 2 – To follow

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.

IFRS Questions & Answers

The following information is adapted from the CIPFA briefing on “IFRS – How to Tell the Story”. It explains the significant IFRS changes to some areas, or where things have actually stayed the same, and answers some common question on IFRS.

Overview of main changes from UK GAAP to IFRS

	Significant IFRS changes	Substantially the same
Financial Statements	New statements and amended layouts. More flexibility - detail can be in the statements or the notes; terminology can be amended; and the order of the statements can be changed to suit the authority. However, the current format of the accounts follows the CIPFA Code Practitioner Guidance example statements.	New formats consistent with those used in the SORP where this is possible and helpful.
Purchase of goods and services	None.	Everything.
Salaries and Pensions	Untaken holiday pay and similar items accrued for at year-end if they are material - taken in the context of gross revenue expenditure materiality.	Everything else.
Government Grants and Contributions	Capital grants recognised immediately (unless there are conditions without reasonable assurance of being met) rather than being deferred and matched to expenditure.	Only the same for capital grants if there are conditions.
Property, Plant and Equipment (Fixed Assets)	More emphasis on component accounting than under UK GAAP. Impairments taken initially to the Revaluation Reserve rather than Income and Expenditure – like revaluation losses, however, as revaluation reserves have only existed for public sector for a few years, there are few gains in revaluation reserves to be reduced and therefore most losses will still go through I&E. New class of ‘assets held for sale’, for both short and long term assets, but extremely prescribed criteria for assets to fall into this category.	Everything else. Expenditure that can be capitalised under IFRS remains unchanged.
PFI	Assets brought onto the balance sheet where the authority controls the asset. Changes made in SORP 2009- no change for 2010/11	
Leases	90% ‘test’ to separate finance and operating leases removed. Property leases classified and accounted for as separate leases of land and buildings. Need to assess whether other arrangements contain the substance of a lease. Corporate contract register used in assessing significant contract arrangements.	Everything else. IFRS retains the concept of the finance lease / operating lease distinction, and the tests carried out to classify leases are substantially the same.
Financial Instruments	None – IFRS is identical to UK GAAP.	Everything.

IFRS questions and answers

IFRS – what is it?

- International Financial Reporting Standards (IFRSs) are a suite of accounting standards used across the world. IFRS is the international equivalent of the Financial Reporting Standards (FRSs) used until now in the UK.

Why move to IFRS?

- In the 2007 Budget, the then-chancellor announced that the UK Public Sector would adopt IFRS, as this was seen as best practice and allowed for international comparisons to be made.
- It was also a question of timing. The UK Accounting Standards Board (ASB) has been reviewing the future of UK GAAP and in the short to medium term all but the smallest organisations will be producing accounts based on IFRS.
- As a result, CIPFA/LASAAC now produces the IFRS-based Code of Practice on Local Authority Accounting rather than the Statement of Recommended Practice (the SORP), and this is overseen by the Financial Reporting Advisory Board (FRAB), the independent body that advises the Government on accounting issues, rather than the ASB.

IFRS is intended for the private sector – why are we using it?

- IFRS has been developed for the private sector, but the impact of the vast majority of transactions is the same whatever sector you are in. Where there are specific public sector reasons to diverge from IFRS, there is a hierarchy that CIPFA/LASAAC (and the rest of the UK public sector) follows: IFRS > IPSAS > UK GAAP

IPSAS?

- International Public Sector Accounting Standards. These are accounting standards developed specifically for the public sector by the International Public Sector Accounting Standards Board (IPSASB). The 'rules of the road' followed by the IPSASB when developing IFRS-based standards mean that the requirements of IPSAS will be the same as those under IFRS, except where there is a pressing public sector reason to adopt a different treatment. This makes them the natural first port of call for CIPFA/LASAAC when IFRS isn't appropriate. There are also some IPSASs that deal with exclusively public sector issues, and for which there is no IFRS equivalent - such as taxation.

So why use IFRS rather than IPSAS?

- When the Treasury took the decision to follow IFRS, IPSASs were not as up to date as IFRS and were still under development in key areas. That's now changed and governments around the world are increasingly adopting IPSAS directly.

Why does IFRS change everything?

- It doesn't. Recent UK standards have been based on IFRS, so many requirements are unchanged. There are differences, and the work required to reflect these changes shouldn't be underestimated, but for many transactions, there is little or no change as shown in the previous table.

The accounts are already too long – and IFRS will make them worse.

- Yes, the accounts can be long, but local authorities have a complex story to tell. IFRS does introduce more disclosures. But notes only need to be produced if they are material - leaving out notes that aren't material or required by legislation is a good start.

Author: Head of Internal Audit

Wards Affected: None

Purpose

To present Members with details of the Department for Communities and Local Government's Consultation Paper on the 'Future of local public audit' and the responses received to date and seek any further comments from Members.

Recommendations

- That following receipt of comments from Members and Officers on the proposals that the Audit Committee gives authority to the Head of Internal Audit to compile the Council's response to the Consultation Paper in liaison with the Chair of the Audit Committee and the Council's Monitoring Officer and Section 151 Officer.

1 Reasons

- 1.1 To provide Members with an opportunity to contribute to the Council's response to the Consultation Paper on the 'Future of public audit' and to review the responses received to date.

2 Detail

Background

- 2.1 The consultation paper seeks views on revised arrangements for the audit of local public bodies, including all councils, after the abolition of the Audit Commission.
- 2.2 On the 13 August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, and refocus audit of local public bodies on helping local people hold those bodies to account for local spending decisions, the very essence of localism.
- 2.3 On 30th March 2011 the Government published a consultation document setting out the principles for the future of local audit. It proposes that all public bodies with a turnover exceeding £6.5m appointing their own independent auditor. This appointment would be made following advice from an independent audit committee.
- 2.4 The consultation includes fifty questions, some of which apply only to smaller public bodies i.e. those under the £6.5m turnover threshold. Responses to the Department for Communities and Local Government must be submitted by 30 June 2011.

Future of local public audit

AUDIT COMMITTEE

Date: 26th April 2011

Principles

- 2.5 The consultation proposes a move away from centralised inspection and supervision, proposing instead a more locally focussed regime that is overseen by the National Audit Office.
- 2.6 The consultation document states that the Government has followed four design principles in developing the proposals for local audit:
- Localism and decentralisation – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market.
 - Transparency – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other public bodies to account for local spending decisions.
 - Lower audit fees – achieving a reduction in the overall cost of audit.
 - High standards of auditing – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit.

Regulation of local public audit

- 2.7 The second section of the consultation considers the Code of Audit Practice, formerly the responsibility of the Audit Commission, and the need for the regulator and supervisory bodies for firms undertaking local public audit.

Audit Committee

- 2.8 The Government defines larger local public bodies as those with income and expenditure over £6.5m. It proposes that all such bodies will be required to appoint an auditor and that this appointment will be made by the full council on the advice of an audit committee, with opportunities for the electorate to make an input.
- 2.9 It also proposes cooperation between local public bodies when commissioning audit services, suggesting joint procurement and joint audit committees.
- 2.10 The consultation gives great emphasis on a strong independent presence on the committee. This is shown in the table below:

Structure of audit committees

We envisage that in the new system, an audit committee could be structured in the following way:

- The chair should be independent of the local public body. The vice-chair would also be independent, to allow for the possible absence of the chair.
- The elected members on the audit committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it is recommended that a third of members have recent and relevant financial experience where possible).
- There would be a majority of members of the committee who were independent of the local public body.

Independent members of the committee

When choosing an independent member of the committee, a person can only be considered for the position if:

- He or she has not been a member or an officer of the local authority within five years before the date of appointment.
- Is not a member nor an officer of that or any other relevant authority
- Is not a relative nor a close friend of a member or an officer of the authority
- Has applied for the appointment
- Has been approved by a majority of the members of the council
- The position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the local authority consider appropriate.

2.11 Possible other arrangements under consideration are set out in paragraph 3.9 of the consultation, as follows:

- a) Only the chair and perhaps a minority of members are independent of the local body.
- b) A chair and a majority of members independent of the local public body, as described above.
- c) As for (b) but with independent selection of the members independent of the local authorities.

2.12 The consultation gives great emphasis on a strong independent presence on the committee. This is shown in the table below:

2.13 Views are also sought on the recruitment, skills and experience of independent members along with the possibility of payment to attract suitable candidates.

- 2.14 The mandatory duties of the audit committee and the guidance needed are also considered. It could simply have a role in making recommendations to the full council on the engagement of an auditor and the resignation or removal of an auditor. Other duties could be added to the committee's role at the council's discretion.

We could specify a much more detailed mandatory role for the audit committee which could include, but may not be restricted to the following:

- Providing advice to the full council on the procurement and selection of their external auditor
- Setting a policy on the provision of non-audit work by the statutory auditor
- Overseeing issues around the possible resignation or removal of the auditor
- Seeking assurances that action is being taken on issues identified at audit
- Reviewing the financial statements, external auditors' opinions/conclusions and reports to members and monitor management action in response to the issues raised by external audit
- Providing advice to the full council on the quality of service they are receiving
- Reporting annually to the full council on its activities for the previous year

Appointment of the external auditor

- 2.15 Whilst the final decision on who should be appointed as external auditor would be with Full Council, the Audit Committee would, under the proposals, be responsible for providing advice and guidance to the Council on the appropriate criteria for engaging an external auditor and on how the criteria should be weighted.
- 2.16 The Audit Committee would get involved in evaluating the bids from prospective external auditors, with the aim of equipping Full Council with the means to make an informed decision.

Scope of audit and the work of auditors

- 2.17 The current scope of the external auditor's work is as follows:
- To give an opinion on whether the Statement of Accounts gives a true and fair view of the Council's financial position and of its income and expenditure.
 - To provide a conclusion on whether the Council has proper arrangements in place to secure value for money.

Future of local public audit

AUDIT COMMITTEE

Date: 26th April 2011

- To review and report as appropriate on the Council's Annual Governance Statement and remuneration report.
 - To review and report on the Whole of Government Accounts return
- 2.18 The consultation proposes four possible options for the scope of the external auditor's work; paragraphs 4.14 to 4.25 of the consultation paper provide full details. The options range from providing less information to the public (option 1) in so much as the external auditor will only report on those items detailed above with the exception of the need to give an opinion on value for money; to councils coming in line with the private sector and producing an annual report which the external auditor would be required to review and provide assurance on, together with an opinion on the financial statements (option 4). Option 3 most closely mirrors the current arrangement.

Draft response to the consultation

- 2.19 The full Consultation Paper is available on:
<http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult?view=Standard>. A hard copy (63 pages) is also available from the Head of Internal Audit if required.
- 2.20 A draft response to the Consultation Paper has been prepared and is attached as Appendix 1. The Committee is asked to review the draft response and consider whether they wish to add any further comment.

Alternative Options

Not Applicable

Risk Management

Financial and Procurement Implications

- The Government's intention is that future arrangements will reduce costs. There is some concern that this could lead to greater risk if it impacts on audit standards.
- There could be greater cost if payment is required to attract independent members of the appropriate calibre.

Legal/Human Rights Implications

- EU Procurement Regulations would need to be adhered to if the proposed regime is introduced.

Links to Corporate Plans and Policies

- Effective internal control arrangements help ensure that the Council's objectives are achieved.

Future of local public audit

AUDIT COMMITTEE

Date: 26th April 2011

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 – Draft response to the Department for Communities and Local Government Consultation Paper on the 'Future of local public audit'.

Key Decision/Decision in Forward Plan

Not Applicable

APPENDIX (B)

The following direct questions have been posed by the CLG consultation document on the Future of Local Public Audit. These questions should be considered along with those detailed in section 5 of the attached report.

Please note the question numbers relate to the numbering in Appendix A. The questions which are felt to relate directly to the Audit Committee and its role are shown in bold, however Members may also like to consider the residual questions which do not directly affect the Audit Committee, these questions are shown in normal type.

A comments box has been provided for Members who may find it useful for notes in preparation for the upcoming meeting.

Q - No.	Question	Comments
<u>1. INTRODUCTION</u>		
1	Have the correct design principles been identified? If not what other design principles should be considered? Do the proposals in the consultation meet the design principles?	Yes – agree with the principles of localism and decentralisation; transparency; lower audit fees and high standards of auditing.
2	Do you think that the audit of probation trusts should fall within the Comptroller and Audit General's regime?	If the Probation Service remains within the Home Office then agree that it should be audited by the Comptroller and Audit General.
<u>2. REGULATION OF LOCAL PUBLIC AUDIT</u>		
<u>Standards and Codes of Practice (paragraphs 2.3 to 2.6)</u>		
3	Do you think the National Audit Office would be best placed to produce the Code of audit practice and supporting guidance?	Agree, but would like a statutory obligation for the NAO to consult with relevant organisations such as CIPFA and the LGA.
4	Do you agree that the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors should be replicated?	Agree, as this would remove the need for Council's to confirm the quality of the audit firm prior to appointment although it is appreciated that this framework would have some cost implications.

Q - No.	Question	Comments
5	Who do you think should be responsible for maintaining and reviewing the register of statutory local public auditors?	This should mirror the Companies Act requirements.
6	How can assurance be gained that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?	The process for accreditation needs to be relatively straight forward to reduce cost implications and allow sufficient interested audit firms to apply, but be sufficiently rigorous to ensure the quality of the audit firm is ensured.
7	What additional criteria do you think is required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?	The firm(s) should have a partner who specialises in local authority audit and is suitably qualified and experienced. This experience should be one of the criteria used by the local authority when selecting their auditor.
<u>Monitoring and Enforcement (paragraphs 2.20 to 2.25)</u>		
8	What should constitute a public interest entity (i.e. A body for which audits are directly monitored by the overall regulator) for the purpose of local audit regulation? How should these be defined?	The definition of a public interest body should be set to a level that safeguards public funds and at a lower level than for limited companies. This level should be set on the relative size of the authority i.e. those with an expenditure of at least X% of the average.
9	There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities'. Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform or by their income or expenditure? If the latter, what should the threshold be?	Covered above.
10	What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?	Agree with the principles stated in 2.25.

Q - No.	Question	Comments
<u>3. COMMISSIONING LOCAL PUBLIC AUDIT SERVICE</u>		
<u>Duty to Appoint an Auditor (paragraphs 3.2 to 3.7)</u>		
11	Are the proposed commissioning arrangements sufficiently flexible to allow councils to cooperate and jointly appoint auditors, should they wish to do so? If not, how would you make the appointment process more flexible, whilst ensuring independence?	Agree with the concept of cooperation between authorities and other public bodies in the procurement of external auditors. However, disagree with the idea of joint audit committees.
<u>Structure of Audit Committee (paragraphs 3.8 to 3.10)</u>		
12	Do you think the criteria as set out for independent members are correct to ensure the quality of independent members? If not, what criteria would you suggest?	Views vary on this question, from fundamental disagreement to being forced to have independent members, to agreement that some independent representation would be a good thing. However, it is felt that a central imposition of independent chair and vice-chair doesn't seem like a truly localist approach. Working relationships between what may be a committee largely independent from the Council and the Council itself will need to be carefully considered.
13	How would you balance the requirements for independence with the need for skills and experience of independent members? Do you think it is necessary for independent members to have financial experience?	Although beneficial to have financial experience it should be left to local authorities to decide on the most suitable candidate(s).
14	Do you think that sourcing suitable independent members based on the set criteria will be difficult? Will remuneration be necessary and, if so, at what level?	It has not been possible in the past to recruit a suitable independent Member to the Audit Committee. Remuneration will be necessary to attract suitable candidates increasing budget pressures.
<u>Role of the Audit Committee (paragraphs 3.11 to 3.25)</u>		
15	Do you think the proposals for the Audit Committee provide the necessary safeguards to ensure the	See answer to point 12 re. independent members.

Q - No.	Question	Comments
	independence of the auditor appointment? If so, which of the options described in paragraph 3.9 of Appendix A seems most appropriate and proportionate? If not, how would you ensure independence whilst also ensuring a decentralised approach?	
16	Which option do you consider would strike the best balance between a localist approach and a robust role for the Audit Committee in ensuring independence of the auditor?	See answer to point 12 above.
17	Are the roles and responsibilities described in the options appropriate for an Audit Committee? To what extent should their role be specified in legislation?	Yes. Views on the option vary. Option 1 would be in line with the principle of localism. However, giving a mandatory role for 'seeking assurances that action is being taken on issues identified at audit', as stated in Option 2, would give more weight to the need for agreed audit (both internal and external) recommendations to be implemented.
18	Should the process for appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who do you think should produce and maintain this?	Agree that this should be set out in a code of practice.
<u>Involvement of the Public in the Appointment of an Auditor (paragraphs 3.26 to 3.29)</u>		
19	With regard to Pre and Post-appointment, is the proposal a proportionate approach to public involvement in the selection and work of the auditors?	This appears to be proportionate.
20	How can this process be adapted for bodies without elected members?	

Q - No.	Question	Comments
	<u>Failure to Appoint and Auditor (paragraphs 3.32 to 3.39)</u>	
21	With regard to failure to appoint an auditor, how would you ensure the Council fulfilled its duty to appoint an appropriate external auditor?	Agree with the proposal to instruct Council to appoint as a first step and then for the Secretary of State to appoint if no progress made.
22	Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?	Views vary: reporting by exception (i.e. when appointment not made) and that this should be the joint responsibility of the Chair of Audit Committee and the Section 151 Office; to report appointment.
23	If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	Secretary of State.
	<u>Rotation of Audit Firms and Audit Staff (paragraphs 3.40 to 3.47)</u>	
24	Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	Agree with the rotation of firms – maximum of two terms.
25	Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?	Yes agree that these ethical standards are sufficient.
26	Auditor Appointment - do the proposals regarding he reappointment of the audit firm strike the right balance between allowing the auditor and the Council to build a relationship based on trust whilst ensuring the correct degree of independence?	Agree.
	Should the appointment term be limited to a maximum of two consecutive terms of five year?	Yes.

Q - No.	Question	Comments
	<u>Resignation or Removal of an Auditor (paragraphs 3.48 to 3.62)</u>	
27	Do you think this proposed process provides sufficient safeguard to ensure the auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?	Agree that the proposed process gives sufficient safeguards.
	<u>Auditor Liability (paragraphs 3.63 to 3.66)</u>	
28	Do you think the new framework should put in place similar provision as that in place in the companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?	Yes.
	<u>4. SCOPE OF AUDIT AND THE WORK OF AUDITORS (paragraphs 4.2 to 4.25)</u>	
29	Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provide sufficient assurance and transparency to the electorate? Are there other options?	
30	Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?	It was felt that the report on performance might be used as a promotional document putting the authority in the best light possible rather than being a useful document for public use. Therefore it is felt that there should not be a specific requirement for an annual report to be produced.
31	Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?	See 30 above.

Q - No.	Question	Comments
32	Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	This should be between the auditor and the audited body.
33	What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	
<u>Public Interest Reporting (paragraphs 4.26 to 4.34)</u>		
34	Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?	Yes.
35	Do you agree that auditors appointed to a local public body should also be able to provide audit-related or other services to that body?	Yes as long as it's fully declared in the audit-planning memorandum to the audit committee and does not compromise the auditor's independence.
36	Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	Yes.
<u>Public Interest Disclosure (paragraphs 4.43 to 4.47)</u>		
37	Public Interest - do you agree that it would be sensible for the auditor and the Audit Committee to be designated prescribed persons in the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?	We would suggest that a nominated member of the Audit Committee i.e. the Chair along with the Audit partner (or equivalent) rather than nominating the whole committee.
<u>Transparency (paragraphs 4.48 to 4.57)</u>		
38	Do you agree that we should modernise the right to object to the accounts? If not, why?	Agree in principle with modernising the right to object. However, we would be concerned regarding the possible onerous costs on the audited body if numerous FOI requests were submitted to the audit firm.

Q - No.	Question	Comments
39	Is the process set out the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?	See 38 above.
40	Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If no, why?	See 38 above.
41	What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?	(i) Internal Audit is bound by FOI requirements and is able to maintain good working relationships with their clients. This shouldn't impact greatly on the relationship with External Audit and the Council. (ii) the authority will have little, if any, control over additional fees charged by the auditors for responding to FOI requests.

The remaining questions in the consultation document refer to arrangements for smaller bodies and have therefore not been reproduced here.

Audit Committee: Annual Report for the year 2010/11.

AUDIT COMMITTEE

Date: 28th June 2011

Author: Head of Internal Audit

Wards Affected: None

Purpose

To present Members with the Audit Committee's annual report for 2010/11.

Recommendation

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

1 Reasons

- 1.1 It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. The Audit Committee is a source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance
- 1.2 The annual reports sets out what the role of the Committee is and what work it has undertaken during 2010/11.

2 Detail

Introduction

- 2.1 The Council established the Audit Committee as a full Committee with effect from May 2006, it formerly being a Sub-Committee of Scrutiny. Whilst there is no statutory obligation to have such a Committee, they are widely recognised as a core component of effective governance and internal control.

Terms of Reference

- 2.2 The Council has a duty to ensure that it is fulfilling its responsibility for having adequate and effective risk management, internal control and governance arrangements for the economy, efficiency and effectiveness of its activities. The Audit Committee has a key role in assessing the extent to which this responsibility is being met and advising the Council on the adequacy and effectiveness of these arrangements.

Audit Committee: Annual Report for the year 2010/11.

AUDIT COMMITTEE

Date: 28th June 2011

- 2.3 The Committee's Terms of Reference are to provide independent assurance to the Council in relation to:
- The effectiveness of the Council's risk management, internal control and its overall assurance framework.
 - The effectiveness of the Council's financial and non-financial performance to the extent that it might impact on the above.
 - Reviewing the performance of the Council's Internal Audit section
 - Receipt and review of External Audit reports and liaison with external auditors on significant matters identified.
 - Advising upon and/or reviewing the effectiveness of any other matters referred to the Audit Committee by the Executive, the Overview and Scrutiny and Regulatory Committees.
 - To consider, accept and take a view on the Statement of Accounts and the Annual Governance Statement.

Membership

- 2.4 The membership of the Audit Committee has comprised of the following Elected Members:
Councillor Michael Dickinson (Chair)
Councillor Des Moffatt (Vice-Chair)
Councillor Junab Ali
Councillor Mary Martin
Councillor Nick Martin
Councillor Eric Shaw
Councillor Peter Stoddart
- 2.5 The Director of Finance and the Head of Internal Audit regularly attend meetings of the Committee. The Council's External Auditors (the Audit Commission) also attend meetings on a regular basis. Steve Jones (Senior Committee Clerk) supports the committee.
- 2.6 The committee met six times during 2010/11. Committee agenda papers and minutes are available on the Council's website at www.swindon.gov.uk.

What have we done in 2010/11?

Internal Audit Assurance:

- 2.7 Internal Audit is a key source of assurance for both Members and officers on the effectiveness of the Council's governance, risk management and internal control arrangements. The Audit Committee has a responsibility for ensuring the effectiveness of Internal Audit in providing this assurance.

Audit Committee: Annual Report for the year 2010/11.

AUDIT COMMITTEE

Date: 28th June 2011

2.8 The Committee has received regular reports from the Head of Internal Audit including:

- Annual Internal Audit Plan 2010/11
- Annual Governance Statement 2009/10
- CIPFA Benchmarking on Internal Audit
- Work on the National Fraud Initiative
- Review of part of the Wi-Fi project
- Effectiveness of the system of internal audit
- Approval of the terms of reference for Audit Committee
- Approval of the Head of Internal Audit's annual report
- Regular progress reports

2.9 The Committee has also received full Internal Audit reports on the following service areas where an audit has been carried out and an opinion of 'significant' or 'of concern' risk has been identified. For all these reports relevant Members and officers have attended to provide explanations and details of progress made in implementing agreed audit recommendations:

- Payroll
- Corporate Manslaughter
- Section 106 Agreements

2.10 Members also requested the report on Section 38 Agreements. The opinion for this audit was satisfactory giving an overall moderate risk.

External Audit Assurance – Governance and Statement of Accounts:

2.11 External Audit is an essential part of the assurance process providing an independent opinion on the financial statements, and reviewing aspects of governance and financial management as well as arrangements for securing economy, efficiency and effectiveness across the Council. External Audit works closely with Internal Audit to ensure that statutory responsibilities are delivered.

2.12 The following reports were received from External Audit during 2010/11:

- Annual Audit Letter
- Annual Audit and Inspection Fee
- Audit Opinion plan
- Compliance with International Auditing Standards

Audit Committee: Annual Report for the year 2010/11.

AUDIT COMMITTEE

Date: 28th June 2011

In addition to the above External Audit have also provided briefing notes and regular progress update reports.

Other reports:

2.13 The Committee have also considered the following reports:

- The Committee's Annual report for 2009/10
- Corporate Risk Management Updates
- The work of other committees
- Treasury Management Strategy, Prudential Indicators and Investment Strategy
- Update on the account changes and financial accounts process
- Statement of Accounts 2009/10
- Componentisation and IFRS update

The Future

2.14 During the coming year the Committee will further develop the assurances they are able to provide and also their contribution to an effective control framework.

Alternative Options

Not Applicable

Risk Management

Financial and Procurement Implications

There are no direct financial implications arising from this report.

Legal/Human Rights Implications

Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2011. 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.

Audit Committee: Annual Report for the year 2010/11.

AUDIT COMMITTEE

Date: 28th June 2011

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

None

Key Decision/Decision in Forward Plan

Not Applicable

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Audit Committee - Terms of Reference

AUDIT COMMITTEE

Date: 28th June 2011

Author: Head of Internal Audit

Wards Affected: None

Purpose

To present updated Audit Committee terms of reference and work programme for approval.

Recommendation

- That the Audit Committee approves the revised terms of reference and work programme.

1 Reasons

- 1.1 It is important that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.
- 1.2 It is therefore essential that the terms of reference and work programme ensure that the Committee receives information on assurance regarding the above areas so that it is in a position to provide assurance itself.

2 Detail

- 2.1 The terms of reference for Audit Committee are attached as Appendix 1. These include the additional responsibility for oversight of treasury management, which was agreed last year. No further amendments are recommended
- 2.2 The planned work programme for the Committee for 2010/11 is attached as Appendix 2.

Alternative Options

Not Applicable

Audit Committee - Terms of Reference

AUDIT COMMITTEE

Date: 28th June 2011

Risk Management

Financial and Procurement Implications

There are no direct financial implications from this report.

Legal/Human Rights Implications

Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2003. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972. An Audit Committee is seen as an essential element of corporate governance.

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 One Swindon 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 – Terms of reference.

Appendix 2 – Work programme

Key Decision/Decision in Forward Plan

Not Applicable

Terms of Reference:

The purpose of the Audit Committee is 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) reviewing the performance of the Council's Internal Audit section
- (iv) receipt and review of External Audit reports and liaison with external auditors on significant matters identified.
- (v) advising upon and/or reviewing the effectiveness of any other matters referred to the Audit Committee by the Executive, the Overview and Scrutiny and Regulatory Committees.
- (vi) To consider, accept and take a view on the Statement of Accounts and the Annual Governance Statement.
- (vii) Ensuring effective scrutiny of treasury management policies and practices including the annual investment strategy.

Accountability:

1. The Audit Committee will be a stand alone Committee of the Council. All Audit Committee members will act in the interests of the Council and not on behalf of any political party, constituency, ward, or interest group.
2. The Chair of the Audit Committee will be appointed by Full Council, who will ensure that relevant issues are promptly brought to the attention of the Executive, Overview and Scrutiny and Regulatory Committees, or the Full Council.
3. The Chair of the Audit Committee will present an Annual Report on the work of the Audit Committee to the Full Council

Authority and Access:

4. The Audit Committee has a right to request relevant information from any Members / Officers.
5. The Committee can require any member of the Cabinet or, senior officer (Chief Executive, Group Director, or Director) to attend before it to facilitate consideration by the Committee of matters within the remit of such Member or officer.
6. The Audit Committee will not be able to transact the powers, functions and duties reserved to the Council, the Cabinet, Overview and Scrutiny and other Regulatory Committees.

7. The Audit Committee will have access to in-house legal and other professional advice.
8. The Chair of the Audit Committee, external and internal auditor will meet as necessary and the Head of Internal Audit will provide necessary services / support and assistance to the Audit Committee.
9. Any Member, Officer or member of the public, who has any concern covered by the Terms of Reference of the Audit Committee, may raise the matter with the Chair of the Committee who will obtain, if necessary, relevant advice from the Monitoring Officer, or the Section 151 Finance Officer before taking any action with regard to the same.

Membership

10. Audit Committee members will be appointed by the Council and consist of at least 5 members in accordance with the rules governing political balance. A member of the Cabinet shall not be eligible to be a member of the Audit Committee. The Council may co-opt other non-voting members, as required.
11. The decisions of the Audit Committee will not be of an executive nature, and like other Regulatory Committees, the decisions will not be the subject of Scrutiny call-in. If any Member is concerned about any decision of the Audit Committee, s/he should raise the matter with the Chair of the Audit Committee, the Monitoring Officer, or the Section 151 Finance Officer and/or ask an oral question of the Chair of the Audit Committee at the Council meeting in accordance with relevant Standing Orders.

Attendance

12. The Audit Committee shall meet on a regular basis. Council officers and others may attend all or part of the meeting at the invitation of the committee. Attendees may include:
 - Deputy Leader or nominee
 - Chief or Deputy Chief Executive
 - Director of Finance
 - Monitoring Officer (Director of Law and Democratic Services)
 - Head of Internal Audit
 - An observer from the Scrutiny Committee
 - Other Directors and Managers, as required
13. Subject to the relevant meeting complying with the Access to Information paragraphs for the exclusion of members of the public, the Committee will meet, at least, annually with:
 - the external and internal auditors together; and/or
 - in private, with the external auditor.

Meetings

14. Subject to there being sufficient business to transact, the Audit Committee will meet, at least, four times a year. The External Auditor, or Head of Internal Audit may request a meeting if they consider it necessary. Appendix 2 contains an outline Audit Committee timetable.
15. The members of the Audit Committee will commit to receiving appropriate training and development necessary to fulfil their roles.

Quorum

16. The quorum for any meeting will be in accordance with the Council's Standing Order 26 (Council Procedure).

Work Profile of the Audit Committee

17. The Audit Committee will take a strategic view on the Council's assurance framework and to this end is likely to receive and advise upon the following areas of work:
 - Whether there is an appropriate culture of risk management and related control throughout the Council;
 - The Annual Governance Statement (AGS)
 - The Annual Statement of Accounts, including changes in and compliance with accounting policies and practices, major judgemental areas and significant adjustments resulting from the audit;
 - Significant changes required to Financial Regulations and the Accounting Procedures Manual;
 - The framework and processes for risk assessment, analysis and management within the Council;
 - The effective co-ordination between internal and external audit;
 - The budget needed to resource effective internal and external audit and other responsibilities of the Audit Committee; and
 - Agreement of the annual Internal Audit Plan and the performance against the completion of this plan
 - Ensuring effective scrutiny of treasury management policies and practices including the annual investment strategy.
 - Generally, on how the Audit Committee could add value to the Council and how it can best work with other Council bodies such as Overview and Scrutiny and Standards.
18. **To consider: Audit Activity**
 - The Head of Internal Audit's Annual Audit report and opinion, and a summary of Internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

- Internal Audit's Charter, the Annual Plan and to monitor the management and performance of internal audit and the delivery of the plan.
- Whether the Internal Audit function is adequately resourced.
- Summaries of specific Internal Audit reports.
- A report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
- The External Auditor's Annual Letter, relevant reports and the report to those charged with governance.
- Specific Audit Commission reports as agreed with the External Auditor.
- To review the planned programme of work with the External Auditor commenting on the scope and depth of external audit work and to ensure that it gives value for money.
- To liaise with the Audit Commission over the appointment of the Council's external auditor.
- To receive and respond to, relevant external inspection reports and gain assurance that agreed recommendations made have been implemented.
- To commission work from internal and external audit.

19. To consider: Regulatory Framework

- To review and advise the Cabinet on the embedding and maintenance of an effective system of corporate governance in relation to internal control and risk management.
- To review and advise the Council on the Council's Constitution in respect of contract procedure rules, financial regulations etc.
- To review the Council's assurance framework ensuring that it details the strategic objectives of the Council identified risks to meeting these objectives, mitigating controls and levels of assurance.
- To obtain assurance from relevant bodies of the proportionality, independence and appropriateness of the Council's Anti-fraud and Corruption strategy including the Whistleblowing process.
- To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
- To review the Council's own compliance with its own and other published standards and controls.
- To review any issue referred to it by the Chief Executive, a Director, the Monitoring Officer, Head of Internal Audit, or any Council body.

20. To consider: Accounts

- To consider, accept and take a view on the annual Statements of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider, accept and respond to the External Auditors' report on the Statement of Accounts.

Audit Committee – Draft Work Plan for 2011/12

	Agenda Item / Issue	2011			2012	
		June	September	November	January	April
1	Review of internal audit annual plan.					X
2	Review of internal audit progress reports and summary of key findings.	X	X	X	X	X
3	Review of final accounts timetable, plans, progress and any updates on changes to financial procedures.				X	X
4	Review of final accounts and financial statements.	X				
5	Review and approval of audited final accounts and financial statements.		X			
6	Approval of the Annual Governance Statement		X			
7	External Audit: Progress report Annual Governance report Annual Audit Letter Opinion Audit Plan and Assurance from those charged with governance	X	X X	X X	X	X X
8	Receipt of Head of Internal Audit's annual report.	X				
9	Review of the effectiveness of the system of internal audit (inc. self-assessment of Audit Committee)	X				
10	Agree Audit Committee terms of reference and work programme.	X				
11	Risk Management update and review of losses and special payments.		X		X	

	Agenda Item / Issue	2009			2010	
		June	September	November	January	April
12	Agree Internal Audit Strategy and terms of reference				X	
13	Receipt of assurance reports i.e. Performance Management; Standards; Overview & Scrutiny; or Monitoring Officer as appropriate.	X	X	X	X	X
14	Review of other reports and policies as appropriate e.g. Internal Audit reports identifying significant risks, changes to Financial Regulations, Inspection Reports.	X	X	X	X	X
15	Receipt of report on CIPFA Benchmarking exercise for Internal Audit			X		

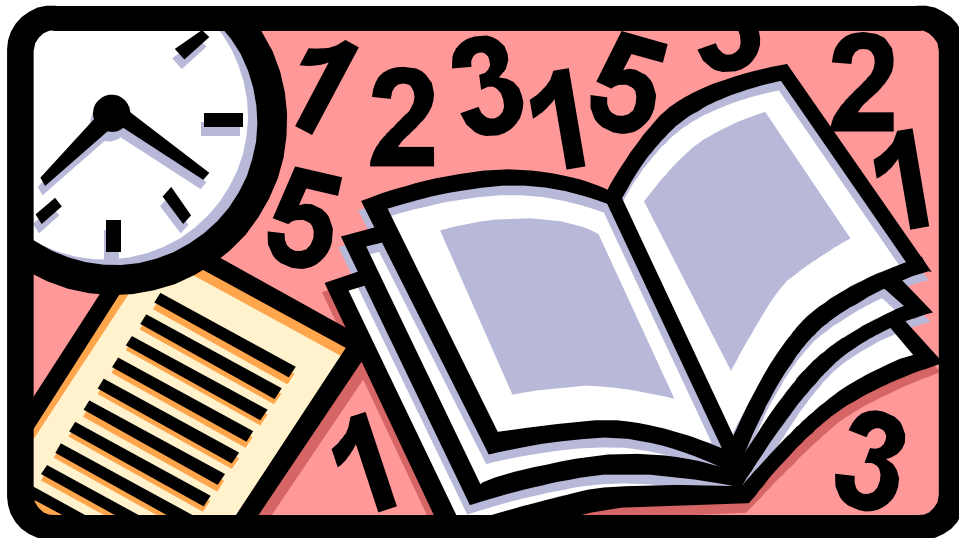
Private discussions with internal and external audit can be held as required by the Audit Committee.

Swindon Internal Audit Services

Internal Audit's Annual Report

for

2010 - 2011



Produced by: Nick Hobbs – Head of Internal Audit

Date: June 2011

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Appendix 1: Audits completed during 2010/11

Introduction

This annual report provides a summary of the work completed by Swindon Internal Audit Services for 2010/2011 and provides the Head of Internal Audit's overall opinion on the Council's system of internal control.

The aim of Internal Audit is to help the Council meet high standards of service delivery, conduct and governance by examining, evaluating and reporting on the internal control environment. This then allows us to provide assurance and support to the:

- Audit Committee in discharging its responsibilities for:
 - (a) advising on the adequacy and effectiveness of the Authority's internal control environment in accordance with the requirements of The Accounts and Audit Regulations 2011.
 - (b) supporting the Director of Finance with his delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit.
 - (c) monitoring the adequacy and effectiveness of the Internal Audit Service and Director's responsibility for ensuring an adequate control environment.
- Council Leader and Chief Executive in their annual certification of the Annual Governance Statement.
- Director of Finance in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.
- Director of Partnership, Policy and Communications in his capacity as Chair of the Council's Corporate Risk Management Group.
- External Auditor in relation to our work on the managed (main financial systems) audits.

Legal framework

Internal Audit is a statutory requirement for local authorities. There are two principal pieces of legislation that impact upon internal audit in local authorities:

- Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.
- Section 6 of the Accounts and Audit Regulations 2011 (England and Wales) states that 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The Regulations also require the Council to conduct a review of the effectiveness of its system of internal audit at least once a year as part of its review of the system of internal control.
- All principal local authorities subject to the Accounts and Audit Regulations 2011 must make provision for internal audit in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.

Definition of Internal Audit

Internal Audit is 'an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources' (source: CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006).

Annual Governance Statement

The outcome of the audits performed during 2010/11 help to inform Internal Audit's overall opinion on the adequacy of the Council's systems of governance and internal control which will then feed in to the Council's Annual Governance Statement. Internal Audit is only one of a number of areas of assurance that contribute to the Council's Assurance Framework.

The Accounts and Audit Regulations 2011 for local government bodies in England require an Annual Governance Statement (AGS) to be published, in accordance with proper practices, following the Council's review of its system of internal control. The AGS is required to include the following disclosures:

- an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- an indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- a brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
- a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements.
- an outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. In turn Internal Audit provide a key source of assurance to the committee as to whether controls are operating effectively. Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority.

Effective corporate governance depends, in part, on a systematic strategy, framework and processes for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports

have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

The existence of an independent and effective audit committee helps to convey to staff and to the public the importance Members and Directors attach to governance arrangements and internal control.

Swindon BC has adopted best practice in implementing a stand alone Audit Committee that is independent of the Executive. Members promote the need for internal control and risk management. The Chief Executive, Group Directors, Directors and other relevant officers have attended meetings of the Committee to update Members on the progress in implementing audit recommendations thereby helping to raise the profile of the work of internal audit.

The Committee has an agreed set of terms of reference that encompass the recommendations/guidance issued by CIPFA, the CAA Use of Resources and External Audit. These terms of reference set out the following main responsibilities of the Audit Committee:

- (a) the effectiveness of the Council's risk management, internal control and its overall assurance framework.
- (b) the effectiveness of the Council's financial and non-financial performance to the extent that it might impact upon (a) above.
- (c) reviewing the performance of the Council's Internal Audit section.
- (d) receipt and review of External Audit's reports and liaison with external auditors on significant matters identified.
- (e) advising upon and/or reviewing the effectiveness of any other matters referred to the Audit Committee by the Executive, the Overview and Scrutiny and Regulatory Committees

The Committee also has the responsibility of agreeing the Council's statement of accounts, the Annual Governance Statement and reviewed the effectiveness of the system of internal audit (as required by the Accounts and Audit Regulations 2006).

Members have self-assessed the Audit Committee arrangements against the *Toolkit for Local Authority Audit Committees* produced by the CIPFA Better Governance Forum.

Meetings of the Committee have been well attended and Members have ensured that there has been debate on a range of topics. The Committee has produced an annual report to Council setting out their activity over the past year.

External Audit

The Council's External Auditors, the Audit Commission, examine the work of Internal Audit on an annual basis and seek to place reliance on that work when they come to audit the Council's financial statement of accounts.

External Audit are no longer required to carry out a full review of Internal Audit every three years, or to refer specifically to Internal Audit, except by exception, in any of their external reporting i.e. their Annual Governance Report or Annual Audit Letter.

However the Audit Commission were able to confirm that they are able to place reliance on our work (as regards to our work on financial systems) and that in their internal documentation relating to the overall control environment they have concluded that Internal Audit at Swindon Borough Council continues to be effective and consistently meets the CIPFA standards.

The CIPFA standards are those set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006). The Code sets out the following eleven standards:

- Scope of Internal Audit
- Independence
- Ethics for Internal Auditors
- Audit Committees
- Relationships
- Staffing, Training and Development
- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness

The section works closely with the Council's External Auditor, the Audit Commission, to ensure that we can provide the required assurance both as far as coverage and quality of our work.

Internal Audit – Coverage

The level of internal audit resources required to examine all the Council's activities far exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent appraisal function that internal audit provides.

Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on service delivery.

The internal plan for 2010/11 was based to a large extent on the Council's Corporate and Group Directorate risk registers. These were complemented by priorities identified by Directors and the requirements of the Director of Finance in his role as Section 151 Officer and those of External Audit and those concerns/issues raised by internal Audit in previous audits and our knowledge of potentially high-risk areas. The plan was submitted to Corporate Board before being approved by the Council's Audit Committee.

We managed to complete 86% of the number of audits included in the plan against a target of 92%. This coverage included 100% of the audits required by the Council's External Auditors on the main financial systems.

Details of all the internal audit reports issued during 2010/11 are set out in [Appendix 1](#).

System of Internal Audit – Review of Effectiveness

The Accounts and Audit Regulations 2011 require the Council, at least once a year to conduct a review of the effectiveness of its system of internal audit. The Regulations state that a relevant body or committee should carry out the review. The Audit Committee carried out the review in June 2011.

Internal Audit is one of the key areas of assurance for the Audit Committee and therefore it is important that it can be assured that the system of internal audit is effective. The report to Committee set out various areas of assurance that could be examined when considering the effectiveness of the system. These include:

- **Compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006.** A self-assessment checklist taken from the Code of Practice was presented to the Audit Committee. The checklist indicated that the Council were adopting best practice with regard to the system of Internal Audit and the Committee endorsed the assessment.
- **The Council's External Auditor** carries out an annual review of Internal Audit. These reviews have shown that the section operates in accordance with the CIPFA Code of Practice, that they have been able to place reliance on our work and that an effective audit function is in place (see also the section on External Audit, above).
- **My overall opinion as Head of Internal Audit** (see below).
- **Client Feedback** is an important source of assurance. Is the Internal Audit service providing what the client wants and at the right level/standard? After each audit is completed and the report issued a customer feedback form is sent to the client manager asking them to rate the service received as either excellent (4); good (3); average (2) or poor (1), under a number of headings i.e. value of the audit to you as a manager; conduct of auditor; additional comments regarding improvement to services; whether the manager considers audit to be a supportive process. Our target is to achieve an overall rating of at least good on 85% of the audits. From those feedback forms returned for 2010/11 86.21% rated the audit as either 'good' or 'excellent' whilst the remaining 13.79% rated it as between 'average' and 'good', thereby exceeding our target.
- **Coverage** - Corporate Board and the Audit Committee approve the annual audit plan. A significant part of the plan for 2010/11 was based on the Council's Corporate risk register and the Group Directorate registers that support this, thereby demonstrating that the plan was risk-based, i.e. concentrating on risks to the Council achieving its main objectives. In 2010/11 86% of the number of audits in the annual plan were completed against a target of 92%. Two Principal Auditors were out for a significant period of time during the year (one on adoption leave the other part-time officer on long-term sickness), the adoption leave was partly accounted for when planning the audit resources available.
- **Audit Committee** - When looking at the system of internal audit it incorporates more than just the internal audit section. The Audit Committee is a key element of this process. The Audit Committee has been established as a full committee and has adopted new terms of reference that reflect current guidance and best practice. Members of the Committee are able to call Group Directors/Directors and indeed the Chief Executive to account when considering individual audit reports. Members also monitor the performance of internal audit by reviewing the Head of Internal Audit's

monthly update report to Committee. Members carried out a self-assessment against the checklist provided by the CIPFA Better Governance Forum during 2010.

- **Contribution by Officers** – Officers contribute to individual internal audits including agreeing the scope of the audit, providing relevant documentation, explanations and evidence to the auditor, agreeing the audit report and providing management responses to the recommendations. Officers also attend Audit Committee, including the Chief Executive, Group Directors and Directors to provide updates on the progress in implementing agreed audit recommendations and providing relevant explanations.

Having reviewed the above sources of assurance the Committee confirmed its satisfaction with the effectiveness of the Council's system of internal audit and that no areas of non-compliance with best practice had been identified.

Internal Audit - Overall Opinion

Our work in 2010/11 identified that ten (Treasury Management, Asset Management, Housing Rents, Debtors, Cash Collection, Main Accounting, Creditors, Housing Benefits, Council Tax and NNDR) of the twelve main financial systems audited annually were of **moderate** risk to the Council. This shows improvements in Council Tax, NNDR and Creditors and a significant improvement in Housing Benefits.

It should be noted that the scope of the audits of Benefits, Council Tax and NNDR did not include reference to the IT controls. These have been dealt with under a separate review being undertaken in 2010/11.

Two systems (Payroll and Risk Management) remain **of concern**. Reports on these systems have been provided to relevant managers and agreed action plans have been produced.

The audit report for the Payroll system recognised that further improvements had been made following the previous audit. However, the significant issue identified within the Payroll system is that there is no authorised signatory process. The Risk Management process is currently being reviewed and the audit opinion reflects that progress is still required in implementing agreed recommendations.

Therefore, based on our work carried out during the year, my overall opinion is that the Council's overall internal control arrangements during 2010/11 are considered to be **satisfactory**, resulting in a '**Moderate**' level of risk.

Our overall opinion on a system is based on both the materiality and impact of the system and our opinion on the internal control arrangements within the system. The combination of these factors then results in a category of risk to the Council as shown in *Table 1* below:

Table 1:

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

A number of the other areas audited during 2010/11 did indicate an 'Of Concern' risk to the Council. However, it should be noted that as the audit plan is risk-based and has been compiled with input from Directors on areas that they have concern then it is to be expected that the level of audit opinion for these areas would be lower.

Those systems reported during the year where potentially 'of concern' risk to the Council in addition to those listed above were: Payment Card Industry Standards, Property Compliance, Section 106, Street Smart, EOTAS and Compliance with Procurement regulations.

The key recommendations relating to these systems have been reported to Audit Committee and full reports with agreed action plans have been reported to the relevant Director/Group Director.

Internal Audit – Successes

In addition to achieving 100% of the fieldwork on the main financial systems as required by External Audit, some of our other successes during 2010/11 include:

- External Audit assessment – External Audit have been able to place reliance on our work and assessed our work as complying with the standards set out in the Code of Practice for Internal Audit in local government in the UK.
- The Audit Committee has assessed that the system of internal audit is effective.
- FMSiS – we completed to hit the Department for Education's targets for the external assessment of schools prior to the removal of FMSiS in 2010. The feedback from the schools regarding our audits (and assessments) continues to be positive.
- 86.21% of the feedback from our customers rated the audits as GOOD or EXCELLENT, the remaining audits were ranked between above average.
- We have completed the first year of our two-year extension of our contract with the Wiltshire and Swindon Fire Authority providing their Internal Audit service. We have

had very good feedback on our work from both the client and their External Auditor (KPMG).

- We have continued to support our staff in their continuing professional development (CPD) and have 'approved trainer status from the ACCA. We now have two Audit Trainees who are progressing through the PIIA/MIIA qualifications.

Internal Audit – Whistleblowing and investigations

The Internal Audit section continues to support the Council's Whistleblowing process in liaison with the Director of Law and Democratic Services. The section was involved in three new whistleblowing cases during the year and four carried over from the previous year. Reports are issued to Standards Committee on the progress of these investigations. The investigations can be both time consuming, and lengthy. A summary of the findings relating to the whistleblowing cases is set out below:

Ref	Date reported to Standards	Comment
WB 09/10-8	January 2010	An allegation was made regarding inappropriate staff conduct. The relevant line manager completed the initial investigation and found that there was sufficient evidence to proceed to a disciplinary investigation, which is currently underway.
WB 09/10-7	April 2010	An anonymous allegation was made regarding improper recruitment. Internal Audit has completed an initial investigation. This found that there was sufficient evidence to proceed to a disciplinary investigation. A disciplinary hearing has now been held and the employee received an informal reprimand.
WB 09/10-3	July 2010	An anonymous allegation was received that inappropriate awards of work had been made to a company. Internal Audit investigated the matter and found that there was no evidence to substantiate the claim. However, a number of recommendations were made to improve internal control arrangements.
WB 10/11-1	July 10	An allegation was made from an employee that threats had been made against a colleague by their manager. Internal Audit investigated the matter and found no evidence to substantiate the allegation.
WB 09/10-10	September 2010	This allegation, made by an employee, is now being considered under the Council's Grievance Policy.
WB 09/10-11	September 2010	Allegations were received that a manager was providing benefits to friends/colleagues to which they were not entitled. The investigation has been completed and a report issued to management. The report raised a number of control weaknesses and appropriate disciplinary action has been taken.
WB 09/10-12	January 2011	This allegation related to an SCS employee and referred to events after SCS had decoupled from the Council. Therefore, the allegation was passed over to SCS to investigate.

Ref	Date reported to Standards	Comment
WB 09/10-13	January 2011	Internal Audit carried out an investigation in to a number of allegations made by a member of the public. A number of issues regarding procedures were found and recommendations made to improve internal control arrangements, accountability and to improve transparency in the process.
WB 10/11-2	January 2011	Allegations relating to inappropriate conduct regarding the award of work to contractors were referred to the Police to investigate who found that there was insufficient evidence with which to proceed with an investigation.
WB 10/11-4	January 2011	An initial investigation identified that the allegation related to a Capita member of staff. The investigation was therefore passed over to Capita to investigate who found that there was no case to answer.

In addition to these whistleblowing cases the section has also been involved in a further eight separate investigations.

Internal Audit - Other activity

- **Anti-Fraud** - the Internal Audit section continues to assist in promoting an anti-fraud and corruption culture. We have issued a quarterly Fraud Bulletin to all staff highlighting recent scams and frauds that had occurred in both the public and private sectors. The feedback on these documents has been encouraging. In conjunction with the Director of Law and Democratic Services we have reviewed the Council's anti-fraud and corruption strategy and whistleblowing policy. We have also produced a Fraud Response Plan and a Fraud Awareness guide for managers.

National Fraud Initiative - The Council, via Internal Audit, has again participated in the Audit Commission's National Fraud Initiative (NFI) as part of the statutory external audit requirements. The NFI brings together data from across the public sector including local authorities, NHS, the Home Office/other government departments and other agencies to detect "matches" i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.

For the 2010/11 exercise, data sets in respect of the following sources were nationally obtained and matched:

Housing Benefit; Housing Tenancy; Student Loans; Payroll; Illegal immigrants; Individuals with no recourse to public funds; Pensions; Licence holders - Taxi Drivers, Market Traders and Alcohol; Blue Badge Records; Deceased persons; Concessionary fares; Residential Care; Insurance and Creditor Records.

In the latest exercise the Council had 11,714 matches of which 1,396 were 'priority hits'. The largest savings identified to date have been in relation to people on the housing benefit to payroll data matches.

The scheme has identified around £450million of fraud and overpayments nationally since 1996. More information can be obtained at: www.audit-commission.gov.uk/nfi or from the Head of Internal Audit.

Raising Fraud Awareness – in addition to the Fraud Bulletins regular use of the Council's Core Brief has also been used to raise staff awareness of the Council's anti-fraud and corruption strategy and whistleblowing policy.

Internal Audit staff continue to make use of fraud awareness groups, both nationally and regionally, to maintain awareness of frauds occurring that could affect the Council. Internal Audit has also started to roll out a series of fraud awareness sessions for management teams.

Fraud Benchmarking and Fraud Statistics – The annual Audit Commission survey was completed and submitted in May 2011. The survey will be used as an additional source of information to inform Internal Audit's proactive fraud work.

As members of the West of England Chief Auditors Fraud Sub-Group a fraud benchmarking exercise was undertaken in 2010 that concentrated on identifying and comparing numbers and types of fraud and the amount of time spent on anti-fraud activities. This will help inform the Council's own risk assessment of fraud as well as give an indication of the effectiveness of our anti-fraud arrangements.

- **Advice and consultancy** – members of the Internal Audit continue to provide advice both during the course of audits and responding to ad-hoc queries.
- **Attendance at and contribution to, working groups etc.** – members of the section continue to contribute to the development of the Council and ensuring that we are up-to-date with best practice by attending the following committees, working groups etc.
 - Audit Committee
 - Standards Committee
 - Business Transformation Senior Management Team (as a guest)
 - Manager's Panel
 - West of England Chief Internal Auditors Group and its sub groups – Children Services, Adult Services, Contract Audit, I.T. Audit and Fraud
 - Western Unitaries Audit Group

Review of Performance Management and Quality Assurance Framework

The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 requires that Internal Audit should have a '*Performance Management and Quality Assurance Framework*' and that the results of which should be included in the Head of Internal Audit's Annual report. The Framework has been presented to, and approved by, the Audit Committee.

- (a) **Performance Management** – the section's key performance indicators are set out in the section below.

- (b) **Quality Assurance** – each individual audit report and supporting working papers/documents are reviewed by either a Principal Auditor or the Head of Internal Audit. Appropriate standards have been set by the Head of Internal Audit in accordance with the Code of Practice. The file reviews ensure the audits comply with the code's requirements and where necessary corrective action is taken.

Internal Audit – Performance Indicators

The section had three key performance indicators in 2010/11:

- ***The percentage of audits completed against the number identified in the agreed Audit Plan.***

Justification for this performance indicator: <i>to ensure that Internal Audit provides sufficient coverage to ensure that the requirements of the Council's section 151 Officer and External Audit are met and that Internal Audit can give sufficient assurance to the Audit Committee regarding the Council's systems of internal control and the completion of the Annual Governance Statement.</i>	
Target: 92%	Achievement: 86%
Therefore target not achieved in 2010/11	

- ***The percentage of audits of the Council's main financial systems completed against the number identified in the agreed Audit Plan.***

Justification for this performance indicator: <i>to ensure that Internal Audit provides sufficient coverage and assurance to the Council's External Auditors regarding the systems of controls in place in relation to the main financial systems.</i>	
Target: 100%	Achievement: 100%
Therefore target achieved in 2010/11	

- ***85% of feedback forms rated the audit as GOOD or EXCELLENT.***

Justification for this performance indicator: <i>to ensure that Internal Audit provides sufficient the level of service required by its clients.</i>	
Target: 85%	Achievement: 86.21% (the other 13.79% rated the service as above average)
Therefore target achieved in 2010/11	

Acknowledgement

I would like to take this opportunity to thank all Members and Officers for their help in putting the audit plans together and for the courtesy shown to members of the audit section during the course of their reviews.

We do try and make the audit process as constructive and positive as possible by working with Members and Officers. I would welcome any feedback you may have on our performance both on individual audits (where customer feedback forms are provided), or generally. We are always looking to improve our service.

Many thanks,

Nick Hobbs

Head of Internal Audit

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Managed Audits Completed (4 Audits) - Draft

	April	May	June	July	August	September	October	November	December	January	February	March
Managed Audits Completed								Main Accounting		Council Tax	Cash Collection	
								NDR				
Managed Month Total	0	0	0	0	0	0	0	2	0	1	1	0
Managed Cumulative Total	0	0	0	0	0	0	0	2	2	3	4	4
Managed Target %	0	0	0	0	0	0	25	50	50	75	75	100
Managed Achieved %	0%	0%	0%	0%	0%	0%	0%	50%	50%	75%	100%	100%

Total Non Managed Audits Completed (118) - Draft

	April	May	June	July	August	September	October	November	December	January	February	March
Other Audits Issued												
	Cash Collection	SWRDA Final Grant Claim	Waste Strategy	Contact Point	Government Connect Position Statement	Direct Payments	Debtors	Investigation Inv 10/11-1	Colebrook Junior FMSiS	Peatmoor	Demand Forecasting	SENRAP
	Student Disregards	Commonweal School	Robert Le Kynng School	Residents Cash & Property (SBC)	Health & Safety in Schools	Section 106	HB Claims Processing (interim)	HB Fraud Consultancy	SWIFT	Highworth Leisure	Wireless	Payroll
	Members Allowances	Nyland Primary School	Drove Primary School	Property Compliance	Investigation - Inv 09/10-8	Procurement Card Investigation	Drove FMSiS	TASK Financials	Eastrop	Streetsmart	Bridlewood	VFM Capital Projects
	Travel & Subsistence	Council Tax (09/10 testing)	Northview Primary School	NNDR (09/10 testing)	Leisure Passports (general)	Supporting People	ICT UoR	Resident's Cash and Property (Private)	South Marston	EOTAS	Procurement Cards	Asset management
	Nova Hreod		Section 38 Agreements		Investigation - WB 09/10-13	Health & Safety ERC	ICT Asset Management	Treasury Management	Property Repairs Framework Agreement and Procurement Arrangements	Compliance with Procurement Reg's	Dorcan School	EOTAS - Investigation
			Stroke Grant		School Admissions	Colebrook IA	Investigation - Inv 10/11-4	St Mary's School	Street Works	Ombudsman inv	ASC Decoupling - readiness	Childrens Safeguarding
			LS3		Investigation - STFC Study Centre	Sickness monitoring	NFI	WB 09/10-4	ASC Variations	St Joseph's Catholic School		Cheque control
			Wroughton Junior School			Capital Programme		Eligibility of care	Dorcan SCITT	Recoupment		TUPE Arrangements - Children
			Business Continuity Follow-up			Controlled Stationery		Greenmeadow		New Central Library		Creditors
			Asset Management Follow-up			Investigation - Inv 10/11-2		Open Housing IT		Affordable Housing		Creditors F&C
			Delivery of 50 Promises			Investigation - Inv 10/11-3				SCS: Sub-contractors Portal		SCS Investigation
			Payment Card Industry Stds							Housing rents		Risk Management
			Kingsdown School									PFI
												Ridgeway
												Gov Connect
Non-managed total for month	5	4	13	4	7	11	7	10	8	12	6	14
Cummulative non managed audits	5	9	22	26	33	44	51	61	69	81	87	101

	April	May	June	July	August	September	October	November	December	January	February	March
Overall Month Total Audits	5	4	13	4	7	11	7	12	8	13	7	14
Overall Total Audits	5	9	22	26	33	44	51	63	71	84	91	105
Target Completion of Plan %	3	7	13	22	29	38	47	56	63	71	80	92
Audit Plan Achievement %	4%	7%	18%	21%	27%	36%	42%	52%	58%	69%	75%	86%

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Audit Committee: Effectiveness of the system of Internal Audit

Audit Committee

Date: 28th June 2011

Author: Head of Internal Audit

Wards Affected: None

Purpose

In order to comply with The Accounts and Audit (Amendment) (England) Regulations 2011 the Council must, at least once a year, conduct a review of the effectiveness of its system of internal audit.

Recommendation

- It is recommended that the Audit Committee agree that they should carry out this review of effectiveness.
- It is recommended that Members review the effectiveness of internal audit using the sources of assurance detailed in this report and against the checklist provided in the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (see Appendix A attached) and the CIPFA Audit Committee Toolkit self-assessment checklist.
- It is recommended that where Members note any non-compliance with best practice they request the Head of Internal Audit to bring back a future meeting of the Committee details of changes to procedures or amendments to documents for approval.

1 Reasons

- 1.1 The Accounts and Audit Regulations 2011 state that 'the relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit'. The regulations go on to state that the findings of this review be considered by a committee of the relevant body, or by members of the relevant body as a whole, as part of the wider consideration of an organisation's system of internal control.
- 1.2 Internal Audit is one of the key areas of assurance for the Audit Committee and therefore has a significant impact on the Council's Annual Governance Statement. It is important that the Committee can be assured that the system for Internal Audit itself is effective.

Further information on the subject of this report can be obtained from *Nick Hobbs* on *Direct Dial No. 01793 463940* or Email nhobbs@swindon.gov.uk.

Audit Committee: Effectiveness of the system of Internal Audit

Audit Committee

Date: 28th June 2011

- 1.3 The regulations and guidance relating to the assessment of the system of internal audit allow for different methods of review but it is accepted that where an Audit Committee exists that this would be an appropriate body to conduct the review.

2 Detail

Introduction

- 2.1 The Audit Committee is considered to be an appropriate body to review the effectiveness of the system of internal control, although other methods of review can be considered.
- 2.2 This report sets out various areas of assurance that the Audit Committee can look to rely on when reviewing whether the system of internal audit is effective.

The Accounts and Audit (Amendment) (England) Regulations 2011

- 2.3 The Accounts and Audit Regulations have put greater emphasis on internal audit's role beyond looking at just financial controls.
- 2.4 Internal Audit is therefore a key source of assurance to the Audit Committee when it considers the Council's Annual Governance Statement (a requirement of the regulations).
- 2.5 The Annual Governance Statement will be presented to Audit Committee in September before being signed off by the Leader and Chief Executive.

CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.

- 2.6 This publication updates the 2003 Code. It reflects the changes arising from the amendments to the Accounts and Audit Regulations in 2006 and practice relating to corporate governance that further emphasise the importance of internal audit to the proper management of organisations. It more closely aligns practice with current approaches for auditors, particularly in respect of developments in risk management and the impact on planning internal audit activity.
- 2.7 All principal local authorities' internal audit sections should comply with the requirements set out in this Code.
- 2.8 The Code of Practice contains eleven standards as follows:
- Scope of Internal Audit
 - Independence

Further information on the subject of this report can be obtained from *Nick Hobbs* on *Direct Dial No. 01793 463940* or Email nhobbs@swindon.gov.uk.

Audit Committee: Effectiveness of the system of Internal Audit

Audit Committee

Date: 28th June 2011

- Ethics for Internal Auditors
- Audit Committees
- Relationships
- Staffing, Training and Continuing Professional Development
- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness

- 2.9 These standards are summarised in a checklist that is attached as Appendix 1. The Head of Internal Audit has completed answers to the checklist that members of the Audit Committee are asked to consider as part of their review of the effectiveness of Internal Audit.

Director of Finance

- 2.10 The Director of Finance has stated that: *'as Director of Finance I am satisfied that the current system for internal audit provides me with the necessary assurance regarding the Council's internal control arrangements'*.

External Audit

- 2.11 Last year the Government announced that the Audit Commission's Comprehensive Area Assessment (CAA) regime was to cease and, as a result, the External Auditor's requirement to provide a Use of Resources scored judgement was removed. However, they have reported in the past that *'Internal control is generally strong with an effective Internal Audit'*.
- 2.12 The last assessment of the arrangements regarding Internal Control under CAA (UoR section 4.2) were rated as a level 3 i.e. performing well – consistently above minimum requirements.
- 2.13 External Audit are no longer required to carry out a full review of Internal Audit every three years, or to refer specifically to Internal Audit, except by exception, in any of their external reporting i.e. their Annual Governance Report or Annual Audit Letter.
- 2.14 However the Audit Commission were able to confirm that they are able to place reliance on the work of Internal Audit (as regards to our work on financial systems) and that in their internal documentation relating to the overall control environment they have concluded that Internal Audit at

Further information on the subject of this report can be obtained from Nick Hobbs on Direct Dial No. 01793 463940 or Email nhobbs@swindon.gov.uk.

Audit Committee: Effectiveness of the system of Internal Audit

Audit Committee

Date: 28th June 2011

Swindon Borough Council continues to be effective and consistently meets the CIPFA standards.

2.15 The CIPFA standards are those set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006). The Code sets out the following eleven standards:

- Scope of Internal Audit
- Independence
- Ethics for Internal Auditors
- Audit Committees
- Staffing, Training and Development
- Relationships
- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness

2.16 The Internal Audit section works closely with the Council's External Auditor, the Audit Commission, to ensure that we can provide the required assurance both as far as coverage and quality of our work.

2.17 Members can gain assurance from the Council's External Auditor that the Council has an effective Internal Audit.

Client Feedback

2.18 After each audit is completed and the report finalised a customer feedback form is sent to the client manager asking them to rate the service they received as either excellent (4); good (3); average (2); poor (1) under a number of headings i.e.

- Value of the audit to you as a manager: pre-audit arrangements; coverage of audit; timeliness of report; accuracy and clarity of report; practicality of recommendations.
- Conduct of auditor: professionalism of approach; communication skills; timeliness, competency and manner of auditor; friendliness, helpfulness and approachability.
- Additional comments regarding improvement to services.
- Whether the manager considers audit to be a supportive process.

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Audit Committee: Effectiveness of the system of Internal Audit

Audit Committee

Date: 28th June 2011

- 2.19 Our target is to achieve an overall rating of at least 3 (good) in over 85% of the customer feedback forms we receive. From those feedback forms returned for 2010/11 our average score was 3.31. 86.21% rated the service as either 'GOOD' or 'EXCELLENT'. The remaining 13.79% rated the service as above average. Detailed results are as follows:

Area of assessment	Score [excellent (4); good (3); average (2); poor (1)]
Pre-audit arrangements	3.07
Scope of audit	3.17
Timeliness of report	3.00
Accuracy of report	3.17
Practicality of recommendations	3.03
Professionalism of audit staff	3.66
Communication skills	3.48
Competence, manner, timeliness of auditor	3.45
Friendliness, helpfulness, approachability	3.72
Average score:	3.31

- 2.20 This shows that clients are happy with the service provided to them by Internal Audit.

Coverage

- 2.21 Corporate Board and the Audit Committee approve the annual audit plan. The client makes a significant contribution to the audit plan. A significant part of the plan for 2010/11 was based on the Council's Corporate risk register and the Group Directorate plans that supported this thereby demonstrating that the plan was risk-based i.e. concentrating on risks to the Council achieving its main objectives.
- 2.22 86% of the planned number of audits from the 2010/11 audit plan were completed.

Audit Committee

- 2.23 When looking at the system of internal audit it incorporates more than just the internal audit section. The Audit Committee is a key element of this process. The Audit Committee has been established as a full committee and has adopted terms of reference that reflect current guidance and best practice.

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Audit Committee: Effectiveness of the system of Internal Audit

Audit Committee

Date: 28th June 2011

- 2.24 Members of the Committee are able to call Group Directors/Directors and indeed the Chief Executive to account when considering individual audit reports.
- 2.25 Members also monitor the performance of internal audit by reviewing the Head of Internal Audit's monthly update report to Committee.
- 2.26 Formal guidance on the expected role of an Audit Committee was published by CIPFA in 2005 entitled 'Audit Committees – Practical Guidance for Local Authorities'. Members have assessed the Committee against this guidance annually since its publication (see Appendix 2).

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 2003. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972. The Accounts and Audit (Amendment) (England) Regulations 2011 the Council must, at least once a year, conduct a review of the effectiveness of its system of internal audit.

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.

Further information on the subject of this report can be obtained from *Nick Hobbs* on Direct Dial No. 01793 463940 or Email nhobbs@swindon.gov.uk.

Audit Committee: Effectiveness of the system of Internal Audit

Audit Committee

Date: 28th June 2011

Appendices / Background papers

Appendix 1: Internal Audit Compliance with Code of Practice

Appendix 2: Audit Committee Self-Assessment Checklist

Key Decision/Decision in Forward Plan

Not Applicable

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APPENDIX 1: CHECKLIST – COMPLIANCE WITH THE CODE

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Where 'partial' or 'no', you should give reasons for any non-compliance, and any compensating measures in place or actions in progress to address this.

Ref. Refers to paragraph number in the code.

Ref	Adherence to the Standard	Y	P	N	Evidence
1	Scope of Internal Audit				
1.1	Terms of Reference				
1.1.1	Do terms of reference: (a) establish the responsibilities and objectives of Internal Audit? (b) establish the organisational independence of Internal Audit? (c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and: (i) those charged with governance? (ii) those parties to whom the Head of Internal Audit may report? (d) recognise that Internal Audit's remit extends to the entire control environment of the organisation? (e) identify Internal Audit's contribution to the review of the effectiveness of the control environment? (f) require and enable the Head of Internal Audit to deliver an annual audit opinion? (g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)? (h) explain how Internal Audit's resource requirements will be assessed? (i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	Y Y Y Y Y Y Y Y Y Y			Terms of Reference
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	Y			This is part of that process.
1.1.3	Have the terms of reference been formally approved by the organisation?	Y			Audit Committee agreed Audit Charter
1.1.3	Are terms of reference regularly reviewed?	Y			
1.2	Scope of Work				
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	Y			Risk mgmt audited annually. Corporate and GD risk registers used in audit planning.
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: (a) how assurance will be sought? (b) agreed access rights where appropriate?				Not Applicable

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
1.3	Other Work				
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the: (a) skills, and (b) resources to do this?	Y Y			Auditors have received regular fraud training.
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	Y Y			
1.4	Fraud and Corruption				
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	Y			Stated in revised Ant-Fraud and Corruption Policy
2	Independence				
2.1	Principles of Independence				
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit (operational) duties?	Y Y			
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	Y			Where suitable resources allow.
2.2	Organisational Independence				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	Y			
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	Y Y			
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?	Y			
2.2.3	(a) Is there an assessment that the budget for Internal Audit is adequate? (b) Does any budget delegated to service areas ensure that: (i) Internal Audit adherence to the Code is not compromised? (ii) the scope of Internal Audit is not affected? (iii) Internal Audit can continue to provide assurance for the Statement on Internal Control?	Y		N/A N/A N/A	Draft plan is drawn up indicating audits that can not be completed due to limited resource. The plan is approved by Corporate Board and Audit Committee

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
2.3	Status of the Head of Internal Audit				
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	Y			Chief Executive
2.5	Independence of Internal Audit Contractors				
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?	Y			
2.6	Declaration of Interest				
2.6.1	Do audit staff make formal declarations of interest?	Y			
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	Y			
3	Ethics for Internal Auditors				
3.1	Purpose				
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	Y			
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	Y			
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	Y			
3.3	Objectivity				
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	Y			
3.3.3	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	Y			At least a year.
3.3.4	Are staff rotated on regular/annually audited areas?	Y			
3.4	Competence				
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) the purpose, risks and issues of the service area? (c) the scope of each audit assignment? (d) relevant legislation and other regulatory arrangements that relate to the audit?	Y Y Y Y			

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
3.5	Confidentiality				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	Y			
4	Audit Committees				
4.1	Purpose of the Audit Committee				
4.1.1	Does the organisation have an independent audit committee?	Y			
4.2	Internal Audit's Relationship with the Audit Committee				
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	Y			
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	Y			
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	Y			
4.2.4	Does the Head of Internal Audit: (a) attend the committee and contribute to its agenda? (b) participate in the committee's review of its own remit and effectiveness? (c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfill its objectives? (d) report on the outcomes of internal audit work to the committee? (e) establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa? (f) present the annual internal audit report to the committee?	Y Y Y Y Y Y			
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	Y			
5	Relationships				
5.1	Principles of Good Relationships				
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with: (a) management? (b) other internal auditors? (c) external auditors? (d) other regulators and inspectors? (e) elected members?	Y Y Y Y Y		N N	
5.2	Relationships with Management				
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	Y			

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
5.2.2	Is the timing of audit work planned in conjunction with management?	Y			
5.3	Relationships with Other Internal Auditors				
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?			N/A	
5.4	Relationships with External Auditors				
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	Y			
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?	Y			
5.4.3	Are the internal and external audit plans co-ordinated?	Y			
5.5	Relationships with Other Regulators and Inspectors				
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?		P		Ext Audit & BFI – yes. Others – no.
5.6	Relationships with Elected Members				
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	Y			
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	Y			
6	Staffing, Training and Continuing Professional Development				
6.1	Staffing Internal Audit				
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	Y			
6.1.1	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	Y			
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	Y			FCCA and MIIA exam qualified.
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	Y			25 plus years IA experience. 15years management experience.
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions?	Y			

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
	(b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	Y			
6.2	Training and Continuing Professional Development				
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor? (b) Are individual auditors periodically assessed against these predetermined skills and competencies? (c) Are training or development needs identified and included in an appropriate ongoing development programme? (d) Is the development programme recorded, regularly reviewed and monitored.	Y Y Y Y			In JDs and at appraisals IIP also ACCA approved trainer.
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	Y			
7	Audit Strategy and Planning				
7.1	Audit Strategy				
7.1.1	(a) Is there an internal audit strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	Y Y			
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, ie internally, externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?	Y Y Y Y Y			
7.1.3	Has the strategy been approved by the audit committee?	Y			
7.2	Audit Planning				
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	Y			
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	Y			
7.2.1	Are stakeholders consulted on the audit plan?	Y			
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	Y			

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
7.2.3	Does the plan: (a) cover a fixed period of no longer than one year? (b) outline the assignments to be carried out? (c) prioritise assignments? (d) estimate the resources required? (e) differentiate between assurance and other work? (f) allow a degree of flexibility?	Y Y Y Y Y Y			
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?		P		Corporate Board and AC made aware of audits not inc. in 2011/12 plan.
7.2.4	Has the plan been approved by the audit committee?	Y			
7.2.5	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	Y			
8	Undertaking Audit Work				
8.1	Planning				
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	Y Y			
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	Y Y Y Y Y			
8.2	Approach				
8.2.1	Is a risk-based audit approach used?	Y			
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	Y			
8.2.4	Does the audit approach include a quality review process for each audit?	Y			
8.3	Recording Audit Assignments				
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	Y			
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	Y			
8.3.2	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed?	Y Y			

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
	(b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	Y			
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	Y			
8.3.3	Do all retention and access policies conform to appropriate legislation, ie Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	Y			
8.3.3	Is there an access policy for audit files and records?	Y			
9	Due Professional Care				
9.2	Responsibilities of the Individual Auditor				
9.2.1	Are there documents that set out the requirements on all audit staff in terms of: (a) being fair and not allowing prejudice or bias to override objectivity? (b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict? (c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties? (d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions? (e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest? (f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed? (g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice? (h) disclosing any non-compliance with these standards? (i) not using information they gain in the course of their duties for personal use?	Y Y Y Y Y Y Y Y Y Y			
9.3	Responsibilities of the Head of Internal Audit				
9.3.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?	Y			
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	Y			Council w/blowing process.
10	Reporting				
10.1	Principles of Reporting				
10.1.1	Is an opinion on the control environment and risk exposure given in each	Y			

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
	audit report?				
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	Y			
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	Y			
10.1.5	Are there laid-down timescales for reports to be issued?	Y			PIs set to monitor.
10.2	Reporting on Audit Work				
10.1.4	Do the reporting standards include:	Y			
	(a) format of the reports?	Y			
10.1.4	(b) quality assurance of reports?	Y			
10.2.2	(c) the need to state the scope and purpose of the audit?	Y			
10.2.1	(d) the requirement to give an opinion?	Y			
10.1.4	(e) process for agreeing reports with the recipient?	Y			
10.2.1	(f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	Y			
10.2.3	Does the audit reporting process include discussion and agreement of reports?	Y			
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	Y			
10.2.5	Are areas of disagreement recorded appropriately?	Y			
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	Y			
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	Y			
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report?	Y			
	(b) Is this included in the brief for each individual audit?	Y			
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that:				
	(a) recommendations that have a wider impact are reported to the appropriate forums?	Y			
	(b) risk registers are updated?	Y			Now part of the QBR process
10.3	Follow-up Audits and Reporting				
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	Y			
10.3.2	Has the Head of Internal Audit established appropriate escalation	Y			Working in to QBR

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
	procedures for internal audit recommendations not implemented by the agreed date?				process
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	Y			
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	Y			
10.4	Annual Reporting and Presentation of Audit Opinion				
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control?	Y			
10.4.2	Does the Head of Internal Audit's annual report: (a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment? (b) disclose any qualifications to that opinion, together with the reasons for the qualification? (c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies? (d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control? (e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets? (f) comment on compliance with the standards of the Code? (g) communicate the results of the internal audit quality assurance programme?	Y Y Y Y Y Y Y			
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	Y			QBR and monthly AC meetings
11	Performance, Quality and Effectiveness				
11.1	Principles of Performance, Quality and Effectiveness				
11.1.1	Is there an audit manual?	Y			Currently being updated
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	Y Y			
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	Y			In process of being reviewed.
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	Y Y			This report is part of the process; also part of CIPFA Bench-marking club (results reported to Audit cmte)

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
11.2	Quality Assurance of Audit Work				
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	Y			
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audits?	Y			
11.2.2	Does the supervisory process cover: (a) monitoring progress? (b) assessing quality of audit work? (c) coaching staff?	Y Y Y			
11.3	Performance and Effectiveness of the Internal Audit Service				
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	Y			
11.3.2	Does the performance management and quality assurance framework include as a minimum: (a) a comprehensive set of targets to measure performance: (i) which are developed in consultation with appropriate parties? (ii) which are included in service level agreements, where appropriate? (iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress? (b) user feedback obtained for each individual audit and periodically for the whole service? (c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy? (d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual? (e) an action plan to implement improvements?	Y N/A Y Y Y Y Y			
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	Y			
11.3.1	Do the results of the performance management and quality assurance programme evidence that the internal audit service is: (a) meeting its aims and objectives? (b) compliant with the Code? (c) meeting internal quality standards? (d) effective, efficient, continuously improving? (e) adding value and assisting the organisation in achieving its objectives?	Y Y Y Y Y			
11.3.4	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	Y			
11.3.5	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of	Y			Part of this report.

APPENDIX 1

Ref	Adherence to the Standard	Y	P	N	Evidence
	internal audit?				

ESTABLISHMENT, OPERATION AND DUTIES					
Role and remit					
Priority	Issue	Yes	No	N/A	Comments
1	Does the audit committee have written terms of reference?	Yes			Due for review in June 2011.
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	Yes			Considered and implemented as part of the last review.
1	Are the terms of reference approved by the council and reviewed periodically?	Yes			Approved by Cabinet.
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Yes			
1	Can the audit committee access other committees and full council as necessary?	Yes			
1	Does the authority's statement on internal control (SIC) include a description of the audit committee's establishment and activities? Note: SIC now replaced by the annual governance statement.	Yes			Referred to in SIC including establishment as a full committee. However, more detail can be included on the Audit Committee's activities.
2	Does the audit committee periodically assess its own effectiveness?	Yes			Was completed March 2010 and will be again in June 2011.
2	Does the audit committee make a formal annual report on its work and performance during the year to full council?	Yes			On agenda for June 2011 meeting.
Membership, induction and training					
1	Has the membership of the audit committee been formally agreed and a quorum set?	Yes			
1	Is the chair independent of the executive function?	Yes			Chair is Cllr Michael Dickinson who is not a Cabinet member.
1	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	Yes			
1	Are new audit committee members provided with an appropriate induction?	Yes			Training was given during 2010/11. Need to develop further.
1	Have all members' skills and experiences been assessed and training given for identified gaps?		No		Not formally.
1	Has each member declared his or her business interests?	Yes			Requirement of all Members. Also requirement at the start of each meeting.
2	Are members sufficiently independent of the other key committees of the council?	Yes			
1	Does the audit committee meet regularly?	Yes			Plan to meet five times this yearCurrent meets six times a year.
1	Do the terms of reference set out the frequency of meetings?	Yes			
1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	Yes			Timetable for 2011/12 prepared to align these requirements. 2011/12 timetable to be agreed by Audit Committee.

Priority	Issue	Yes	No	N/A	Comments
Meetings					
1	Are members attending meetings on a regular basis and if not, is appropriate action taken?	Yes			
1	Are meetings free and open without political influences being displayed?	Yes			
1	Does the authority's S151 officer or deputy attend all meetings?	Yes			S151 Officer attends meetings.
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	Yes			Relevant Group Directors/Directors attend.
Internal Control					
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal audit?	Yes			The review of the effectiveness of Internal will be carried out in June 2011 meeting of the Committee.
1	Does the audit committee have responsibility for review and approval of the SIC (now annual governance statement) and does it consider it separately from the accounts?	Yes			
1	Does the audit committee consider how meaningful the SIC (now annual governance statement) is?	Yes			
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	Yes			
	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	Yes		N/A	The Audit Committee has responsibility for risk management.
1	Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?"	Yes			This was published in 2006. The Council's Anti-Fraud and Corruption Strategy has been reviewed. The Cipfa publication is very onerous and the West of England Heads of IA group consider it unrealistic to meet all the requirements of the document.
1	Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?	Yes	No		See above.
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	Yes			A significant part of the Internal Audit plan is based on the Corporate and Group Directorate risk registers. Audit Committee approves the annual Internal Audit plan.
2	Does the audit committee review the authority's strategic risk register at least annually?	Yes			Risk Manager reports to the Audit Committee quarterly includes reference to strategic risk register.

Priority	Issue	Yes	No	N/A	Comments
2	Does the audit committee monitor how the authority assesses its risk?	Yes			
2	Do the audit committee's terms of reference include oversight of the risk management process?	Yes			
FINANCIAL REPORTING AND REGULATORY MATTERS					
1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	Yes			Annual accounts approved by Audit Committee.
1	Does the audit committee consider specifically: • the suitability of accounting policies and treatments • major judgements made • large write-offs • changes in accounting treatment • the reasonableness of accounting estimates the narrative aspects of reporting?	Yes			Where relevant
1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	Yes			
1	Does the audit committee review management's letter of representation?	Yes			External Audit's management letter is presented to and discussed at Audit Committee.
2	Does the audit committee annually review the accounting policies of the authority?		No		At the last review Members considered this to be within the remit of the Director of Finance
2	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Yes			
INTERNAL AUDIT					
1	Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	Yes			The Audit Committee approves the Annual Audit Plan. Approval of the strategy will be included in a future committee meeting.
1	Does internal audit have an appropriate reporting line to the audit committee?	Yes			Direct to Audit Committee. Head of Internal Audit also has access to Chair of Audit Committee if required.
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	Yes			Head of Internal Audit provides an update at each Audit Committee meeting. Head of Internal Audit's Annual report is also presented to Audit Committee.

Priority	Issue	Yes	No	N/A	Comments
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	Yes			Results of follow up audits would be reported to Audit Committee. Responsible officers can be called in by Audit Committee to explain progress with implementing internal audit recommendations.
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?		No		Members were given the option but this has not been taken up to date.
1	Is there appropriate cooperation between the internal and external auditors?	Yes			Yes with the Audit Commission.
1	Does the audit committee review the adequacy of internal audit staffing and other resources?	Yes			Internal Audit is a member of the Cipfa Benchmarking club. Benchmarking report presented to Audit Committee.
1	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal audit in Local Government in the United Kingdom?	Yes			This is covered by External Audit's review of Internal Audit. Any issues highlighted by External Audit would be reported to the Audit Committee.
2	Are internal audit performance measures monitored by the audit committee?	Yes			Performance against plan is reported to Audit Committee. However, Members may wish to consider whether they would like more performance information provided.
2	Has the audit committee considered the information it wishes to receive from internal audit?	Yes			Included in terms of reference.
EXTERNAL AUDIT					
1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)?	Yes			External Audit's plan is presented to Audit Committee.
1	Does the audit committee hold periodic private discussions with the external auditor?		No		Same as for Internal Audit – offered but not taken up by Audit Committee to date.
1	Does the audit committee review the external auditor's annual report to those charged with governance?	Yes			External Auditor's report presented to Audit Committee.
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	Yes			
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	Yes			Yes for External Audit i.e. annual audit and inspection letter. However, limited reporting of other inspection agencies i.e. Joint Area Review etc.
1	Does the audit committee assess the performance of external audit?		No		Not formally but reviews regular progress reports.

Priority	Issue	Yes	No	N/A	Comments
1	Does the audit committee consider and approve the external audit fee?	Yes			This is included in the External Audit's plan that is presented to Audit Committee.
ADMINISTRATION					
Agenda management					
1	Does the audit committee have a designated secretary from Committee/Member Services?	Yes			Stephen Jones (Senior Committee Clerk).
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	Yes			Within prescribed timescales.
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	Yes			Outline agenda submitted with terms of reference approved in 2007. Regularly reviewed – agenda item for June 2011.
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?	Yes			
Papers					
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	Yes			
2	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	Yes			Papers are in the Council approved format.
Actions Arising					
1	Are minutes prepared and circulated promptly to the appropriate people?	Yes			
1	Is a report on matters arising made and minuted at the audit committee's next meeting?	Yes			
1	Do action points indicate who is to perform what and by when?	Yes			

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Anti Bribery Information for the Audit Committee

AUDIT COMMITTEE

Date: 28th June 2011

Author: Head of Internal Audit

Wards Affected: None

Purpose

The Bribery Act comes in to force on 1st July 2011. The purpose of this paper is to:

- Brief Members on the Act.
- Highlight bribery as a risk.
- Summarize how the Council is addressing bribery and what further action is planned.
- Demonstrate links to other anti-fraud initiatives and policies

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 Bribery Act comes in to force on 1st July 2011 and may have an impact on the activities of the organisation.

2 Detail

What is Bribery?

- 2.1 Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

The Bribery Act

- 2.2 There are four key offences under the Bribery Act:
 - Bribery of another person (section 1)
 - Accepting a bribe (section 2)
 - Bribing a foreign official (section 6)
 - Failing to prevent bribery (section 7)

AUDIT COMMITTEE

Date: 28th June 2011

- 2.3 The Bribery Act 2010 (http://www.opsi.gov.uk/acts/acts2010/ukpga_20100023_en_1) makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business.
- 2.4 There is also a corporate offence under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.
- 2.5 The offences carry criminal penalties for individuals and organisations. For individuals, a maximum prison sentence of ten years and/or an unlimited fine can be imposed; for organisations, an unlimited fine can be imposed.

Commercial Organisation

- 2.6 The guidance states that a 'commercial organisation' is any body formed in the United Kingdom and 'it does not matter if it pursues primarily charitable or educational aims or purely public functions. It will be caught if it engages in commercial activities, irrespective of the purpose for which profits are made'. Therefore the Council, with regards to the Act, is a 'commercial organisation'.

Adequate Procedures

- 2.7 Whether the procedures introduced by the Council are adequate will ultimately be a matter for the courts to decide on a case-by-case basis. It is for the Council to determine proportionate procedures in the recommended areas of the six principals (see below), based on the level of risk of bribery in the organisation.
- Proportionate procedures
 - Top level commitment
 - Risk assessment
 - Due diligence
 - Communication (including training)
 - Monitoring and review

Anti Bribery Information for the Audit Committee

AUDIT COMMITTEE

Date: 28th June 2011

What action are we taking?

- 2.8 The Council already has some procedures that mitigate the risk of bribery. These include the Code of Conduct (including reference to conflicts of interest), the policy on Gifts and Hospitality, the Council's Whistleblowing Policy etc. However, the Council are also taking the following further action to ensure compliance with the Bribery Act:
- The Council's Anti-Fraud and Corruption Strategy is currently being reviewed and will reference to the Bribery Act will be included. The revised Strategy is planned to go to Standards Committee in July and will be presented to this Committee in September. Once finalised this will be communicated to all staff.
 - Standing Orders are currently being reviewed to ensure that relevant changes are made.
 - The Council's Procurement Toolkit is being reviewed to ensure that it reflects the new Act where needed.
 - Internal Audit will include the risk of bribery in its proactive anti-fraud and corruption work.

Alternative Options

Not Applicable

Risk Management

Financial and Procurement Implications

There are no direct financial implications arising from this report.

Legal/Human Rights Implications

The legal implications of the Bribery Act have been referred to in the report. The Act comes in to force on 1st July 2011.

Links to Corporate Plans and Policies

Effective internal control arrangements contribute to the delivery of the Council's objectives.

Consultees

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

Head of Procurement

Anti Bribery Information for the Audit Committee

AUDIT COMMITTEE

Date: 28th June 2011

Background papers

Bribery Act 2010 (http://www.opsi.gov.uk/acts/acts2010/ukpga_20100023_en_1)

Ministry of Justice – The Bribery Act 2010 Guidance

CIPFA Better Governance: The Bribery Act Briefing and model policies

Institute of Internal Auditors – Professional guidance for internal auditors: The Bribery Act 2010

The Law Society Guidance: The Bribery Act 2010

Key Decision/Decision in Forward Plan

Not Applicable

Progress report

June 2011

Swindon BC

Audit 2010/11

DRAFT

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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Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as the Council's external auditor. Section 2 of this report is a schedule of the progress on each area of work to be undertaken as part of the 2010/11 audit, together with deadlines and key contacts.

DRAFT

Progress schedule 2010/11 audit

Table 1: **Progress schedule**

Work Area	Description	Planned completion	Actual completion	Audit Practice Lead	SBC Contacts	Current status
Planning	Audit fees letter summarising key audit risks and proposed audit fee.	April 2009	April 2009	Martin Robinson	Gavin Jones/Stuart McKellar	Completed
VFM Conclusion Financial Resilience and Value for Money	Risk based review of criteria	Risk assessment February 2011 Opinion September 2011	N/A	Peter Smith/John Bevan	Stuart McKellar/Nick Hobbs	Work almost complete. No issues arising to date. We have to consider any new issues that may arise up to the date of the opinion.
Opinion - interim	Review of control environment and	February 2011	N/A	Peter Smith/Paul	Stuart McKellar/Darren	Understanding of systems and

Work Area	Description	Planned completion	Actual completion	Audit Practice Lead	SBC Contacts	Current status
	system controls			Benfield	Stevens	walkthrough completed apart from SWIFT system. No control issues for reporting at this stage.
Opinion plan	Identification of key opinion risks	March 2011	N/A	Peter Smith/Paul Benfield	Stuart McKellar/Darren Stevens	Completed due to go to March Audit Committee
Opinion - final	Substantive testing of financial statements	September 2011	N/A	Peter Smith/Paul Benfield	Stuart McKellar/Darren Stevens	Work underway. Planning meeting held with finance staff on 8 June 2011.
Whole of Government Accounts	Agreement of consolidation returns	September 2011	N/A	Peter Smith/Paul Benfield	Stuart McKellar/Darren Stevens	Not started
Annual Audit Letter	Summary of audit work during the year	October 2011	N/A	Martin Robinson	Gavin Jones/Stuart McKellar	Not started

Head of Internal Audit Update

AUDIT COMMITTEE

Date: 28th June 2011

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 April 2011, 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 April Audit Committee are set out in Appendix 1. The appendix sets out the key audit recommendations made along with the overall risk assessment to the Council.

Progress on completion of Internal Audit Plan 2010/11

- 2.2 The Head of Internal Audit's Annual Report sets out the achievement against the 2010/11 plan (this is a separate agenda item for this meeting). The section completed 86% of the number of planned audits.

Progress on completion of Internal Audit Plan 2011/12

- 2.3 As at the end of May 2011 we have completed 13% of the number of audits in the 2011/12 Internal Audit annual plan against a target of 10% (see Appendix 2).

Further information on the subject of this report can be obtained from Nick Hobbs on Direct Dial No. 01793 463940 or email nhobbs@swindon.gov.uk

Head of Internal Audit Update

AUDIT COMMITTEE

Date: 28th June 2011

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 2011. 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

Effective systems of internal control within the Council will help to ensure that the Council's objectives 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 April 2011 Audit Committee.

Appendix 2 – Progress against 2011/12 Internal Audit plan.

Key Decision/Decision in Forward Plan

Not Applicable

INTERNAL AUDIT REPORTS FINALISED APRIL – MAY 2011

Final audit reports issued:

Audit Title:	Asset Management		Date of Audit:		January/February 2011	
Number of High Priority Recommendations:	5	Current Audit Opinion:	2	Previous Audit Opinion:	2	Overall Evaluation (Risk):
Moderate						
<u>Key Findings and Recommendations</u>						
<p>The main findings from the audit are that there are no integrated systems to manage the asset register (Geographical Information System – GIS) and the maintenance of properties (Technology Forge); condition surveys are not being carried out according to the agreed timetable; the accuracy of the backlog maintenance schedule can not be guaranteed because the data collection is not consistently recorded against the date indicated it being collected; limited management information is provided on repairs and maintenance work being undertaken and projects added after the initial capital programme of repairs has been agreed are not formally approved by Council officers.</p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> • The need to integrate the two systems to have only one asset record with all the repairs and maintenance information for each property held in one place; • Following the integration of the two systems procedures and processes should be developed to ensure it is used consistently by all users; • Capita Symonds to update Property Services with progress of condition surveys on a quarterly basis; • Improved management information should be provided on repair and maintenance work. • Additions to the capital programme and project overspends of more than 5% to be formally authorised by SBC before progressing; 						

Audit Title:	Cheque Control		Date of Audit:		May 2011	
Number of High Priority Recommendations:	0	Current Audit Opinion:	1	Previous Audit Opinion:	1	Overall Evaluation (Risk):
Minimal						
<u>Key Findings and Recommendations</u>						
<p>No key recommendations were made as a result of the review.</p>						

INTERNAL AUDIT REPORTS FINALISED APRIL – MAY 2011

Audit Title:	Transfer of staff from Swindon Primary Care Trust (PCT) to Children's Services			Date of Audit:	March 2011 (Final Memo April 2011)	
Number of High Priority Recommendations:	0	Current Audit Opinion:	N/A	Previous Audit Opinion:	N/A	Overall Evaluation (Risk): N/A
<p><u>Key Findings and Recommendations</u> This transfer took place from 1 April 2011, and arose, firstly to further improve the integrated working that has been in place since 2008, and secondly, because of the requirement for the PCT to cease direct provision of services. The audit was carried out through the use of checklists developed for the transfer of care and support staff to new organisations and concentrated on issues concerned with Transfer of Undertaking – Protection of Employment (TUPE), and finance.</p> <p>The audit confirmed that satisfactory arrangements had been made for the transfer of staff from the PCT, and no recommendations were made.</p>						

Audit Title:	PFI Contract Management			Date of Audit:	February/March 2011	
Number of High Priority Recommendations:	1	Current Audit Opinion:	2	Previous Audit Opinion:	n/a	Overall Evaluation (Risk): Moderate
<p><u>Key Findings and Recommendations</u> The one key recommendations made as a result of the review was:</p> <ul style="list-style-type: none"> Corporate objectives and reporting requirements should be set to ensure the contract is managed as efficiently as possible and has the appropriate visibility that a valued at over £250m should have. This will ensure that the necessary quality and value for money is achieved. 						

INTERNAL AUDIT REPORTS FINALISED APRIL – MAY 2011

Audit Title:	Accounts Payable (Creditors) and associated anti-fraud and corruption checks			Date of Audit:	February 2011 (Final Report May 2011)	
Number of High Priority Recommendations:	2	Current Audit Opinion:	2	Previous Audit Opinion:	3	Overall Evaluation (Risk): Moderate
<p><u>Key Findings and Recommendations</u></p> <p>Payment certification grids are not consistently completed to include an order number, confirm that goods/service were satisfactorily received (where applicable) or supplier numbers and expenditure codes provided. From a sample of 22 invoices, two (total value £164,255) had been signed as approved by staff without the appropriate authorisation level. These omissions breach financial regulations requirements.</p> <p>Capita carry out spot checks for appropriate authorisation of creditor invoices and return to originating business units those signed by officers who are either not approved as an authorised signatory or where officers have signed payment values in excess of here authorisation limit. As a result of these checks, the level of compliance with financial regulations payment certification requirements has improved, and the number of invoices returned for correction reduced.</p> <p>Corporate Finance extracts and review regular reports of unused credit notes from Accounts Payable. At the end of October 2010, the total value of unused credit notes was £172,454, of which £57,025 had been recently raised by two suppliers in September and October. 75% of the total value was accounted for by 10 credit notes or batches of credit notes amalgamated for the same supplier. Whilst one of these suppliers has gone into liquidation, the rest should either be offset against payments, or the sums recovered by raising debtors' invoices, which ever represents the quickest means of recovery.</p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> • All payments should be authorised by officers with the appropriate expenditure and code limits. • Credit notes should be processed by either surrendering values against payments or the value recovered from the supplier by way of a debtors invoice, depending on which is the quickest means. If suppliers are no longer in business and sums cannot be recovered, the credit notes should be formally written off in compliance with Financial Regulations. 						

INTERNAL AUDIT REPORTS FINALISED APRIL – MAY 2011

Audit Title:	SWIFT: System controls			Date of Audit:	March 2011	
Number of High Priority Recommendations:	1	Current Audit Opinion:	2	Previous Audit Opinion:	N/A	Overall Evaluation (Risk): Moderate
<p><u>Key Findings and Recommendations</u></p> <p>SWIFT does not enforce changes of passwords or password standards such as length and mix of characters. There is a compensating control in that access is only possible through the Council's Windows network, on which password changes are enforced every 60 days and passwords require a mix of upper and lower case and non-alphabetic characters. It would still be possible for someone to log on to Windows as themselves and then to SWIFT as another user with wider access privileges to personal and confidential data. The risk of this is greater if SWIFT passwords are easy to guess or are not changed regularly by users.</p> <p>Allocation of user access rights on SWIFT is well controlled and initial access is only allowed after users have attended the 'Introduction to SWIFT' training course. Follow up training is also provided, and a number of additional courses are available on the use of specific system facilities. Course documentation is 'hands on', clear and practical.</p> <p>The SWIFT database and operating system are backed up nightly, and back up media is stored securely off-site. Recovery has been successfully tested, and the system is included in the Council's disaster recovery agreement with SunGard.</p> <p>The key recommendation made as a result of the review is:</p> <ul style="list-style-type: none"> Written guidance to SWIFT users concerning ICT security should state the need to change passwords at least as often as Windows network passwords, and to adhere to the Council's ICT Security policy in using passwords formed of upper and lower case and non-alphabetic characters. 						

INTERNAL AUDIT REPORTS FINALISED APRIL – MAY 2011

Audit Title:		Care Variations		Date of Audit:		September 2010	
Number of High Priority Recommendations:	4	Current Audit Opinion:	3	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	Moderate
<p><u>Key Findings and Recommendations</u></p> <p>When a service user is identified as needing domiciliary care, the social work team draw up a care plan and agree this with the service user. The care plan includes a care schedule of visits and work to be undertaken at each. In delivering the care schedule, variations may arise leading to a reduction in services provided, for example, if the service user's family are providing assistance, or an increase, for example, if the service user is ill or has had a fall. It may take several weeks to authorise these variations. Apart from holding back payment to care providers, these delays have an impact on billing service users for their contributions - the latter being sent additional bills, resulting in additional queries being raised with Capita.</p> <p>There is no clear guidance as to who should take action to resolve queries and agree authorisation, and whether Capita or Adult Social Care should be liaising with care providers. There are also no standards or guidance for care providers. This results in poor quality of information from providers concerning care provided and variations from care schedules, and can lead to extensive queries.</p> <p>Between January and July 2010, 163 variations were identified which had no authorisation recorded. This demonstrated that it is possible for variations to be entered on SWIFT without authorisation. A service user's care plan was also identified which had been started in March 2010, but which had yet to be authorised.</p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> • Regular variations for a service user should trigger a requirement to review the care plan and care schedule i.e. after an agreed number of similar variations or once a cost threshold is exceeded. This is to reduce the administrative effort in obtaining authorisation, achieve prompt payment to the provider and billing for the service user's contribution, bring the care plan in line with needs, and possibly save on the cost of care. • Clear guidance should be issued to care providers, detailing the information required in order to allow invoices to be paid, referring in particular, to the need to be explicit about how variations from care schedules arise. The guidance should also set out incidental matters that the Council will not accept as variations. This guidance should form part of future contracts with care providers. • All variations set up in SWIFT should be authorised and shown as such on the system. • It should be ensured that all care plans and schedules are authorised on SWIFT, so that variations, when they occur, can be identified and agreed as variations. 							

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