

# Swindon Borough Council

## Audit Committee

**Tuesday, 4 February 2014**

Committee Room 6, Civic Offices

**At 6.00 p.m.**

### **Conservative Councillors**

Roderick Bluh  
Michael Bray  
John Haines  
Steve Weisinger  
(Chair)

### **Labour Councillors**

Des Moffatt  
Steve Allsopp  
Neil Heavens

**Committee Officer:** Steve Jones (01793 463602)

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

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## **AGENDA**

### **1. Apologies for Absence**

### **2. Declarations of Interest**

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

### **3. Public Question Time**

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

### **4. Minutes (Pages 1 - 4)**

To receive the minutes of the meeting held on 5<sup>th</sup> November 2013

### **5. Treasury Strategy Statement 2014/15 BDR (Pages 5 - 26)**

### **6. Internal Audit report - Treasury Management HIA (Pages 27 - 42)**

7. **Internal Audit reports identifying 'significant' risk or 'of concern': Highways Asset Management HIA** (Pages 43 - 76)
8. **External Audit - Update for Swindon Borough Council** (Pages 77 - 88)
9. **External Audit - Certification Report 2012/13** (Pages 89 - 102)
10. **Head of Internal Audit Update HIA** (Pages 103 - 120)

**Date of Despatch:** 27 January 2014

**Key:**

**Officers:**

BDR - Board Director Resources (Section 151 Officer)  
HIA - 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.

**The Audit Committee - Terms of Reference**

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

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

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

**AUDIT COMMITTEE**

**TUESDAY, 5 NOVEMBER 2013**

**PRESENT:-** Councillors Steve Weisinger (Chair), Councillors Des Moffatt, Steve Allsopp, Neil Heavens, Michael Bray, John Haines, and Oliver Donachie.

An apology for absence was received from Councillors Roderick Bluh.

**31. Declarations of Interest**

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

**32. Public Question Time**

There were no public questions.

**33. Minutes**

Resolved - That the minutes of the meeting held on 24<sup>th</sup> September 2013 be confirmed and signed.

**34. Exempt Items - Exclusion of Press and Public**

That, in accordance with Section 100A(4) of the Local Government Act 1972, the public be excluded during the discussion of the matters referred to in the item listed below on the grounds that it involves the likely disclosure of exempt information as defined in the respective paragraph of Part 1 of Schedule 12A of the Act.

<u>Item No.</u>	<u>Paragraph No.</u>	<u>Minute No.</u>
11	7	40

**35. Internal Audit reports identifying 'significant' risk or 'of concern': One Swindon: Governance**

The Committee received a report on the latest position in relation to the implementation of Internal Audit recommendations arising from the audit review "One Swindon: Governance". It was noted that the overall risk assessment to the Council following the initial audit was considered "of concern". Mr James Griffin, the Council's Head of Strategy and Research, was in attendance to provide a current position statement in relation to the implementation of audit recommendations and to respond to members' questions on issues raised regarding the management response to the audit conclusions and key recommendations and progress in implementing the action plan. Mr Griffin also took members through the main elements of the Joint Statement of Intent, appended to the report, setting out the commitment of the Council and its One Swindon partners to work together to transform local public services.

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

### **36. Corporate Risk Management Update**

The Committee received a summary report on Risk Management activity within Swindon Borough Council, including the latest Corporate Risk Register for the Committee's inspection, and a progress update in relation to the implementation of the framework for Risk Management across the Council, following its refresh in December 2012.

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

(2) That the Committee commends Lorraine Sarson for her significant contribution to the support and development of the Council's Risk Management Strategy during her time as Interim Risk Manager.

### **37. External Audit: Annual Audit Letter**

The Committee received the External Auditors' Annual Audit letter, summarising the key findings arising from their work at the Council for the year ended 31 March 2013. Liz Cave, the External Auditors' Engagement Lead for the Council, introduced the report, commenting that it was the intention that the Letter should communicate key messages not only to the Council but also to external stakeholders, including members of the public. Ms Cave briefly outlined the detailed findings from their audit work with the Council, which had been reported in detail to the last meeting of the Audit Committee, in the Audit Findings report, and focussed on the following specific recommended actions that the Committee would need to focus on and continue to monitor throughout the year.

- the liability arising from the Council's PFI scheme
- the need to ensure that the financial situation of the Council's arms length bodies are closely monitored so that any financial impact can be reflected in the Council's Medium Term Financial Strategy
- the significant financial risk posed by the Wichelstowe Project
- the inclusion in the Council's Medium Term Financial Plan of assumptions about the future of the Council's arms length bodies and the Wichelstowe development

Resolved – That the report be noted.

### **38. Forward Swindon Limited - Statement of Accounts**

Further to Minute 20, the Committee received a report introducing Forward Swindon Ltd's Financial Statement for the year ending 31st March 2013. It was noted that Forward Swindon Ltd, the company established by Swindon Borough Council in 2010 to deliver and facilitate economic growth and property development in the town, was a limited company, funded by the Council, but operated independently with a private sector dominated Board.

Mr Ian Piper, the Chief Executive of Forward Swindon Ltd, was in attendance to introduce the report, and provided the Committee with an overview of Forward

Swindon Ltd and the background to its establishment by the Council as an arms-length company to provide an organisational interface with the private sector that was capable of delivering:

- inward investment and the attraction of new businesses to Swindon
- help and support for existing Swindon businesses
- regeneration and growth projects across the borough.

Mr Piper explained the Council's five year funding plan for Forward Swindon, including annual revenue contributions, adjusted in response to budgetary pressures, and a one-off shareholder contribution, and provided a brief overview of the company's financial statements for the year ended 31<sup>st</sup> March 2013, which were before the Committee for inspection.

Following his introduction of the report, Mr Piper responded to questions put by members of the Committee on the following issues:

- the company's annual turnover and the year on year increase in its turnover
- the reasons behind the company's increased advertising costs
- the company's accounting practices, with particular regard to the utilisation of exemptions (related third party disclosures)
- HMRC clearance with regard to the company's exposure to VAT and other taxes
- legal fees incurred by the company, particularly in relation to project development
- the cost of staffing and the company's position with regard to government instructions regarding salary increases
- the detail of the company's income generation and expenditure
- the company's administration expenses, including office accommodation and IT services

Resolved – (1) That the report be noted.

(2) That Mr Ian Piper, the Chief Executive of Forward Swindon Ltd, be thanked for attending the meeting to present the report and for his full and open responses to members' questions on the matters raised.

### **39. 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 September 2013 and progress made against the Annual Internal Audit Plan.

Resolved – (1) That the report be noted.

(2) That Internal Audit be commended on its progress against the 2013/14 audit plan and the achievement of successfully completing 61% of the number of audits in the plan, against a target of 54%.

(3) That the Highways Assets Management internal audit report, categorised as having an overall risk evaluation of "Of Concern", be submitted to the next meeting of the Committee for consideration, subject to the completion of internal audit reports in the interim period that require the Committee's more urgent consideration.

### **40. Internal Audit reports identifying 'significant' risk or 'of concern': Museums: Storage (Follow-up)**

The Committee received a follow up report on the latest position regarding the implementation of Internal Audit recommendations arising from the audit review "Museums: Storage". It was noted that the overall risk assessment to the Council following the initial audit was considered to be "Of Concern". The Head of Internal Audit provided a current position statement in relation to the implementation of the audit recommendations and responded to members' questions on issues raised regarding the management response to the audit conclusions and key recommendations and progress in implementing the action plan.

Resolved – That the report, and the management response to the audit recommendations, be noted.

## Treasury Strategy Statement 2014/15

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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Author:	Cabinet Member for Finance Board Director Resources
Wards:	All
Locality Affected:	All
Parishes Affected:	All

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### **1. Purpose and Reasons**

- 1.1 To report the Treasury Management Strategy for 2014/15, including Prudential Indicators up to 2015/16, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement.

### **2. Recommendations**

Cabinet is recommended to:

- 2.1 Recommend the Treasury Management Strategy, Minimum Revenue Provision Policy and Prudential Indicators for approval by Full Council on 24<sup>th</sup> February 2014.
- 2.2 Note the position with regard to the Council's bankers, the Co-Operative Bank, as detailed at Section 4.

### **3. Detail**

#### **Treasury Strategy**

- 3.1 Treasury management is defined by the CIPFA Code of Practice for Treasury Management as the "management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- 3.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Available cash (resulting from the Council's day to day cash management processes) is invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of

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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.

# Treasury Strategy Statement 2014/15

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses temporarily in lieu of new loans (e.g. related to reserves held for future purposes and working capital surpluses). On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives, subject to the cost of so doing.

3.4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised before being recommended to the Council. Under the Council's constitution, the Audit Committee scrutinises the treasury management activities undertaken by the Director of Finance and his team, including compliance with agreed policies.

- **A Treasury Management Strategy Statement** (This report) - The first, and most important report covers:
  - the capital spending plans (including prudential indicators) based on Cabinet and Council decisions;
  - a Minimum Revenue Provision (MRP) Policy (which details how capital expenditure funded by borrowing is charged to the revenue budget over time);
  - the Treasury Management Strategy, which details how the investments and borrowings are managed overall, including treasury indicators; and
  - an Investment Strategy, which sets the parameters around how investments are to be managed on a day to day basis.
- **A Mid-Year Treasury Management Report** – This updates Members on Treasury Management performance for the first half of the financial year.
- **An Annual Treasury Management Report** – This details the full year Treasury activity and performance.

3.5 The Treasury Management Strategy for 2014/15 covers two main areas:

- **Capital Issues:**
  - the capital plans and the prudential indicators;
  - the MRP strategy.
- **Treasury Management Issues:**
  - the current treasury position;
  - the treasury indicators which will limit the treasury risk and activities of the Council;
  - the prospect for interest rates;
  - the borrowing strategy;
  - the policy on borrowing in advance of need;
  - debt rescheduling;

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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](mailto:psmith2@swindon.gov.uk).



# Treasury Strategy Statement 2014/15

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

- the investment strategy;
- the creditworthiness policy; and
- the policy on use of external service providers.

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

## **4 Banking and Co-op**

- 4.1 In common with many local authorities, the Council currently uses the Co-Operative Bank (the Co-Op) as its main banker, with the current contract running until March 31st 2015. The bank's recent financial difficulties have been well documented in the national press. As a result, the bank has agreed a strategy to re-focus its activities which includes withdrawing from the local authority market and its creditors approved a bailout deal before Christmas, which was subsequently approved by the Courts.
- 4.2 In terms of the effect this may have on the Council's banking facilities, Officers have been in regular contact with the bank relationship manager. These discussions have confirmed that although the Co-Op has stated its intent to pull completely out of Local Authority banking, it plans to honour its current contracts to the end of their term. However, it is also happy to terminate early if authorities find alternative facilities.
- 4.3 As the Swindon Borough Council contract is due to end in March 2015, officers have already started the procurement process to secure arrangements beyond that date. Our intention is to progress this faster in order to reduce any risk around any further changes in the Co-Op's circumstances.
- 4.4 In parallel with this procurement process, officers are in the process of opening additional bank accounts that could be used in an emergency situation to ensure business as usual continued. In addition, no surplus funds are being placed in the deposit account that the Council holds with the Co-Op.
- 4.5 In terms of Council exposure should the bank fail, the Council's bank accounts are managed to as close a net nil position as possible at the end of every day as part of the Treasury Management function, with any surplus funds invested elsewhere. Therefore the only exposure would be to income that is in the process of clearing at the point the bank ceased trading, should this situation arise. The Council's Treasury advisors have advised that they believe this risk is extremely unlikely to arise.

## **5 Alternative Options**

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

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# Treasury Strategy Statement 2014/15

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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## **6 Implications, Diversity Impact Assessment and Risk Management**

### Financial and Procurement Implications

6.1 These have been reflected in the body of the report.

### Legal and Human Rights Implications

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

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

6.3 There are no such direct implications.

### Links to One Swindon, Strategic Objectives, Plans and Policies

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

### Diversity Impact Assessment

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

## **7 Consultees**

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

## **8 Background Papers and Appendices**

8.1 Appendix 1 – Treasury Management Strategy

## **9 Key Decision/Decision in Forward Plan**

9.1 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.

## **Appendix 1- Treasury Management Strategy 2014/15**

**Audit Committee**

**Date:** 4<sup>TH</sup> February 2014

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# **TREASURY MANAGEMENT STRATEGY 2014/15**

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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](mailto:psmith2@swindon.gov.uk)



# **Appendix 1- Treasury Management Strategy 2014/15**

**Audit Committee**

**Date:** 4<sup>TH</sup> February 2014

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## **Contents:**

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

# Appendix 1- Treasury Management Strategy 2014/15

Audit Committee

Date: 4<sup>TH</sup> February 2014

## 1 Current Portfolio Position

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

1.2 The Council's actual treasury portfolio position at 31 March 2013, with forward projections are summarised below. The table shows the actual external borrowing (both relating to the general fund and the HRA), against the borrowing requirement (shown through the Capital Financing Requirement or "CFR"), highlighting any over or under borrowing. The CFR represents the amount of borrowing required to fund capital expenditure, but not yet taken out.

**Table 1 – Portfolio position forecasts.**

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Borrowing 01/04	235,276	258,764	280,675	295,675
Change in borrowing	23,488	21,911	15,000	15,000
<b>Gross External Borrowing 31/03</b>	<b>258,764</b>	<b>280,675</b>	<b>295,675</b>	<b>310,675</b>
Total Net Investments 31/03	(20,000)	(20,000)	(20,000)	(20,000)
<b>Net External Borrowing 31/03</b>	<b>238,764</b>	<b>260,675</b>	<b>275,675</b>	<b>290,675</b>
CFR	455,353	452,199	440,937	430,707
Less PFI Liabilities	(47,003)	(46,294)	(45,632)	(44,810)
<b>Underlying Borrowing Requirement</b>	<b>408,350</b>	<b>405,905</b>	<b>395,305</b>	<b>385,897</b>
<b>Under/(Over) borrowing</b>	<b>149,586</b>	<b>125,230</b>	<b>99,630</b>	<b>75,222</b>

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](mailto:psmith2@swindon.gov.uk)

## Appendix 1- Treasury Management Strategy 2014/15

Audit Committee

Date: 4<sup>TH</sup> February 2014

### 2 Prospects for Interest Rates and Economic Outlook

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

Table 2 – Prospects for Interest Rates

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

2.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 (+0.3%) and 2 (+0.7%) of 2013 to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The August 2013 Bank of England Inflation Report consequently upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%.

2.3 However, Bank Governor Mark Carney put this into perspective by describing this welcome increase as not yet being “escape velocity” to ensure we return to strong AND sustainable growth. So very encouraging but, still a long way to go. However, growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have mitigated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go

# Appendix 1- Treasury Management Strategy 2014/15

Audit Committee

Date: 4<sup>TH</sup> February 2014

to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth

## 3 Minimum Revenue Provision Policy Statement

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

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

*"For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP will be based on the CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year. From 1 April 2008 for all unsupported borrowing the MRP will be based on the estimated life of the assets, in accordance with the regulations.*

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

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

3.3 No revenue charge is currently required for the HRA. However under HRA reform the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact on the HRA revenue budget, regulations will allow the Major Repairs Allowance (MRA) to be used as a proxy for depreciation for the first five years, which will neutralise any revenue impact. MRA will continue be applied as a proxy for depreciation in 2013/14.

## 4 Borrowing Strategy

4.1 The Council is currently maintaining an under-borrowed position. This means that there is a shortfall between the amount of long-term loans required to fund capital expenditure funded through borrowing (known as the Capital Financing Requirement or "CFR"), and the actual level of external taken out. The difference is known as "Internal

# Appendix 1- Treasury Management Strategy 2014/15

**Audit Committee**

**Date:** 4<sup>TH</sup> February 2014

Borrowing” and represents the temporary funding of capital expenditure from the Council's reserves, balances and working capital due to it currently being a cheaper option while investment rates are low.

4.2 While the council will maintain an under borrowed position on the General Fund (the HRA is fully borrowed up to the CFR), the Council will at some point need borrow to fund its current Capital Programme as the level of available cash balances reduces. Whilst taking long-term external borrowing will obviously increase the Councils debt charges, the benefit is in the medium to longer term as rates are currently still low historically, although PWLB rates have increased gradually over the last few months. The strategy during 2014/15 will therefore be to monitor rates very carefully with a view to undertaking further borrowing in order to reduce the level of internal borrowing i.e. the under-borrowed position.

4.3 Against this background and the risks within the economic forecast, caution will once again be adopted with 2014/15 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from 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.

## **Borrowing in Advance of Need**

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

## **Loan Re-scheduling**

4.5 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to

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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](mailto:psmith2@swindon.gov.uk)



# Appendix 1- Treasury Management Strategy 2014/15

**Audit Committee**

**Date:** 4<sup>TH</sup> February 2014

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 current treasury position and the size of the cost of debt repayment (through premiums incurred).

## **5 Investment Policy, Creditworthiness Policy and Investment Strategy**

### **Investment Policy**

- 5.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, followed by return on investment.
- 5.2 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Capita ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
- 5.3 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" (similar to insurance policies around debt default) and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors.
- 5.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk. Investment instruments identified for use in the financial year are listed in Annex 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices & Schedules.

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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](mailto:psmith2@swindon.gov.uk)

# Appendix 1- Treasury Management Strategy 2014/15

Audit Committee

Date: 4<sup>TH</sup> February 2014

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## Creditworthiness Policy

- 5.5 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with additional data to provide a weighted scoring system for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments
- 5.6 This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
- 5.7 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:
- Banks - good credit quality - the Council will only use banks within the parameters of the creditworthiness service provided by Capita
  - The Council's own banker for transactional purposes if the bank falls below the above criteria.
  - Building societies - The Council will use all societies which meet the ratings for banks outlined above;
  - Money Market Funds - The council will use AAA rated Money Markey Funds
  - UK Government
  - Local authorities, parish councils etc.
  - Supranational institutions (See Annex 2 for Details)

## Investment Strategy

- 5.8 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 5.9 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise around June 2016. Bank Rate forecasts for financial year ends (March) are:
- 2014/ 2015 0.50%

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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](mailto:psmith2@swindon.gov.uk)

# Appendix 1- Treasury Management Strategy 2014/15

**Audit Committee**

**Date:** 4<sup>TH</sup> February 2014

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- 2015/ 2016 0.50%
- 2016/ 2017 1.25%

## **6 Policy on the use of external service providers**

6.1 The Council uses Capita Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **Annexes**

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

## **Key Decision / Decision in Forward Plan**

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

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## Annex 1 – Prudential Indicators

### 1 Capital Indicators

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

**Table 1 - Capital Expenditure Projections**

Capital Expenditure	2014/15 £'000	2015/16 £'000	2016/17 £'000
General Fund Approved	43,884		
General Fund Estimated New	22,882	4,514	405
HRA Approved	13,920	6,938	3,191
HRA Estimated New	17,830	16,803	16,803
<b>Total</b>	<b>98,489</b>	<b>28,255</b>	<b>20,399</b>

- 1.2 The figures in this indicator include an assessment of the level of re-phasing of the 2013/14 GF and HRA capital programmes.
- 1.3 The second prudential indicator is the **Council's Capital Financing Requirement (CFR)**. The CFR is simply a measure of the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (such as grant, S106 etc.) and is therefore funded from either external loans or from internal borrowing (the temporary use of balances, reserves and working capital)
- 1.4 It is essentially a measure of the Council's underlying need to borrow to fund capital expenditure. Any capital expenditure above, which is not immediately funded from existing resources, will increase the CFR. Details of the Council's projections for actual external debt compared to the CFR are contained in table 1 of the main Strategy. Note the figures are estimates, not commitments.

# Treasury Management Strategy 2014/15 Appendix 1- Annex 1

Audit Committee

Date: 4<sup>TH</sup> February 2014

**Table 2 – Capital Financing Requirement**

General Fund	2013/14	2014/15	2015/16	2016/17
CFR b/fwd, excl PFI	250,454	267,818	270,373	264,773
Est spend from borrowing	21,264	6,855	- 1,026	125
Less MRP	- 3,900	- 4,300	- 4,574	- 4,533
<b>Sub-total</b>	<b>267,818</b>	<b>270,373</b>	<b>264,773</b>	<b>260,365</b>
Add PFI Liability	47,003	46,294	45,632	44,810
<b>Closing CFR incl PFI</b>	<b>314,821</b>	<b>316,667</b>	<b>310,405</b>	<b>305,175</b>
HRA	2013/14	2014/15	2015/16	2016/17
Previous Years CFR	145,532	140,532	135,532	130,532
Current Years exp funded by borrowing				
Less MRP	- 5,000	- 5,000	- 5,000	- 5,000
<b>Closing CFR</b>	<b>140,532</b>	<b>135,532</b>	<b>130,532</b>	<b>125,532</b>
<b>Total CFR</b>	<b>455,353</b>	<b>452,199</b>	<b>440,937</b>	<b>430,707</b>

## 2 Affordability Indicators

2.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans and subsequent finance costs on the Council's overall finances.

**Table 3 - The ratio of financing costs to net revenue stream.**

	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	5.43	6.95	8.11	9.13
HRA	33.60	39.27	38.16	36.62

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

	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Current Approved Programme	3.27	12.90	18.05	17.80
New Proposals	0.00	1.60	5.15	5.08

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](mailto:psmith2@swindon.gov.uk)

# Treasury Management Strategy 2014/15 Appendix 1- Annex 1

Audit Committee

Date: 4<sup>TH</sup> February 2014

## 3 Borrowing Indicators

3.1 **The Operational Boundary.** This is the limit beyond which external borrowing is not normally expected to exceed. This limit reflects the Councils current estimated debt position, with the assumption that maturing borrowing will be replaced, and a further £20m per annum will be taken out to reduce the current under-borrowed position.

**Table 5 – Operational Boundary**

	2014/15	2015/16	2016/17
Operational boundary £'000	Estimate	Estimate	Estimate
Borrowing	299,833	314,833	329,833
Other long term liabilities	46,294	45,632	44,810
<b>Total</b>	<b>346,127</b>	<b>360,465</b>	<b>374,643</b>

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

**Table 6 - Authorised Limit**

	2014/15	2015/16	2016/17
Authorised Limit £'000	Estimate	Estimate	Estimate
Borrowing	405,905	395,305	385,897
Other long term liabilities	51,294	50,632	49,810
<b>Total</b>	<b>457,199</b>	<b>445,937</b>	<b>435,707</b>

## 4 Activity Limit Indicators

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

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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](mailto:psmith2@swindon.gov.uk)

# Treasury Management Strategy 2014/15 Appendix 1- Annex 1

Audit Committee

Date: 4<sup>TH</sup> February 2014

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

**Table 7-Treasury Management Activity Limits**

£m	2014/15	2015/16	2016/17
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%
<b>Maturity Structure of fixed interest rate borrowing 2014/15</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	15%	
12 months to 2 years	0%	30%	
2 years to 5 years	0%	40%	
5 years to 10 years	0%	40%	
10 years and above	0%	80%	
In any 10 year period above 10 years	0%	50%	

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

<b>Maximum principal sums invested &gt; 364 days</b>			
£m	2014/15	2015/16	2016/17
Principal sums invested > 364 days	Nil	Nil	Nil

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](mailto:psmith2@swindon.gov.uk)



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

### 1 Treasury Management Practices

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

### 2 Specified/Non-Specified Investments

- 2.1 The main Investment guidelines are contained in the body of the Treasury Strategy statement. The paragraphs below detail the Council's use of Specified and Non Specified Investments

**2.2 Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

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

**2.3 Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Council does not currently hold any non-specified investments excepting those with its own bankers. Non specified investments that the Council may make would include any investments with:

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

## Treasury Management Strategy 2014/15 - Appendix 1 Annex 2

Audit Committee

Date: 4<sup>TH</sup> February 2014

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the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

***The Council's own banker if it fails to meet the basic credit criteria.***

In this instance any balances will be maintained on an instant access basis

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

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## Internal Audit report - Treasury Management

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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

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### **1. Purpose and Reasons**

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

### **2. Recommendations**

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

### **3. Detail**

#### Background

- 3.1 Treasury Management is defined by the Chartered Institute for Public Finance and Accountancy (CIPFA) as the *"management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"*. The Council's Treasury Management objectives for 2013/14 are as follows:

## Internal Audit report - Treasury Management

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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- Part of the treasury management operation is to use the cash management process to ensure that the Council's cash flow is adequately planned, and cash is available when needed. The Council has a low risk appetite for investments, therefore available surplus cash is invested in low risk counterparties or instruments providing adequate liquidity initially before considering the investment return.
  - The second function of the treasury management service is the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This may involve arranging long or short term loans, or using longer term cash flow surpluses.
- 3.2 A paper regarding the Treasury Management Strategy for 2014/15, including Prudential Indicators up to 2015/16, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement is included on this meeting's agenda.
- 3.3 Internal Audit carries out an annual audit of the Council's treasury management process. Key findings from the audit are set out below:

### Key Findings

- 3.4 Performance and benchmarking reports viewed during the audit show that the Treasury Management function has achieved higher than average rates for their return on investments and lower than average interest rates on borrowing.
- 3.5 It was found that the Treasury Management function continues to be compliant with the CIPFA Code of Practice for Treasury Management
- 3.6 The auditor found the internal control arrangements to of a *high standard* resulting in only a moderate risk to the Council.
- 3.7 Only one recommendation has been included in this report i.e. for the Treasury Management Strategy to be presented to the Audit Committee for scrutiny prior to the start of the financial year, in order to allow for amendments to be made before it is presented to Cabinet for approval.
- 3.8 The Internal Audit report is attached as Appendix 1 to this report.
- 3.9 The Head of Finance: Housing, Treasury and Growth will be attending Audit Committee to answer any questions that Members may have.

### **4. Alternative Options**

- 4.1 Not Applicable

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

## Internal Audit report - Treasury Management

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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### **5. Implications, Diversity Impact Assessment and Risk Management**

#### Financial and Procurement Implications

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

#### Legal and Human Rights Implications

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

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

- 5.3 None

#### Links to One Swindon, Strategic Objectives, Plans and Policies

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

#### Diversity Impact Assessment

- 5.5 Not Applicable

#### Risk Management

- 5.6 Not applicable

### **6. Consultees**

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

### **7. Background Papers**

- 7.1 None

### **8. Appendices**

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

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# Treasury Management January 2014 Final

## Contents and Distribution

### Contents

Executive Summary .....	2
Context.....	4
Risk Areas Examined and Findings.....	4
Overall Opinion.....	7
Action Plan .....	9
Appendices:	
A – Standard Audit Opinion	
B - Acknowledgements	

### Report Distribution – Final issued on 10th January 2014 to:

Stuart McKellar	Board Director Resources
Paul Smith	Head of Finance, Housing Treasury and Growth

### Auditor:

Hollie Gilbert	Internal Auditor
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## Executive Summary

### Background

Treasury Management is defined by the Chartered Institute for Public Finance and Accountancy (CIPFA) as the “*management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*”. The Council’s Treasury Management objectives for 2013/14 are as follows:

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

### Audit Opinion

On 31st March 2013 the Council had approximately £25m of investments, £29.5m of short term borrowing and £235.2m of long term borrowing. The impact and materiality of the system is therefore considered to be **high**. This combined with the Auditor’s opinion that system controls are operating at a **high standard** gives an overall risk to the Council of **moderate**.

### Key Messages

Performance and benchmarking reports viewed during the audit show that the Treasury Management function has achieved higher than average rates for their return on investments and lower than average interest rates on borrowing. It was found that the Treasury Management function continues to be compliant with the CIPFA Code of Practice for Treasury Management and therefore a high standard of opinion on system controls has been given.

One new recommendation has been included in this report for the Treasury Management Strategy to be presented to the Audit Committee for scrutiny prior to the start of the financial year, in order to allow for amendments to be made before it is presented to Cabinet for approval.

## Context

Under the Local Government Act 2003, the Council is required to have due regard to CIPFA's Code of Practice for Treasury Management. The Council has formally adopted the Code of Practice in Schedule 2 of the Financial Regulations. There are three key principals that are set out in the Code of Practice:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.
- They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

The Treasury Management Function is a centralised function that is administered by a small team within the Resources Directorate. They have direct access to the Co-op Bank Financial Directors system, which allows them to view balances and make transfers via the internet. An external company, SECTOR, is used to provide treasury management consultancy and credit ratings of institutes to inform investment decisions.

At the 31st March 2013 the Council had approximately £25m of investments, £29.5m of short term borrowing and £235.2m of long term borrowing.

## Risk Areas Examined and Findings

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

## Swindon Internal Audit Services: Treasury Management 2013/14

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

<i><b>Risk Area Examined and Findings</b></i>	<i><b>Audit Conclusion</b></i>
<p><b>Risk: Breach of Financial Regulations and CIPFA Code of Practice for Treasury Management.</b></p> <ul style="list-style-type: none"> <li>• A Treasury Management Strategy was produced by the Head of Finance, Housing, Treasury and Growth. This was approved by Cabinet on 6<sup>th</sup> February 2013.</li> <li>• Although the Treasury Management Strategy was presented to the Audit Committee, this was not until 8<sup>th</sup> April 2013, which does not allow for any amendments to be made, if needed, before the beginning of the financial year.</li> <li>• The mid-year report was being prepared at the time of the review, with the intention to be presented to Cabinet on 11<sup>th</sup> December 2013. It was recommended in the 2012/13 report that the mid-year report be presented to the Audit Committee for scrutiny and challenge before it is presented to Cabinet. This recommendation has not been implemented.</li> </ul>	<b>High Standard</b>
<p><b>Risk: Counterparties go into liquidation.</b></p> <ul style="list-style-type: none"> <li>• A counterparty limit of £20m has been set for the maximum amount that can be invested with one institution at any time. Testing found that for four dates reviewed this limit had not been exceeded.</li> <li>• The Council uses SECTOR to provide credit ratings for investment institutions. These ratings give an indication of the maximum length of time that investments should be made with individual institutions.</li> <li>• The Treasury Management Strategy sets out criteria for the institutions the Council can invest in. Testing of the outstanding investments on the 1<sup>st</sup> October 2013 found that all counterparties fit the criteria set out in the strategy.</li> <li>• The Council uses three brokers for its borrowings and investments. This is in compliance with the Code of Practice, which advises that business should be spread between no fewer than two.</li> </ul>	<b>High Standard</b>

Risk Area Examined and Findings	Audit Conclusion
<p><b>Risk: Market conditions and changes in the economic environment</b></p> <ul style="list-style-type: none"> <li>• Three Treasury Management reports are produced annually and reported to Cabinet. These reports include details of the general economic climate and the Council's performance.</li> <li>• Benchmarking is carried out, by the Treasury Management Assistant, throughout the year, which compares the LIBOR lending and borrowing rates to the Council's own average rates achieved. The report produced for November 2013 showed the Council had an average short term investment rate of 0.70% against 0.52% benchmark figure, and short term borrowing average rate of 0.28% against a benchmark rate of 0.36%.</li> <li>• The Council's Treasury Management performance is compared annually to other local authorities through CIPFA benchmarking, although at the time of audit the figures for 2012/13 had not yet been published.</li> </ul>	<p><b>High Standard</b></p>
<p><b>Risk: Inadequate cash flow management</b></p> <ul style="list-style-type: none"> <li>• The Logotech cash flow management system is updated with details of payments and receipts for the Council for the full financial year. Before the end of the financial year further details are added for the beginning of the next financial year.</li> <li>• Each day the Cash Flow system is updated with the actual balances taken from the Council's online banking system (Finance Director). This gives an actual end of day balance for the previous day and opening balance for the current day, so that decisions are based on the most accurate information.</li> <li>• Testing on one example of an investment and one short term borrowing found that their details had been accurately entered on Logotech by the Treasury Management Assistant. This ensures that the future daily balances reflect the repayments, and interest payments that are due.</li> </ul>	<p><b>High Standard</b></p>

Risk Area Examined and Findings	Audit Conclusion
<p><b>Risk: Error, fraud and corruption</b></p> <ul style="list-style-type: none"> <li>• The Financial Director system enforces all transactions to be set up by one officer and approved by another, in order to maintain segregation of duties in the process. This is in addition to the manual CHAPS payments forms that are required to be signed by three officers in addition to the one raising the payment request.</li> <li>• Treasury Management Daily Dealing Notes have been prepared so that the treasury management process can continue in the absence of the Treasury Management Assistant. These have been updated to include the date they were last reviewed and who by, as recommended in the 2012/13 audit report.</li> <li>• The balances on the Logotech system are reconciled to the General Ledger on a monthly basis and were found to be up-to-date at the time of audit. The Treasury Management Assistant was in the process of producing a summarised report that could be sent to the Head of Housing Treasury and Growth for quarterly reviews, as was recommended in the 2012/13 audit.</li> </ul>	<p><b>High Standard</b></p>

## Overall Opinion

**Materiality and Impact: High.** On 31<sup>st</sup> March 2013 the Council had a net borrowing position of £239m materiality is therefore **high**. The purpose of the Treasury Management function is to maintain the Council's cash flow to enable it to continue with its day-to-day activities. A failure of the system would therefore have a significant impact on the Council.

**Changes since the last audit:** The table below is a summary of the progress made in implementing the recommendations made in the 2012/13 report. One low priority recommendation was made relating to the user access rights on the Financial Director system. Progress against this recommendation will be reviewed as part of a separate Treasury Management System Control and Integrity Audit.



	Implemented	Partially Implemented	Not Implemented	Superseded	TOTAL
High	0	0	0	0	0
Medium	1	0	1	0	2
Low	1	0	0	0	1
<b>TOTAL</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>3</b>

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

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

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High Standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant Improvements Required	Of Concern	Moderate	Moderate
4	Fundamental Weaknesses Identified	Significant	Of Concern	Moderate



## Action Plan

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

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>1</b>	<b><i>Risk: Breach of Financial Regulations and CIPFA Code of Practice for Treasury Management</i></b>			
1.1	<p>The CIPFA Code of Practice recommends that the Council delegate the role of scrutiny of Treasury Management strategy and policy to a specific body and performance and policy setting should be subjected to prior scrutiny. In February 2010 Cabinet approved Audit Committee to be the scrutiny body.</p> <p>The Treasury Management Strategy was not presented to the Audit Committee before the beginning of the Financial year or before it was approved by Cabinet.</p> <p>There is a risk that if changes are required as a result of the Audit Committee's scrutiny and challenge, amendments cannot be made prior to the beginning of the financial year or before it is approved by Cabinet.</p> <p>In addition, although in draft format at the time of the audit review, the mid-year performance report was due to be presented to Cabinet on the 11<sup>th</sup> December with no prior scrutiny by Audit Committee due to the timing of meetings.</p>	<p>The Treasury Management Strategy should be presented for scrutiny by the Audit Committee before it is presented to Cabinet for approval.</p> <p>In accordance with the Audit Committee's Terms of Reference there should be annual scrutiny of Treasury Management performance. Therefore the Audit Committee should be presented with either the mid-year or end of year performance report, ideally before they are presented to Cabinet.</p> <p><b>Similar recommendation made in the 2012/13 audit.</b></p> <p><b>Priority: Medium</b></p>	<p>Head of Finance, Housing, Treasury and Growth</p> <p>April 2014</p>	<p>Agreed, subject to Audit Committee dates falling in line with Cabinet dates.</p>

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

## Acknowledgements

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

Name	Job Title
Keir Garnham	Treasury Management Assistant
Paul Smith	Head of Finance, Housing, Treasury and Growth

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**Internal Audit reports identifying ‘significant’ risk or ‘of concern’:  
Highways Asset Management**

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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

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**1. Purpose and Reasons**

- 1.1 Members requested that at least one individual audit report be presented to each meeting of the Committee. At the last meeting Members requested that the report on *Highways Asset Management* be brought to the January meeting of the Committee.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating effectively.

**2. Recommendations**

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

**3. Detail**

Background

- 3.1 As a unitary authority, the Council is also the Highway Authority for the highway network that falls within the boundaries of the borough. However, this excludes roads that form part of the country's strategic network; these are the responsibility of the Highways Agency. Within the boundaries of the Council the strategic routes are the M4 and the A419.
- 3.2 The audit focussed on highway pavement maintenance management (this includes roads, cycle ways, pavements but not traffic signals, drainage or lighting), bridges asset management and the business relationship between Highways and Transport and StreetSmart.
- 3.3 It should be noted that the Internal Audit report was finalised prior to the decision to reintegrate some of the services provided by SCS back into the Council.

Key Recommendations

- 3.4 As noted above a number of the recommendations made have been impacted by the reintegration of the SCS StreetSmart Services Highway Maintenance team in to the Council's Highway and Transport team.

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

# **Internal Audit reports identifying ‘significant’ risk or ‘of concern’: Highways Asset Management**

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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3.5 The key recommendations made in the report are as follows:

- Appropriate governance arrangements between Highways and Transport and StreetSmart should be agreed. These should include the coverage and split of types of work expected from SCS; how their performance should be measured; management information required; policies to be followed etc.
- Guidance should be provided on the training and education needed by Highways Inspectors.
- Non-Highways structure assets identified as not being appropriately managed are added to the Highways Asset register to ensure that they are regularly surveyed.

3.6 The Internal Audit report (issued on 21<sup>st</sup> October 2013) is attached as Appendix 1 to this report.

3.7 The Head of Highways and Transport has provided an update (see Appendix 2) on progress in implementing the recommendations from the report that also reflects the changes due to the reintegration of SCS services.

3.8 The Head of Highways and Transport will also be attending Audit Committee to answer any questions that Members may have.

## **4. Alternative Options**

4.1 Not Applicable

## **5. Implications, Diversity Impact Assessment and Risk Management**

### Financial and Procurement Implications

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

### Legal and Human Rights Implications

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

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

5.3 None

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

## Internal Audit reports identifying ‘significant’ risk or ‘of concern’:

### Highways Asset Management

**Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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#### Links to One Swindon, Strategic Objectives, Plans and Policies

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

#### Diversity Impact Assessment

- 5.5 Not Applicable

#### Risk Management

- 5.6 Not applicable

### **6. Consultees**

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

### **7. Background Papers**

- 7.1 None

### **8. Appendices**

- 8.1 Appendix 1 – Internal Audit report: *Highways Asset Management* (Oct 2013)
- 8.2 Appendix 2 – Update provided by the Head of Highways and Transport (Jan 2014)

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**Highways Asset Management  
21<sup>st</sup> October 2013  
(Final Report)**

## Contents and Distribution

Contents	Page
Executive Summary	3
Context	6
Risk Areas Examined	8
Overall Opinion	11
Action Plan	12
Appendices:	
A – Standard Audit Opinion	
B – Acknowledgements	

### Report Distribution – Final Report issued 21<sup>st</sup> October 2013 to:

Tim Price	Service Manager, Highway Infrastructure
Gwillam Lloyd	Head of Highways and Transport
Adrian Arnold	Head of Finance - General Services
Bernie Brannan	Board Director, Service Delivery

## Executive Summary

### Background

This review has been carried out as part of the agreed Internal Audit Plan for 2013/2014, in order to provide assurance to the Board Director Service Delivery that Highway Asset Management is being effectively performed and the Council is meeting its statutory responsibilities to maintain the highway and that the business relationship between Highways and Transport and StreetSmart Services is effective.

As a unitary authority, Swindon Borough Council is also the local Highway Authority. Under the Highways Act 1980, a Highway Authority has a statutory duty to maintain the highways within its boundaries, except for strategic routes e.g. motorways, major trunk roads, which are managed by the Highways Agency. The accepted standard for highway maintenance is set out in the “*Well-maintained Highways: Code of Practice for Highway Maintenance*”<sup>1</sup>; although not a statutory document, it is produced<sup>1</sup> and published with the backing of central and local government. There are separate codes of practice for highways structures (e.g. bridges) and lighting.

Responsibility for highway maintenance within the borough of Swindon is split between the Highways Agency (M4 and A419), the Highways and Transport Highway Asset Team, who are responsible for strategic, long term maintenance and StreetSmart Services for routine and safety maintenance. Through Streetsmart Services, the Council currently engage Swindon Commercial Services Limited (SCS) to undertake the day to day safety and routine highway inspections and maintenance work required under the Code of Practice, to ensure the roads are safe to use in the short to medium term.

The audit focussed on highway pavement maintenance management (this includes roads, cycle ways, pavements but not traffic signals, drainage or lighting) and bridges asset management and the business relationship between Highways and Transport and StreetSmart Services, it did not cover the StreetSmart relationship with SCS. The funding of highways maintenance will be the subject of a separate audit later in 2013/14.

In July 2013 the Council agreed to transfer certain SCS operational services back to the Council, including the highways maintenance activities. In accordance with an outline plan to reintegrate SCS service to the Council, the Board Director, Service Delivery will carry out a detailed examination of the individual services provided currently by SCS to SBC. The aim of which is to streamline and integrate processes operating both within services and between client and contractor to further reduce costs. This will have a significant impact

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<sup>1</sup> UK Road Liaison Group

on Highways Asset Management. A key concern raised in this audit regarding the relationship between Highways and Transport and StreetSmart/SCS, will be addressed through the Board Director Service Delivery's review.

## Audit Opinion

The impact and materiality of Highway Asset management is considered to be **high** and combined with the auditor's opinion that **significant improvements required** in system controls, gives an overall risk rating to the Council of "**of concern**".

## Key Messages

### Risk: Business relationship management not in place

The Asset Management Team within Highways and Transport are the overall "owners" of the Borough's highways assets i.e. roads, pavements, structures, lighting and traffic signals. They manage the assets, including most aspects of the maintenance regimes required to ensure these assets remain fit for purpose. The exception to this, is the day to day maintenance to ensure that the highways (roads/pavements, cycleways and backways) are safe and functional, and that they meet the criteria under the Code of Practice; this is undertaken by StreetSmart Services, who have contracted this out to SCS. (StreetSmart is the "collective name for services provided to make the Borough...a safer, cleaner and smarter place to live, work and visit" (SBC Website)). StreetSmart, when established, were given the responsibility for this work, however Highways and Transport, as the asset owners, have no formal business relationship with StreetSmart regarding highway matters. As the asset owners, Highways and Transport should have influence on what work is undertaken, standards of the work, qualifications for Highway Inspectors etc. through the development of an appropriate governance structure.

StreetSmart has limited resources to validate that SCS are undertaking the necessary condition surveys and performing remedial action as required and that any key performance indicators, reported by SCS, are an accurate reflection of the situation (as StreetSmart Compliance Officers also manage the waste and leisure work that SCS undertake for them).

Highways and Transport currently are given no assurances that routine, day to day management and maintenance of the highway through SCS is on-going and that it meets the "*Well-maintained Highways: Code of Practice for Highway Maintenance Management*" expectations.

With the recent decision on the future of SCS, a decision will be needed on the future approach to road maintenance and a new delivery model for day to day highways maintenance will be required.

**Risk: Asset Management**

Capital expenditure on highways and bridge maintenance is the responsibility of the Asset Management Team in Highways and Transport. Based on the prioritisation processes in place, potential schemes are worked up and a business case has to be made. The business case is subject to the "Protocol for approving capital funded schemes (excluding major bid schemes)" process. This ensures all proposed schemes are subject to robust challenge (Officers Project Board/Leads Member) and are authorised by the Lead Member and Head of Highways and Transport before being implemented.

As part of the Local Transport Plan, regular implementation plans are prepared, covering potential schemes for delivery in the short term and presented to Cabinet. The 2013/14 LTP implementation plan, including the Protocol mentioned above, went to Cabinet on 20<sup>th</sup> March 2013. The implementation plan indicates the overall budget available and lists schemes that will potentially be delivered, although this list is flexible. The schemes have, or will go through the process outlined in the Protocol.

Highways and Bridges had prioritised plans in place, which for 2013/14, were supported by business cases and were included in the Local Transport Plan Implementation Plan for 2013/14. Both areas, highways and bridges, had plans beyond the current year.

Condition surveys on highways and bridges are undertaken by external contractors. WDM Limited undertakes the highway surveys and Halcrow the bridge surveys. The condition surveys undertaken by WDM are for the long term health of a road and require the use of sophisticated electronic machines to provide data on the roads surveyed. This differs to the condition surveys performed by SCS which are more visual and are looking for immediate issues e.g. potholes, road signs being moved/obscured, which require prompt action to ensure the road is safe to use.

When condition surveys are undertaken on bridges, they result in a score out of 100. The Bridges and Structures Engineer is using the benchmark that a score of 85/100 and above is an acceptable standard. A score below 85 may require remedial action of some description, depending on the Bridges and Structures Engineer's professional judgement. Overall the aim is to have an average score for all bridges of 85/100, although this approach is not documented or approved.

Day to day condition surveys of highways, and any resulting maintenance work is managed, on behalf of the Council, by StreetSmart Services. SCS has a contract with StreetSmart to undertake this work.



## Context

As a unitary authority, Swindon Borough Council is also the Highway Authority for the highway network that falls within the boundaries of the borough. However, this excludes roads that form part of the country's strategic network; these are the responsibility of the Highways Agency. Within the boundaries of the Borough Council the strategic routes are the M4 and the A419.

As a Highway Authority, the Council has a statutory duty under the Highway Act 1980 to maintain the highways. The standards for general maintenance are set out in the "*Well-maintained Highways: Code of Practice for Highway Maintenance Management*". Whilst not enforced by statute, it is produced by and published with the support of central and local government. There are separate codes of practice for structures/bridges and lighting.

Highway assets under management by the Council come from two sources, those transferred under the unitary transfer back in 1997 when Swindon Borough Council became a unitary authority, prior to that Swindon was part of Wiltshire, and through adoptions of new roads and associated assets since 1997. The most common route for adoption is through Section 38 of the Highway Act 1980.

Highway (roads, pavements, cycleways etc.) asset maintenance in Swindon is delivered through the Highways Asset Management Team (strategic maintenance) and StreetSmart/Swindon Commercial Services (day to day, safety and routine maintenance ensuring the roads are safe in the short term). There are other models used by other Councils, including contracting out maintenance services to civil engineering firms (Southampton City Council have a contract with Balfour Beatty) or entering into a Public Finance Initiative (Isle of Wight Council have done this). Structures are managed within the Asset Team and do not use SCS to undertake any inspections/maintenance work.

Highways maintenance policy is part of the Swindon Local Transport Plan 2011-2026. Within the plan there are several policies and policy C is to "*Achieve and sustain a high quality, resilient and well maintained highway network for all members of the community*". The Plan outlines the importance of the highways to Swindon, how decisions will be reached regarding investment in highways maintenance and the delivery options available. The later include:

- Annual maintenance programme on classified (major) roads.
- Annual maintenance programme on unclassified (minor) roads.
- Reactive maintenance across the network.
- Annual programme of maintenance of highways structures.

The Local Transport Plan is subject to an annual report to Cabinet to ensure transparency in the apportionment of the funding to the various aspects of highway maintenance and the delivery of the programme.

The Highway Asset Management Team is responsible for highways, bridges and structures, highway lighting, traffic signals and drainage assets. The highways and bridges were taken to be the main risk areas for this audit. Highways are generally defined as the roads, pavements, cycleways and backways. The Highway Maintenance Engineer is responsible for the prioritisation and planning of capital road and footway investment, to best manage the life of the assets within the available funding. However any work is subject to approval by the Lead Member and Head of Highways and Transport. Condition surveys of the highway network are undertaken by an external company, and from the data returned, maintenance plans are developed and implemented through the Local Transport Plan Implementation Plan. The day to day, safety and routine maintenance and meeting the Code of Practice are not Highways and Transport's responsibility, this lies with StreetSmart/Swindon Commercial Services. Although, Highways and Transport should be informed of what is being undertaken and how it is being performed, as ultimately, they are the asset owners.

SCS, based on the criteria in the Code of Practice for Well Maintained Highways, carry out safety and routine inspections across the highway network in Swindon. The type of inspection and frequency of inspection are defined in the Code of Practice. They then make good any defects identified. There is an annual budget for this work, as part of the Council's overall agreement with SCS. The annual budget resides with the Council's SCS Commercial Manager. SCS bill for one twelfth of the budget amount every month.

Highway bridges and structures are solely the responsibility of the Highway Asset Team. Condition surveys are undertaken by a third party over a three year cycle. From the returns and results, maintenance plans are developed for bridges with scores below an acceptable benchmark score and maintenance plans are developed and implemented through the Local Transport Implementation Plan. It was noted during the audit that an issue had arisen around bridges and structures that are not the responsibility of the Highway Asset Team to manage, and that these had not been maintained by their service areas e.g. the bridge in the Town Gardens which is the responsibility of parks team within StreetSmart. This has been raised through the Corporate Health and Safety Risk Register and a paper was presented to Corporate Board, 20<sup>th</sup> May 2013 to propose a way forward including having all structures surveyed. The likely recommendation in a report back to Cabinet is that Highways and Transport will have the bridges surveyed and the service areas will make the decision on appropriate actions.

Funding for highways maintenance has always been an issue for local authorities. In the 2012 the Asphalt Industry Alliance's "Annual Local Authority Road Maintenance Survey" found that *"if adequate funding and resources were in place to clear the current backlog of maintenance work, highways departments reported that the estimated amount of time required to catch up would be 11 years"*<sup>2</sup>. In 2012/13 the capital budget for highway maintenance work (roads, structures etc.) through the Local Transport Plan was £4.96 million. In

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<sup>2</sup> Taken from "Roads: maintenance, repairs and street works" – Louise Butcher (Standard Note House of Commons Library).

2013/14 this budget has been reduced to £4.55 million. The revenue budget held by StreetSmart is £1.7 million for 2013/14. When the Highways Asset Management plan was drafted in 2008/09, it was then estimated, that to maintain all categories of roads, footways, cycle tracks, backways etc., in a steady state of maintenance at their 2009 condition, that approximately £12 million per annum was required. The steady state of maintenance costing is not updated annually to reflect current year costings. For bridges and structures, a figure of £2 million per annum is estimated as being required, over a 30 year period, for “unplanned reactive” maintenance. This is based on guidance provided by the Highways Asset Management Financial Information Group and the CIPFA requirements for ‘Whole of Government Accounts’ which is applied to the Atkins Structures Asset Management Planning Toolkit.

### Risk Areas Examined and Findings

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

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

<i>Risk Area Examined and Findings</i>	<i>Audit Conclusion</i>
<p><b>Risk: Business relationship management not in place</b></p> <ul style="list-style-type: none"> <li>• There is no formal governance structure e.g. service level agreement, management meetings, performance reporting, in place between Highways and Transport and StreetSmart to cover the highways maintenance activity undertaken through the StreetSmart contract with SCS. Highways and Transport do not have a line of sight over the activity undertaken, yet they are the asset owners. (AP 1.1)</li> <li>• StreetSmart have limited capacity to validate any of the work undertaken by SCS and don't check the accuracy of the KPIs. Instead, StreetSmart rely on the regime of self-monitoring SCS claim to have in place. (AP 1.1)</li> <li>• There are no key performance indicators on condition surveys, balance between safety and routine inspections or percentage of category 1 and 2 faults (defined in the Code of Practice) resolved within the agreed timescales. Outside of gully cleaning, the KPIs provide limited assurance over road maintenance activity. (AP 1.1)</li> <li>• Nearly all of the Highways Inspectors who transferred over to SCS from Highways and Transport/StreetSmart have left. They have not been replaced by experienced inspectors; indeed they cover a wide range of other areas besides highways as part of their role. Furthermore, there are no agreed education/training criteria in place for</li> </ul>	<p><b>Significant improvements required</b></p>



<p>highways inspectors in Swindon. The Borough and SCS should agree an approach to this issue. The Institute of Highway Engineers offer a course or guidance on what training should be given. There is also a City and Guild qualification (6033) – Highway Inspection and Monitoring. (AP 1.2)</p> <ul style="list-style-type: none"> <li>• There is no policy in place between the Council and SCS over inspections, safety v routine and types of work undertaken, reactive v routine maintenance, covering what is expected, type of materials to use, training and reporting expectations. (AP 1.1)</li> <li>• The output specification between StreetSmart and SCS has never been finalised and signed. The two organisations have, since February 2012, been operating to a draft version of the specification.</li> </ul>	
<p><b>Risk: Asset Management</b></p> <ul style="list-style-type: none"> <li>• Asset management plans are in place for highways and bridges. The Best Value Performance Indicator 130-01 (condition of principal roads (A routes)) indicates that 1% of the principal road network is rated as red risk (plan maintenance soon) and 11% as amber (plan investigation soon) and 87% are green (generally good condition). These results are based on condition survey work undertaken by a contractor. The 1% is very small areas of road which would be uneconomical to repair in isolation according to Highways. However, if included in wider, larger maintenance work the cost would be circa £325k. The estimate cost to renew the asset life for all 'A' class road sections is estimated at £7.93m. For bridges, based on 2011/12 data seen (none was available for 2012/13), the average score for all bridges in Swindon was just above the overall benchmark score, 85/100, aimed for by Highways and Transport.</li> <li>• There is no, one, database used to record highways assets and all aspects relating to them e.g. condition surveys undertaken, remedial action, residents' complaints etc. A system called Confirm is used to record most assets (highways, lighting, bridges and drains) however, traffic signals are on a standalone database. Although highways are recorded on Confirm, the Highway Maintenance Engineer uses a system UKPMS (a Pavement Management System provided by another company) to record condition survey data used to develop maintenance plans for the highway network (AP 2.5).</li> <li>• SCS also have access to Confirm to update relevant records with work undertaken e.g. inspections, remedial work. However, since lighting assets were transferred onto the Confirm database, SCS have been unable to access the lighting element to record inspection work and remedial action taken. (AP 2.5)</li> <li>• Confirm has not been fully populated. It has been configured, but not all record fields have been completed e.g. ownership details for the bridge stock. (AP 2.5)</li> <li>• Recently, it came to light that there are about 150 non-highways bridges and structures that were not being inspected and maintained. A project was set up and a paper was presented to Corporate Board on the 20<sup>th</sup> May 2013 with a way forward. The bridges in question are not Highways and Transports responsibility, as they are not</li> </ul>	<p><b>Satisfactory</b></p>

part of the highways network e.g. one of the bridges is in the Town Gardens in Old Town, this has been surveyed and was closed immediately, the service owner is StreetSmart. Highways and Transport assist and can arrange for condition surveys to be undertaken and provide advice on how the structures can be managed. The final decision on the structure rests with the service provider. (AP 2.1)

- It was not possible to obtain up to date data on the condition of the highway bridge stock, as not all condition surveys had not been input into Confirm. The bridge listing seen during the audit was dated 2011/12. The five year plan reviewed was dated May 2012. (AP 2.4)
- Following input of the data from a condition survey, two scores are generated for a bridge out of one hundred. An overall one for all aspects of the bridge and another for the main critical elements of the structure. The Engineer works on a score of eighty five out of one hundred as the benchmark, anything below this potentially requires attention. The overall aim is to manage the bridge stock so that the average score for all bridges is 85/100; there is no policy in place to support this score and approach. (AP 2.3)
- The Engineer responsible for bridges and structures stated that the Council has limited records on retaining structures, embankments, cuttings and safety barriers not associated with a structure. (AP 2.2)
- There is a three year, prioritised plan for capital road and pavement works. The planned works for 2013/14 is supported by a business case and is included in the Local Transport Plan Implementation Plan for 2013/14.
- There is a five year plan for bridges and structures dated May 2012. There was a business plan for 2013/14 supporting the work included in the Local Transport Plan Implementation Plan for 2013/14. Although the data on bridge conditions is not fully up to date.
- The Council is unaware of all its drainage assets and following requirements under the Flood and Water Management Act 2010 introduced after the floods of 2007, is currently undertaking a data asset collection survey. With current resourcing it is anticipated that this could take 15-20 years. (AP 2.7)
- There is no strategic programme of drainage work, it is all reactive. This has been the position since the 1990s. (AP 2.6)
- The Local Transport Plan 2011-2026 is difficult to find on the Council's internet site. The Highways Asset Management Plan 2009, which is the latest one, is not on the Council's internet site. (AP 2.9)
- Insurance data on claims is not routinely provided to either Highways and Transport or StreetSmart/SCS. It is only provided when requested, which is rarely. (AP 2.8)

## Overall Opinion

**Materiality and impact: High.** The capital budget for highways maintenance work is with the Asset Team and was £4.96 million in 2012/13 financial year, although for 2013/14 this has been reduced to £4.55 million. The Council, through StreetSmart, engage Swindon Commercial Services to deliver day to day maintenance and ensure the highways are safe. The revenue budget for this work is £1.7 million for 2013/14. Materiality is therefore **high**. The state of the Borough's highway network is vital to the movement of vehicles and residents and attracts significant public interest and comment. Impact is therefore **high**.

**Changes since last audit:** Highway Inspectors have transferred over from Highways and Transport to StreetSmart/Swindon Commercial Services.

**Opinion on system controls: Significant improvements required** (see Appendix A) i.e. the auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.

**Overall assessment of risk:** the combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **of concern**:

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

## Action Plan

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

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>1</b>	<b><i>Risk: Business relationship management not in place</i></b>			
1.1	<p><b>Governance Arrangements between Highways and Transport and StreetSmart</b></p> <p>Highways and Transport Asset Management team are responsible for the Borough's highways assets. This includes maintaining asset registers, carrying out condition survey work on highways (ascertaining the overall long term condition of the highways) and planning, prioritising and delivering major maintenance schemes (capital expenditure).</p> <p>Day to day, routine maintenance activity, including routine/safety condition surveys, to ensure the highways (roads, pavements etc., but not bridges) are safe and the Council meets the requirements of the "Code of Practice for Well-maintained Highways", is undertaken by SCS. This is through a contract between StreetSmart and SCS. Highways and Transport and not involved in the process, despite being the asset owner.</p> <p>Although Highways and Transport are the asset owners they have had no formal input into the StreetSmart and SCS relationship i.e. outlining policies to follow, balance between inspection types, types of material/standards to be followed when repairing different</p>	<p>Highways and Transport and StreetSmart should agree a way forward and implement an appropriate governance arrangement. This should then be encapsulated in a Service Level Agreement.</p> <p>The arrangements should cover:</p> <ul style="list-style-type: none"> <li>• The coverage and split of types of work expected from SCS.</li> <li>• How SCS's performance should be measured, as the current key performance indicators don't reflect fully highway maintenance requirements e.g. nothing on undertaking condition surveys.</li> <li>• Management information required e.g. in what circumstances SCS should report, via StreetSmart, issues to Transport and Highways that may affect the long term condition of a road or a where a larger piece of maintenance work is required.</li> </ul>	<p>Head of Highways and Transport in conjunction with the Service Manager Highway Infrastructure Management</p> <p>March 2014</p>	<p><b>Agreed</b></p> <p>Recommendations to be included in Swindon Commercial Services (SCS) Re-integration work-streams.</p>

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>1</b>	<b>Risk: Business relationship management not in place</b>			
1.1 (cont.)	<p><b>Governance (cont.)</b></p> <p>Classes / categories of road, training of inspectors, ideal key performance indicators which Highways and Transport could rely on for assurance etc.</p> <p>Whilst StreetSmart manage the relationship with SCS, on behalf of the Council, there are no policies/standards in place regarding the work expected from SCS for safety inspections, reactive maintenance, and routine repairs, particularly what and when they need to report to Highways and Transport. There are a series of Key Performance Indicators in place by which SCS report to StreetSmart.</p> <p>Currently, StreetSmart has limited capacity to validate any of the work undertaken by SCS and don't check the accuracy of the KPIs. Instead, StreetSmart rely on the regime of self-monitoring SCS claim to have in place.</p> <p>No confirmation could be found that the current KPIs had been agreed with the Highways Asset Management Team and were fit for purpose in providing evidence that condition surveys were being undertaken and appropriate remedial action taken.</p> <p>Risk: Highways and Transport have no assurance that the highway network is being maintained adequately and safely.</p>	<ul style="list-style-type: none"> <li>• Meetings between Highways and Transport and StreetSmart, meeting frequencies, employees involved and their roles and responsibilities.</li> <li>• The policies expected to be followed e.g. balance between safety inspections and routine maintenance reactive versus routine maintenance and how they should be reported.</li> <li>• The evidence StreetSmart would be expected to see as verification that SCS were carrying out the tasks.</li> </ul> <p><b>Priority: High</b></p>		



Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>1</b>	<b>Risk: Business relationship management not in place</b>			
1.2	<p><b>Highway Inspectors Training</b></p> <p>There is no guidance is on the training and education needed for Highways Inspectors. All the experienced Highways Inspectors that were transferred over to SCS have left and been replaced by less experienced people. Whilst the output specification just says the employees should be competent, the exact nature of what that means is left to SCS. As they act as the "eyes and ears", on behalf of the Council, as the Highway Authority, in maintaining a safe and well maintained highway network, guidance from the Council on minimum training standards should be drawn up and agreed with SCS.</p> <p>Risk: insurance claims against the Council may not be defensible if inadequate training in place</p>	<p>Guidance should be provided on the training and education needed by Highways Inspectors.</p> <p>Consideration to be given for Inspectors to take the City and Guilds 6033 (Highways Inspection and Monitoring) qualifications.</p> <p><b>Priority: High</b></p>	<p>Service Manager Highway Infrastructure Management.</p> <p>March 2014</p>	<p><b>Agreed</b></p> <p>Recommendations to be included in SCS Re-integration work-streams.</p>

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>2</b>	<b>Risk: Asset management</b>			
2.1	<p><b>Bridges and structures – non Highways and Transport Assets</b></p> <p>An issue was been identified by Corporate Health and Safety regarding bridge/structure assets, which are not the responsibility of Highways and Transports to maintain, not being managed appropriately. This has meant that they have not had regular condition surveys undertaken and no maintenance to ensure they are fit for purpose. This issue is now recorded in the Corporate Health and Safety Risk Register.</p> <p>A paper was taken to Corporate Board (May 2013) and arrangements made by Highways to have the structures surveyed. Following this action, another paper will go to the Board with the results and a proposed way forward.</p> <p>Risk: insurance claims against the Council/adverse publicity</p>	<p>That the non-Highways structure assets identified as not being appropriately managed are added to the Highways asset register. This is to ensure they are regularly surveyed. The results of the surveys should be forwarded to the appropriate service area to take any necessary decisions over future action required, based on the results/recommendations arising from the survey.</p> <p><b>Priority: High</b></p>	<p>Service Manager Highway Infrastructure Management.</p> <p>December 2013</p>	<p><b>Agreed</b></p> <p>Interim arrangements are in place, e.g. asset identification and condition survey as agreed with Corporate Board. This is a recent and on-going project to resolve risks and management of these non-highway assets.</p>

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>2</b>	<b>Risk: Asset management</b>			
2.2	<p><b>Bridges and Structures – non bridge assets</b></p> <p>The Council has limited records or is not aware of some of the following types of highway asset that it is responsible for. Therefore these structures may not be monitored and maintained. They are:</p> <ul style="list-style-type: none"> <li>• Retaining structures</li> <li>• Embankments</li> <li>• Earthworks</li> <li>• Cuttings</li> <li>• Safety barriers</li> </ul> <p>The engineer concerned stated he received 2-3 reports a year of potentially dangerous structures which he had no previous record of.</p> <p>Risk: insurance claims made against the Council</p>	<p>All retaining structures, embankments, earthworks, cuttings and safety barriers that are owned by the Council, should be identified, recorded and maintained.</p> <p>A risk based plan should be developed to achieve this, including appointing an officer to manage it.</p> <p><b>Priority: Medium</b></p>	<p>Service Manager Highway Infrastructure Management December 2013</p>	<p><b>Agreed</b></p> <p>Asset data and condition survey will be collected for all retaining walls once the recently agreed bridge inspector post is filled in circa March 14.</p> <p>A Policy should be developed for management of structural earthworks.</p> <p>Safety barrier asset has been identified along with essential repairs undertaken.</p> <p>Responsibility for maintenance rests with StreetSmart.</p> <p>Recommendations to be included in SCS Re-integration work-streams.</p>



Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>2</b>	<b>Risk: Asset management</b>			
2.3	<p><b>Bridges and Structures – condition surveys</b></p> <p>When a bridge's condition is surveyed, it is given a score out of 100. Scores below 85 may require some remedial work depending on the professional judgement of the Bridges and Structures Engineer. The current thinking in the Asset Management Team is that the average score for the entire bridge stock should be 85/100. This approach has not been formally agreed.</p> <p>Risk: expenditure on bridges will fluctuate, depending on the score adopted as a benchmark</p>	<p>A formal decision should be made on what the benchmark score should be for bridges before it is considered that remedial action is required / undertaken.</p> <p><b>Priority: Medium</b></p>	<p>Service Manager Highway Infrastructure Management</p> <p>February 2014</p>	<p><b>Agreed</b></p>
2.4	<p><b>Bridges and Structures – records</b></p> <p>The asset register for bridges and structures is not up to date with latest condition surveys and remedial action undertaken. The latest list of bridge scores provided during the audit was for 2011/12 and had not been updated to reflect surveys/work carried out in 2012/13. The five year plan provided was dated May 2012.</p> <p>Risk: records may get misplaced and not updated leading in incorrect data being held leading to wrong business decisions being made</p>	<p>Bridge condition surveys should be processed promptly to ensure an accurate up to date record can be produced as required.</p> <p>The five year plan should be updated to reflect the current position in 2013.</p> <p><b>Priority: Low</b></p>	<p>Service Manager Highway Infrastructure Management</p> <p>December 2013</p>	<p><b>Agreed</b></p> <p>Proposed SBC bridge inspector role will speed up the processing of inspections which are currently biased towards end of year completion.</p>

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>2</b>	<b>Risk: Asset management</b>			
2.5	<p><b>Confirm database</b></p> <p>The Asset Management Team use a modular database called Confirm as its asset register to record assets, inspections and maintenance on the assets. Although, highways and traffic signals use separate databases. The Highway Maintenance Engineer uses a Pavement Management System database supplied by another supplier, to retain condition survey data. This supplier currently undertakes all the surveys. Confirm also has a Pavement Management System module. According to the Highway Maintenance Engineer, the annual cost of licences for the current Pavement Management System is £17k.</p> <p>The traffic signals engineer also does not use Confirm.</p> <p>Confirm has been configured but not all fields have been populated e.g. for bridges, areas such as ownership have not been completed plus backlog data on bridge conditions.</p> <p>Since the street lighting records transferred to Confirm, SCS have not been able to update the records with work they have completed.</p> <p>Risk: there is no single database containing all highway asset records/information is duplicated/omitted.</p>	<p>A decision should be made on what fields should be populated in Confirm database and what fields can be left unpopulated.</p> <p>A plan should be drawn up to ensure that agreed fields can be populated.</p> <p>Consider the cost benefit of operating a separate Pavement Management system or switching to using the Confirm system, thus having everything on one database.</p> <p>SCS access to Confirm to update street lighting records should be resolved. When resolved it should be ensured that any data not processed should be retrospectively keyed to Confirm.</p> <p>Consider adding traffic signals to the Confirm database.</p> <p><b>Priority: Medium</b></p>	<p>Service Manager Highway Infrastructure Management</p> <p>March 2014</p>	Agreed

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>2</b>	<b>Risk: Asset management</b>			
2.6	<p><b>Drainage assets – only reactive maintenance</b></p> <p>There has not been a budget for a programme of strategic maintenance for drainage since the 1990s, all work is reactive. In recent years the adverse weather conditions has led to increased flooding and damage to properties in Swindon. There is now a requirement under the Flood and Water Management Act 2010 to establish and maintain a register of structures/features which have an effect on the flood risk management in its area. When identifying SBC owned elements of these structures, maintenance may be required.</p> <p>Risk: flooding in Swindon and damage to property</p>	<p>Consideration should be given to introducing a budget for strategic drainage maintenance.</p> <p><b>Priority: Medium</b></p>	<p>Service Manager Highway Infrastructure Management</p> <p>December 2013</p>	<p><b>Agreed</b></p> <p>Recommendations to be included in SCS Re-integration work-streams.</p>
2.7	<p><b>Drainage Assets – records</b></p> <p>Currently the Council is unaware of all its drainage assets. Following the floods of 2007 and the passing of the Flood and Water Management Act 2010, subsequent new requirements have been placed on the Council as a lead local Flood Authority. One of the requirements is to establish and maintain a register of structures/features which have an effect on the flood risk management in its area.</p> <p>To this effect the Council is identifying its drainage assets. It is undertaking, what is termed, a data asset collection survey. The Drainage Engineer has stated that with current resources this could take over fifteen years.</p> <p>Risk: unaware of assets</p>	<p>A decision should be made as to whether this is an acceptable timescale or whether an additional resource is allocated to reduce the time frame to carry out the exercise.</p> <p><b>Priority: Medium</b></p>	<p>Service Manager Highway Infrastructure Management</p> <p>December 2013</p>	<p><b>Agreed</b></p> <p>The approach to drainage data asset collection will be addressed in the Local Flood Risk Management Strategy.</p>

Ref.	Finding	Recommendations Priority (High/Medium/Low)	Responsible Officer and Timescale	Management Response
<b>2</b>	<b>Risk: Asset management</b>			
2.8	<p><b>Insurance data</b></p> <p>Data regarding insurance claims against the Council citing the state of the highways (roads, pavements etc.) is not routinely requested, or provided, to Highways and Transport and StreetSmart/SCS.</p> <p>Risk: not aware of level of claims or potential high risk areas</p>	<p>Details of insurance claims made against the Council citing the condition of the highway should be provided at least annually to Highways and Transport and StreetSmart and SCS.</p> <p><b>Priority: Medium</b></p>	<p>Service Manager Highway Infrastructure Management</p> <p>December 2013</p>	<p><b>Agreed</b></p> <p>Recommendations to be included in SCS Re-integration work-streams.</p>
2.9	<p><b>Provision of information to residents</b></p> <p>The Government encourages Councils to produce their Local Transport and Highways Asset Management Plans and publish these to enable residents to see how the Council goes about its highway maintenance responsibilities.</p> <p>The Local Transport Plan 2011-2026 is difficult to locate on the Council's internet website and it appears on the second page of links.</p> <p>The current version of Council's Highways Asset Management Plan, dated 2009 could not be found on the internet site.</p> <p>Risk: residents have no reference point and unaware of the Council's strategy and plans</p>	<p>The Local Transport Plan 2011-2026 should be easy to locate on the Council's internet site.</p> <p>The current Highways Asset Management Plan should be made available on the Council's internet site and be easy to locate.</p> <p><b>Priority: Low</b></p>	<p>Service Manager Highway Infrastructure Management</p> <p>December 2013</p> <p>March 2014</p>	<p><b>Agreed</b></p> <p><b>Agreed</b> - subject to officer review and Cabinet Member support.</p>

**Standard Audit Opinions**

The audit opinion is based on two different criteria the first is the materiality of the system and its impact on the Council if there was a system failure. This has been spilt into High, Medium or Low.

The second criteria, is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and, fundamental weakness. Each of these categories has a standard opinion (see below).

The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).

Standard Audit Opinions on System Control	
<b>Audit Opinion 1. High standard</b>	The auditor completing the review concluded the significant system controls are in place and operating effectively and only minor recommendations have been made.
<b>Audit Opinion 2. Satisfactory standard</b>	The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.
<b>Audit Opinion 3. Significant improvements required</b>	The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.
<b>Audit Opinion 4. Fundamental weaknesses identified</b>	The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.

## Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers for their contribution to this review

Name	Title/Organisation
Tim Price	Service Manager Highway Infrastructure
Richard Fisher	StreetSmart Service Delivery Manager
Gary Hewitt	Highway Maintenance Engineer
Alan Frost	Bridges and Structures Engineer
Lisa Willoughby	Highway Information Technician
Simon Masters	Highway Asset and Drainage Engineer
Andrew Parfitt	Traffic Signals Engineer
Heather Lane	Structures Technician
Rosie Halpin	Highway Records Officer
Bhesh Thapa	Highway Asset Data Technician
Rachel Ind	SBC Commercial Partnership Manager SCS
Sue Connaghan	Senior Procurement Officer
Peter Greer	Insurance Manager

# INTERNAL AUDIT FOLLOW UP FORM

AUDIT	Highways Asset Management	PREPARED BY	Steve Hayward	DATE	December 2013
REPORT DATED	October 2013	REVIEWED BY		PAGE	

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
1	<p>Risk: Business relationship management not in place</p> <p>Highways and Transport and StreetSmart should agree a way forward and implement an appropriate governance arrangement. This should then be encapsulated in a Service Level Agreement.</p> <p>The arrangements should cover:</p> <ul style="list-style-type: none"> <li>• The coverage and split of types of work expected from SCS.</li> <li>• How SCS's performance should be measured, as the current key performance indicators don't reflect fully highway maintenance requirements e.g. nothing on undertaking condition surveys.</li> <li>• Management information required e.g. in what circumstances SCS should report, via StreetSmart, issues to Transport and Highways that may affect the long term condition of a road or a where a larger piece of maintenance work is required.</li> <li>• Meetings between Highways and Transport and StreetSmart, meeting frequencies, employees involved and their roles and responsibilities.</li> <li>• The policies expected to be followed e.g. balance between safety inspections and routine inspections, reactive versus routine maintenance and how they should be reported.</li> </ul>	Head of Highways and Transport in conjunction with the Service Manager Highway Infrastructure Management	March 2014	2	<p>Issue has been impacted by the reintegration of SCS Streetsmart Services Highway Maintenance team into Highway and Transport as part of the SCS reintegration process.</p> <p>Following the e-integration of SCS into SBC, Highways and Transport are developing a new structure. This will see the highways work previously undertaken by SCS, being directly managed within Highways and Transport. This will provide the opportunity to develop stronger performance and financial monitoring and reporting through appropriate SMART service delivery objectives, supported by key responsibilities being identified and managed.</p> <p>Proposed Revised timeline for this recommendation to be actioned by Sept 14</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
1	Risk: Business relationship management not in place				
1.1 (cont.)	<p>• The evidence StreetSmart would be expected to see as verification that SCS were carrying out the tasks.</p> <p><b>Priority: High</b></p> <p><b>Auditees comment at time of audit</b> Recommendations to be included in Swindon Commercial Services (SCS) Re-integration work-streams.</p>				
1.2	<p>All the experienced Highways Inspectors that were transferred to SCS have left and been replaced by less experienced personnel. Guidance should be provided on the training and education needed by Highways Inspectors.</p> <p>Evaluate Inspectors taking the City and Guilds 6033 qualifications, which covers Highways Inspection and Monitoring.</p> <p><b>Priority: High</b></p> <p><b>Auditees comment at time of audit</b> Recommendations to be included in SCS Re-integration work-streams.</p>	Service Manager, Highway Infrastructure Management.	March 2014	2	<p>Issue has been impacted by the reintegration of SCS Streetsmart Services Highway Maintenance team into Highway and Transport as part of the SCS reintegration process.</p> <p>Highway Maintenance Operations Manager is developing a training plan for Highway Inspectors that provides for the required on-going training of inspectors. The plan will be in place by the end of April 2014. Training will start following the launch of the plan.</p>



NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
2	<b>Risk: Asset management</b>				
2.1	<p>An issue was identified by Corporate Health and safety, where about 150 bridges/structures had not been properly maintained and inspected. These structures were not the responsibility of Highways, rather other service delivery areas within the Council e.g. StreetSmart were responsible for a bridge in the Town Gardens. When this bridge was inspected, it was immediately closed to the public due to it being 'unsafe'.</p> <p>All non-Highways structure assets which were identified as not being appropriately managed should be added to the Highways asset register. This is to ensure they are regularly surveyed. The results of the surveys should be forwarded to the appropriate service area to take any necessary decisions over future action required, based on the results/recommendations arising from the survey.</p> <p><b>Priority: High</b></p>	Service Manager, Highway Infrastructure Management.	December 2013	2	<p>Awaiting budgetary provision via the capital bid process to support the integration of non-highway assets into the Highways asset register.</p> <p>A briefing session was prepared for Corporate Board on this issue and included an outline strategy which was developed to address this matter. This will involve Highways and Transport managing the structures going forward.</p> <p>Preliminary inspections of known structures undertaken by H2CMHill as part of investigation of issues with these structures</p> <p>Revised completion date April 2014.</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
2	<b>Risk: Asset management</b>				
2.2	<p>All retaining structures, embankments, earthworks, cuttings and safety barriers that are owned by the Council, should be identified, recorded and maintained.</p> <p>A risk based plan should be developed to achieve this, including appointing an officer to manage it.</p> <p><b>Priority: Medium</b></p> <p><b>Auditees comment at time of audit</b> Asset data and condition survey will be collected for all retaining walls once the recently agreed bridge inspector post is filled in circa March 14.</p> <p>A Policy should be developed for management of structural earthworks.</p> <p>Safety barrier asset has been identified along with essential repairs undertaken. Responsibility for maintenance rests with StreetSmart.</p> <p>Recommendations to be included in SCS Re-integration work-streams.</p>	Service Manager Highway Infrastructure Management	December 2013	2	<p>Awaiting recruitment of a Bridge Inspector. The recruitment has been impacted by the on-going consultation on the new Highways and Transport structure.</p> <p>Revised implementation date is April 2014.</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
2	<b>Risk: Asset management</b>				
2.3	<p>Bridge condition surveys result in a score out of 100. A score in excess of 80 is considered satisfactory. A score below 80 often requires remedial work of some description. The current thinking in the Asset Management Team is that the average score for the entire bridge stock should be 85. This has not been formally agreed.</p> <p>A formal decision should be made on what the benchmark score should be for bridges before it is considered that remedial action is required / undertaken.</p> <p><b>Priority: Medium</b></p>	Service Manager Highway Infrastructure Management	February 2014	2	<p>Benchmark score to be agreed by start of 2014/15.</p> <p>Revised date for action of this recommendation April 2014</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
2.5	<p>A decision should be made on what data fields should be populated in the Confirm database and which fields can be left unpopulated.</p> <p>A plan should be drawn up to ensure that agreed data fields can be populated.</p> <p>Consider the cost benefit of operating a separate Pavement Management system or switching to using the Confirm system, thus having everything on one database.</p> <p>SCS access to Confirm to update street lighting records should be resolved. When resolved it should be ensured that any data not processed should be retrospectively keyed to Confirm.</p> <p>Consider adding traffic signals to the Confirm database.</p> <p><b>Priority: Medium</b></p>	Service Manager Highway Infrastructure Management	March 2014	2	<p>Developing the use of management systems such as Confirm is an on-going process linked with wider corporate business development initiatives.</p> <p>The Business Support Unit and IT Support Team have been involved in developing an action plan for 2014/15.</p> <p>Action plan developed April 2014</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
2	Risk: Asset management				
2.6	<p>Consideration should be given to introducing a budget for strategic drainage maintenance.</p> <p><b>Priority: Medium</b></p> <p><b>Auditees comment at time of audit</b> Recommendations to be included in SCS Re-integration work-streams.</p>	Service Manager Highway Infrastructure Management	March 2014	2	<p>Awaiting budgetary provision via the capital bid process to support drainage improvements linked to LFRMS Action Plans.</p> <p>Revised implementation date is April 2014.</p>
2.7	<p>Currently, the Council is unaware of all its drainage assets. As a Local Flood Authority, the Council is required to maintain a register of structures/features which have an effect on flood risk management. The Council is starting to identify its drainage assets. It is anticipated, with current resource, this could take 15 years or more. A decision should be made as to whether this is an acceptable timescale or whether an additional resource is allocated to reduce the time frame to carry out the exercise.</p> <p><b>Priority: Medium</b></p> <p><b>Auditees comment at time of audit</b> The approach to drainage data asset collection will be addressed in the Local Flood Risk Management Strategy (LFRMS).</p>	Service Manager Highway Infrastructure Management	December 2013	2	<p>The collection of asset data will be prioritised based on issues identified in the LFRMS Action Plans.</p> <p>Action plan developed post adoption of LFRM strategy in July 2014</p>

NO	RECOMMENDATIONS	RESPONSIBLE OFFICER	DATE TO BE ACTIONED BY	CURRENT STATUS	COMMENTS / ACTIONS BY DEPARTMENT
2.8	<p>Currently, insurance data on claims made against the Council, citing the state of the highway, are not routinely provided to Highways and Transport.</p> <p>To do so may help with planning maintenance work. Details of insurance claims made against the Council citing the condition of the highway should be provided at least annually to Highways and Transport and StreetSmart and SCS.</p> <p><b>Priority: Medium</b></p> <p><b>Auditees comment at time of audit</b> Recommendations to be included in SCS Re-integration work-streams.</p>	Service Manager Highway Infrastructure Management	December 2013	2	<p>Issue has been impacted by the reintegration of SCS Streetsmart Services into SBC. Revised process needs agreeing with reintegrated insurance team</p> <p>Insurance claims included in discussions for future meetings between Service Manager Highway Infrastructure Management and Service Manager Highway Construction Works.</p> <p>April 2014</p>

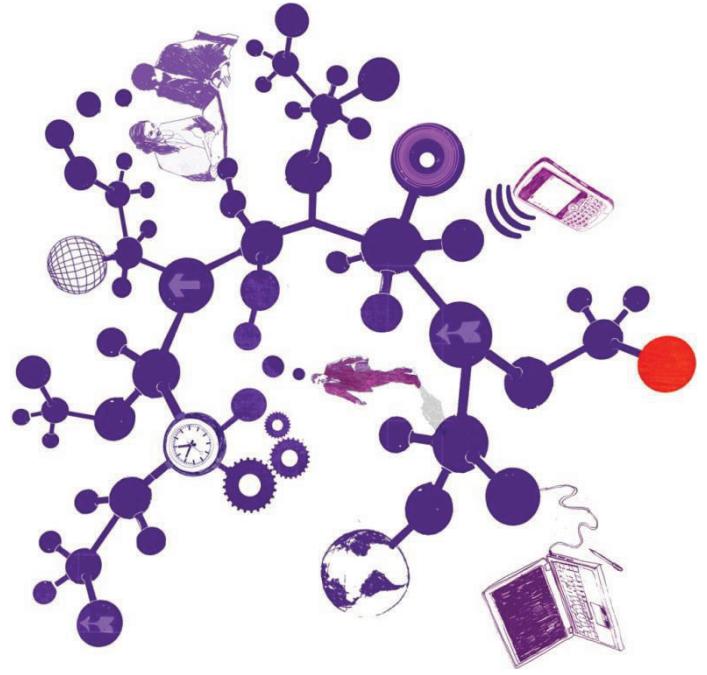
# Audit Committee Update for Swindon Borough Council

**Year ended 31<sup>st</sup> March 2014**  
27<sup>th</sup> January 2014

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



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# Contents

Section	Page
Introduction	4
Progress at 27 January 2014	5-7
Emerging issues and developments	7-10

# Introduction

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

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

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

- Local Government Governance Review 2013
- Towards a tipping point?
- The migration of public services
- The developing internal audit agenda
- Preparing for the future
- Surviving the storm: how resilient are local authorities?

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

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## Progress at 27 January 2013

Work	Planned date	Complete?	Comments
<b>2013-14 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the <i>Council</i> setting out our proposed approach in order to give an opinion on the <i>Council's</i> 2013-14 financial statements.	30 <sup>th</sup> April 2014		
<b>Interim accounts audit</b> Our interim fieldwork visit includes: <ul style="list-style-type: none"> <li>• updating our review of the <i>Council's</i> control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Initial work on the proposed Value for Money conclusion.</li> </ul>	January to April 2014		
<b>2013-14 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the <i>Council's</i> accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July to September 2013		

## Progress at 27 January 2014

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2013/14 VfM conclusion comprises: <ul style="list-style-type: none"> <li>• <i>An initial risk assessment;</i></li> <li>• <i>A detailed review of arrangements against criteria specific by the Audit Commission;</i></li> <li>• <i>Reviewing key documents; and</i></li> <li>• <i>Discussions with officers.</i></li> </ul>	September 2014		
<b>Other areas of work</b> <ul style="list-style-type: none"> <li>• Certification of claims and returns including the Housing Benefits claim.</li> </ul>	November 2014		
<b>Other activity undertaken</b> We have been liaising with officers to discuss issues affecting the year end accounts.	On-going		

# Emerging issues and developments

## Local government guidance

### Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The [Integration Transformation Fund statement](#), signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two year plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Challenge question:

- How is your authority planning to work with its partners to formulate joint plans and obtain funding?

# Emerging issues and developments

## Grant Thornton

### Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Challenge questions:

- Does your authority have a properly functioning procurement process, where duties are clearly segregated?
- Does your authority maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

# Emerging issues and developments

## Accounting and audit issues

### Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

#### Challenge questions

- Are both your Board Director of Resources and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- Has your Board Director of Resources reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure your authority complies with other aspects of the Code requirements?
- Where your authority is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?

# Emerging issues and developments

## Accounting and audit issues

### Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Challenge question:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?





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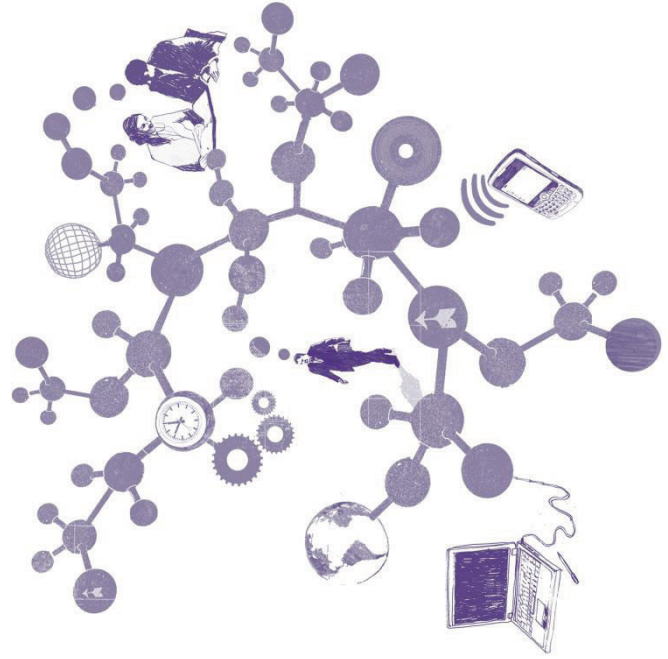
# Certification report 2012/13 for Swindon Borough Council

**Year ended 31 March 2013**

**December 2013**

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# Contents

Section	Page
1. Executive summary	3-5
2. Results of our certification work	6-8
<b>Appendices</b>	
A Details of claims and returns certified for 2012/13	10
B Action plan	11
C Fees	12

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## Section 1: Executive summary

01. Executive summary

02. Results of our certification work

# Executive summary

## Introduction

We are required to certify certain of the claims and returns submitted by Swindon Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified four claims and returns for the financial year 2012/13 relating to expenditure of £190.034 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council on 24<sup>th</sup> September 2013

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All submission and certification deadlines were achieved.	Green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	There are no significant matters to report arising from our certification work. One return (Pooling of Housing Capital Receipts return) and one claim (Housing and Council Tax Benefit subsidy) were amended. The Housing and Council Tax Benefit subsidy claim was also subject to qualification	Amber
Supporting working papers	Supporting working papers were good, enabling us to meet the certification deadlines	Green

### **The way forward**

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

### **Acknowledgements**

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
December 2013

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## Section 2: Results of our certification work

01. Executive summary

02. Results of our certification work



# Results of our certification work

## Key messages

We have certified four claims and returns for the financial year 2012/13 relating to expenditure of £190.034 million.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	4	100	5	100	↕
Claims certified on time	100%	4	100	5	100	↕
Claims certified with amendment	0%	2	50	2	40	↕
Claims certified with qualification	0%	1	25	2	40	↕

This analysis of performance shows that:

- the Council continues to submit claims on time and ensures that certification is also completed by the appropriate deadline
- the number of claims and returns subject to qualification has reduced
- the Council is still having to make amendments to claims following certification work

Details of the certification of all claims and returns are included at Appendix A

## Significant findings

Our work has identified no significant issues in relation to the management arrangements and certification of individual grant claims and returns.

The Housing and Council Tax Benefit subsidy claim was both amended and subject to qualification. The qualification was mainly due to errors in:

- the calculation of average earnings used in the assessment of benefit leading to both underpayment and overpayments. This is the second year that we have identified this type of error; and
- the classification of overpayments.

This meant that we were unable to certify the claim in full.

It should be noted that the rules surrounding the administration of housing and council tax benefit are inherently complicated and it is not unusual for errors to be identified at many councils.

Recommendations for improvement are included in the action plan at Appendix B

## Results of our certification work

### **Certification fees**

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £16,050. This is set out in more detail in Appendix C.

Final certification fees are to be agreed where the level or scope of the work that we have completed was greater than the assumptions made by the Audit Commission in compiling the indicative fee. Fee variations will be discussed with officers and agreed with the Audit Commission.

# Appendices

## Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing and Council Tax Benefit subsidy claim	81,078,002	Yes	-3,466	Yes	The qualification related to errors in the calculation of average earnings, and the classification of overpayments.
National Non Domestic Rates return	100,462,377	No	-	No	-
Pooling of Housing Capital Receipts return	1,854,309	Yes	0	No	Amendments made to the entries on the return did not affect the overall value
Teachers' Pensions return	6,639,843	No	-	No	-

## Appendix B: Action plan

### Priority

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	<b>Housing and Council Tax Benefit Subsidy claim.</b> Focus quality checking procedures on benefit claims which include an average earnings calculation.	Medium	Agree. The Subsidy and Quality officer will ensure that more claims involving average earnings are checked. The Council's Benefits Client monitoring officers also review a number of these claims as part of our percentage check.	Subsidy and Quality officer On-going
2.	<b>Housing and Council Tax Benefit Subsidy claim.</b> Review quality checking procedures on overpayments raised to ensure correct classification.	Medium	Agree. The Subsidy and Quality officer will check a higher percentage of overpayment classifications. Overpayment classifications are also reviewed by the Council's Benefits Client monitoring officers as part of their check.	Subsidy and Quality officer On-going

## Appendix C: Fees

Claim or return	2012/13 indicative fee (£)	2012/13 actual fee (£) #	2011/12 fee (£) *	Variance to prior year (£)	Explanation for significant variances
Housing and Council Tax Benefit subsidy claim	12,260	20,456	15,294	+5,162	The initial samples in 2012/13 contained more errors than in 2011/12 so we had to carry out more additional testing. Nine additional samples were completed in 2012/13, compared to 3 in 2010/11 and 6 in 2011/12.
National Non Domestic Rates return	820	746	1,713	-£967	Full certification procedures were undertaken in 2011/12. We only needed to complete limited procedures this year.
Pooling of Housing Capital Receipts return	0	1,635	510	+£1,125	We were required to complete full certification procedures in 2012/13. Only limited procedures were completed in the prior year.
Teachers' Pensions return	2,970	876	306	+570	The 2012/13 indicative fee is based on 60% of the 2010/11 fee. Full certification procedures were carried out in 2010/11. During 2011/12 and 2012/13 limited procedures were carried out with a small variance in testing between these two years.
<b>Total</b>	<b>16,050</b>	<b>23,713</b>	<b>17,823</b>	<b>5,890</b>	

\* 2011/12 fee less 40% fee reduction applicable for 2012/13 onwards. This is shown in this way to make it comparable to the 2012/13 fee.  
# 2012/13 actual fees are still subject to final approval by the Audit Commission and agreement with officers.



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## Head of Internal Audit Update

### **Audit Committee**

**Date: 4<sup>th</sup> February 2014**

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

---

### **1. Purpose and Reasons**

- 1.1 To present Members with a summary of the main issues arising from the Internal Audit reports finalised since the Audit Committee meeting in November 2013, to update Members with regard to progress against the annual internal audit plan and other key issues.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

### **2. Recommendations**

The Committee is recommended to:

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

### **3. Detail**

Reports Issued

- 3.1 Details of Internal Audit reports finalised since the November 2013 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 2013/14

- 3.2 The progress to date against the 2013/14 audit plan is set out in Appendix 2.
- 3.3 To date, 79% of the number of audits in the Annual Internal Audit plan has been completed against a target of 79%.
- 3.4 The results of our Customer Feedback forms to date shown that 92.86% of customers rating the audit service as good or excellent with the remaining 7.14% scoring good – average.

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

## Head of Internal Audit Update

### **Audit Committee**

**Date: 4<sup>th</sup> February 2014**

#### Risk Management

- 3.5 The Internal Audit section provided the risk management function whilst the Council's Risk Manager was off on maternity leave. An update regarding work undertaken during this period and the current position regarding risk management was presented to the last Audit Committee meeting. This cover came due to come to an end at the end of December 2013 on the return of the Risk Manager.
- 3.6 CIPFA has updated its guidance regarding Local Authority Audit Committees in their publication *Audit Committees: Practical Guidance for Local Authorities and Police: 2013 Edition*. A paper on this will be brought to the next meeting of this committee.

#### **4. Alternative Options**

- 4.1 Not Applicable

#### **5. Implications, Diversity Impact Assessment and Risk Management**

##### Financial and Procurement Implications

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

##### Legal and Human Rights Implications

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

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

- 5.3 None

##### Links to One Swindon, Strategic Objectives, Plans and Policies

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

##### Diversity Impact Assessment

- 5.5 None

## Head of Internal Audit Update

### **Audit Committee**

**Date: 4<sup>th</sup> February 2014**

#### Risk Management

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

### **6. Consultees**

- 6.1 The Board Director: Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.
- 6.2 All service managers, Directors, Group Directors and Members who have contributed to individual audits during the course of 2013/14.

### **7. Background Papers**

- 7.1 None

### **8. Appendices**

Appendix 1 – Internal Audit Reports finalised since the November 2013 Audit Committee.

Appendix 2 – Progress against the Internal Audit plan 2013/14

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Audit Title:		National Fraud Initiative			Date of Report:		January 2014	
Number of 'High Priority' Recommendations:		NA	Current Audit Opinion:	NA	Previous Audit Opinion:	NA	Overall Evaluation (Risk):	NA
<b><u>Key Recommendations</u></b>								
Several reports with potential matches for fraud and error were received by the Council by the Audit Commission. These matches were risk assessed, prioritised and investigated by Internal Audit, in conjunction with relevant service areas. the results are as follows:								
<ul style="list-style-type: none"><li>• Creditors: The NFI duplicate payment matches were superseded by work carried out by Internal Audit, using their own processes to identify duplicate payments over a three year period. This work has identified £27,000 of previously unrecovered duplicable payments, which are now in the process of being reclaimed from suppliers</li><li>• Housing Benefits: Numerous matches were received from the Audit Commission. Matches are currently under investigation by the Housing Benefit Fraud Team. Two frauds have been proven from investigations carried out so far, to the value of £2,500.</li><li>• Blue Badges to Deceased Persons: Work with the service area identified 33 deceased current blue badge holders. As a result these badges have now been cancelled. Eight records for further investigation have been identified and notified to the section. The Council was able to cancel one additional blue badge as a result of the exercise, as it was found that a non-deceased badge holder had current passes in both Wiltshire and Swindon.</li><li>• Concessionary Travel to Deceased Persons: Work with the department identified 149 deceased current badge holders for cancellation, which will prevent future renewal. A further 74 records for investigation have been identified and notified to the section. A further 24 records with out-of-date addresses were also identified from the exercise.</li><li>• VAT: A number of potentially incorrect payments of VAT against supplier invoices were investigated, but were found to have been paid at the correct amount when review. No further action was required.</li><li>• Insurance: Two cases of potential serial insurance claims were reported to the Council. These were found to be legitimate claims in both cases. No further action was required.</li><li>• Immigration cases: Several potential cases of housing tenants not having the correct immigration status were identified through the NFI exercise. Internal Audit worked with the UK Borders Agency to review these cases. All queries in relation to the cases raised have been resolved to their satisfaction and one case has been handed over to the Borders Agency for pastoral assistance in relation to their immigration status.</li></ul>								
There are on-going investigations in relation to the above (and other) NFI reports, which will be resolved by March 2014.								

Audit Title:	Museum Storage Follow-Up			Date of Report:		October 2013
Number of 'High Priority' Recommendations:	3	Current Audit Opinion:	3	Previous Audit Opinion:	4	Overall Evaluation (Risk):
Of Concern						

**Key Recommendations**

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

- The assessment of the recommendations made in the security review, by Wiltshire Police, of STEAM should be completed. This review should give due regard to the nature of the Council's insurance policies against theft. An action plan with responsibilities and target dates to implement the recommendations should then be prepared.
- The accession register entries without locations should be investigated to establish whether the Council is still the owner of them. If so they should be located to rule out the possibility that they have been stolen. Priority should be given to the highest valued pieces.
- The storage of works of art, historical artefacts and archaeological finds should be included in the Service Delivery risk register. The risk of continuing with present storage arrangements and taking no action to improve them should be clear. When identifying the mitigating actions to address the risks, the resources needed and their cost should be identified.

<b>Audit Title:</b>	St Luke's School	<b>Date of Report:</b>			November 2013
<b>Number of 'High Priority' Recommendations:</b>	9	<b>Current Audit Opinion:</b>	3	<b>Previous Audit Opinion:</b>	2
<b>Overall Evaluation (Risk):</b>					<b>Moderate</b>
<p><b>Key Recommendations</b></p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> <li>Where the school are rolling over significant balances at year end, these should be allocated to specific projects, clearly documented in the School Development Plan with clear timescales for their completion.</li> <li>Governors should be provided with a summary showing which cost centres have contributed towards the roll over position at year end to ensure these are in line with the information they have been provided throughout the year. This should demonstrate where rolled over monies have or have not been utilised to ensure appropriate adjustments can be made to the following year's budget.</li> <li>Discussions on the basis staff budget setting should be clearly noted in the minutes of the Resources Committee going forward. The link between pupil/staffing ratios and the needs of pupils should be clearly documented to support staffing budget decisions. Where staff changes are required during the year, the impact of these should be quantified in terms of spend for Governors.</li> <li>In accordance with Financial Regulations for Schools, all purchases with the exception of emergencies, utilities and reimbursements should have an official purchase order raised. These should be raised prior to payment, at the point of order, to ensure commitments on the system and the School's financial monitoring position is up to date.</li> <li>In accordance with the Scheme of Delegation all purchases of £5,000 should be presented to the Resources Committee for approval with the exception of emergency purchases where service delivery or the safety of a pupil is at risk. The scheme of delegation should include a named Governor who can give approval for purchases in emergencies.</li> <li>Monitoring information provided to Governors should include projections of the year end balances on cost centres to give an indication of the predicted year end rollover. The anticipated outturn position should be discussed at each Resources Committee meeting.</li> <li>Meetings between the Chair of Resources and the School Business Manager should be information sharing meetings. Operational decisions should be made by the Head Teacher in accordance with the School's Scheme of Delegation and with reference to the Governing Body. Decision making should be formally recorded at the appropriate committee meetings.</li> <li>Following the Internal Audit Review, the school should revisit their SFVS and update it to reflect the audit findings where necessary. The action plan to address any areas requiring further attention should be amended to resolve such issues and should be approved by the Governing Body.</li> </ul>					

Audit Title:	Streetsmart				Date of Report:		November 2013
Number of 'High Priority' Recommendations:	8	Current Audit Opinion:	8	Previous Audit Opinion:	NA	Overall Evaluation (Risk):	Of Concern
<p><b><u>Key Recommendations</u></b></p> <p><i>Please note that the Streetsmart audit report was published prior to the approval of the re-integration of Swindon Commercial Services with the Council.</i></p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> <li>• The roles of client and provider for Streetsmart services should be clearly defined. A single SBC client should be established as the main and first point of contact for stakeholders needing to interact with SCS for Streetsmart services. The role of other SBC departments, e.g. Commercial Services and Highways, should also be clearly defined. All service delivery issue identification and resolution should be referred through the SBC client as the first point of contact and dealt with using formal issue resolution processes and remedial action plans which are agreed and tracked through to completion.</li> <li>• The guidance currently being produced on expected SBC/SCS partnership behaviours should be finalised and form the basis of facilitated sessions to resolve current issues with relationship management. Activities to develop trust and partnership behaviours should be undertaken.</li> <li>• The Council should identify the skillsets required of officers involved in delivery and management of Streetsmart services, to act as efficient commissioners and deliverers of services, in a Locality based model. Training and support should be provided and sufficient capacity should be allocated to cultural change and capacity/capability building for SBC and SCS officers.</li> <li>• A 'root and branch' review of contract management processes between SBC and SCS should take place, to ensure processes are fit for purpose and can be suitably adapted to being brought back in-house.</li> <li>• As SCS is brought back into the Council, a list of management information required to support delivery of services and agile, optimal decision-making by both Client and provider should be produced. Consideration should be given to modernising largely paper based processes for delivery and management of services, including electronic scheduling and job administration through handheld devices, appropriate software and tracking hardware.</li> <li>• Performance management structures and processes should ensure there is sufficient independent, senior manager and Member review of performance of Streetsmart services. Developing financial management information should be a key activity once SCS is brought back into the Council. Reporting on work activity (e.g. job volumes) should also take place to help predict and manage demand for services pro-actively and help both organisations understand each other's pressures.</li> <li>• Robust costing for proposed 2014/15 Streetsmart savings should be produced, along with contingency planning to deal with any shortfall that may arise.</li> </ul>							



Audit Title:	Housing Capital Programme			Date of Report:		October 2013	
Number of 'High Priority' Recommendations:	11	Current Audit Opinion:	3	Previous Audit Opinion:	-	Overall Evaluation (Risk):	Of Concern
<p><b>Key Recommendations</b></p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> <li>• The Council's Corporate Strategy should recognise the role that improvements to social housing make to achieving its priorities, reflecting the priorities in the draft Health and Wellbeing Strategy.</li> <li>• The capital programme for housing repairs should also highlight the contribution that it makes to wider priorities within the Council and its partners, and should use it as a possible means of obtaining additional funding and as a determinant in allocating funding between projects within the programme.</li> <li>• In recognising the interaction resulting from 'self-financing' between rent levels, repayment of debt, and future investment, the updated Housing Strategy should address the wider effects of investment in reducing fuel poverty, reducing crime, local employment, and health and wellbeing. In particular, it should highlight the contribution that these factors make to the priorities in the Health and Wellbeing Strategy, the Corporate Strategy, and One Swindon. As an example of good practice evaluate the principle set out the Nottingham City Homes – Health and Wellbeing outcomes from the Secure Warm Modern improvement programme.</li> <li>• Housing Services should seek assurance from the Contract Manager at SCS, responsible for the Housing Capital Programme, that there is a robust performance and quality assurance process in place and operating for reporting, monitoring and managing delivery. Any emerging issues/risks that may arise from performance below contract requirements should be discussed and resolved through regular client/contractor meetings. These should be recorded in an issues log/risk register including an action plan which is subject to regular review to ensure actions are implemented satisfactorily.</li> <li>• In evaluating tenders for capital works projects, it should be ensured that all known items and management fees are included in costing so as to minimise the possible levels of subsequent variations and identify any tenders that have been reduced in value by excluding items likely to be required at a later stage.</li> <li>• Evaluate trialling a three month pilot project with the Contact Centre to help mitigate the cost of reactive repairs by bringing forward or reprioritising planned repairs. As part of the pilot provide a detailed copy of the 2013/14 Capital Programme of works to the Contact Centre so that staff can refer more significant reactive jobs to Housing Services for consideration of delivery under a relevant Capital Programme contract.</li> <li>• Review the value of the pilot project after three months to see if there is benefit in continuing the arrangement.</li> <li>• Housing Services should ensure that the timeliness of repairs are delivered in accordance with targets set out in the tenants handbook. To support this pilot, Housing Services should provide guidance and ensure that any queries are resolved on a timely basis by dedicated officers.</li> <li>• Completed capital programme repair jobs should be mapped to relevant properties on the Open Housing data base and used to effectively monitor achievement of the Decent Homes Standard.</li> <li>• A procurement strategy should be developed within the Council for property-related services that reflects:</li> </ul>							

<ul style="list-style-type: none"> <li>• Forthcoming tendering of the current SCS 'basket of works'</li> <li>• Re-tendering of the roofing contract, currently with Apollo Group</li> <li>• Resourcing of projects within future capital programmes that does not hold back works because of lengthy procurement cycles.</li> </ul> <p>With the latter in mind, tendering for a range of trades and professions within a framework agreement should be considered.</p> <ul style="list-style-type: none"> <li>• Housing Services and Property Services should benchmark with others, exchange of best practice, and being able to demonstrate value for money.</li> </ul>
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Audit Title:	SCS Ltd – Housing Voids		Date of Report:		October 2013	
Number of 'High Priority' Recommendations:	14	Current Audit Opinion:	N/A	Previous Audit Opinion:	-	Overall Evaluation (Risk):
<p><b><u>Key Recommendations</u></b></p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"> <li>• Produce a Housing Voids Business Plan, linking the business unit's contribution to SCS's overall corporate aims, objectives and priorities. This should include specific and measurable performance criteria and targets for the unit, incorporating the Housing Services Client contract requirements.</li> <li>• Adopt a standard format to report, manage and escalate issues for resolution at contract works meetings with Clients and to measure overall performance against contract requirements/targets.</li> <li>• Operational and financial performance monitoring should be conducted regularly.</li> <li>• Written working procedures and guidance, for housing repairs including housing voids works, should be produced, periodically reviewed and held as part of an on-line company reference manual. The manual should be supported by specific training for all current and new staff to maintain awareness and understanding.</li> <li>• Induction training should be provided to all new members of staff and be supported by additional training for managers including budget and service performance management and monitoring.</li> <li>• As part of business as usual, current jobs should be progressed to invoice status stage as they are completed.</li> <li>• Performance time targets for each job type (capital or revenue) should be set and allocated across the stages needed to complete e.g. the revenue job target is 14 days and could be allocated as following: asbestos survey - 3 days, undertaking of repair – 7 days, inspection and administration time for awarding and collating certificates of completion, inspections and transfer of keys from and to the Client – 4 days (i.e. 2 days at start and 2 days at the end of process). These targets should be introduced as local performance targets and the relevant targets agreed with SCS staff and sub-contractors awarded Housing voids jobs.</li> <li>• The housing voids work management spreadsheets held by the Housing Voids Administrator should be developed to provide comprehensive job monitoring information and activity against local and contractual performance indicators.</li> </ul>						

- A reconciliation of the SCS Housing Voids jobs being worked on (as recorded on the Housing Voids job management spreadsheet) should be conducted on a weekly basis i.e. every Monday morning, with the Housing voids job status reported by the Client and shared on the Housing O-drive. This is to ensure consistency of jobs and status information, highlighting any sticking points or issues that need escalating by the Head of Housing Voids for resolution at the Client/Contractors Housing Voids Contract meetings.
- The Client Housing Repairs Surveyors should be required to provide electronic confirmation of on-site agreed job variations and upload these on to the Open Housing system for subsequent confirmation to the company. Housing Services should be requested to process the variation on the Open Housing System within 7 working days of being agreed onsite and forward to SCS (this should be incorporated as a performance indicator for the Client).
- The status of WIP and performance against targets should be monitored at least fortnightly and where necessary action taken to address any variations. In the event of any delays/issues caused by the Client in processing jobs and/or in making prompt payment should be escalated by the Housing Voids Manager at Client/contract meetings.
- The responsibility for Housing property key control should be formally assigned to one or two officers within the SCS Housing Void Repair Team. This person(s) should also be responsible for overall co-ordination and control of the whole job process to ensure there is accountability, transparent and co-ordination of working.
- The sub-contractor portal should be closed down with immediate effect as advised by the Auditor at the summary of field work meeting with both the Finance Director (SCS) and Financial Controller (SCS). The system should not be used until the system and controls have been reviewed and assurance provided by an independent and suitably qualified body that the system has complete and reliable controls in place. The system's operational controls must comply with the Company's financial regulations
- In compliance with Contract Standing Orders all work must be approved by an approved signatory before work awards are notified to contractors.

Audit Title:	Risk Management 2013/14				Date of Report:		January 2014
Number of 'High Priority' Recommendations:	4	Current Audit Opinion:	2	Previous Audit Opinion:	3	Overall Evaluation (Risk):	Moderate
<p><b><u>Key Recommendations</u></b></p> <p>The key recommendations made as a result of the review are:</p> <ul style="list-style-type: none"><li>• To ensure consistency is introduced into the risk management process, the risk management framework should specify a detailed, minimum standard of process for risk management at a corporate, pillar and other risk registers. Quality assurance processes that are being developed for risk management should review compliance against required processes and ensure remedial action is taken by management teams where deficiencies in processes are identified.</li><li>• A risk register in the corporate format should be produced for both Localities and Resources. The Council's approach to Partnership risk management should continue to be developed and a partnership risk management process should be documented and published. Registers should be put in place for all key partnerships, with a view to eventually establishing these as joint risk registers. A consistent process for programme risk management should be developed and documented. A decision should be taken as to whether team and project level risk registers are required. It is recommended these are produced where they do not exist or are out of date, so that a clear route of escalation of risks from operational levels into Pillar risk registers exists. The upcoming business planning processes would provide an ideal opportunity for teams to produce risk registers on the basis of team business objectives specified in plans.</li><li>• Consideration should be given to implementing "Risk Champions" in service areas, with a formally designated role. Part of this role should include quality assurance of service area's compliance with required risk management processes, reporting to management teams to ensure that any identified issues with processes are owned and resolved.</li><li>• A corporate standard of risk review should be included in the strategy and be mandatory. This should include a specified risk review cycle, to ensure that relevant registers are reviewed in sequence of each other, as recommended at the Corporate Board session on risk in November 2013. There should be minuted discussion of risks, mitigating actions agreed and any updates given on the status of current mitigating actions. As risk maturity develops in the Council, the impetus for risk management should devolve from the centre to service areas, supported and facilitated by the Risk Champion role.</li><li>• The recommendations made in the Interim Risk Manager's "Review of risk maturity development as at December 2013" document should be transferred to an action plan, with actions prioritised in order to consolidate areas of risk management practice that will help consolidate the Council's level 3 score.</li></ul>							

Audit Title:	Link Centre Ice Rink 2013/14			Date of Report:		November 2013
Number of 'High Priority' Recommendations:	4	Current Audit Opinion:	3	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):
Moderate						
<p><b><u>Key Recommendations</u></b></p> <p>The audit scope included a review of all contracts in place between the Link Centre and ice rink users.</p> <ul style="list-style-type: none"> <li>• Contracts should be reviewed in full at the close of each contract period and re-negotiated prior to being agreed. The contract should also be reviewed during the contract life, to ensure obligations are being fulfilled.</li> <li>• The appropriateness of the catering element in the contract should be fully reviewed to establish whether this should be a part of future contracts at all. If to continue, any future catering incentives offered should be directly linked to the amount of business that is generated. Additional terms should also be introduced to ensure that catering income paid as part of the contract is not excessive. The contract should be clear as to the terms and conditions of such an incentive and any additional terms no longer included should be removed.</li> <li>• Current arrangements regarding advertising should be justified. Where advertising is to continue, there should be clear guidance as to what constitutes an appropriate / inappropriate advertisement, to ensure that rules are clear and transparent. Where possible, SBC should explore undertaking attempts to sell advertising directly, as a means of generating additional income. There may be opportunities to join up with other SBC departments whose roles include selling advertising space on borough property.</li> <li>• The entire marketing package agreed through the contract should be reviewed as soon as possible. In future, additional benefits purchased through the contract should be assessed against the marketing offering and only entered into if providing clear benefit and value for money to the Council. SBC should be more involved in visits, working in partnership to ensure that wider Ice Rink and Link Centre objectives are being met.</li> </ul>						

<b>Audit Title:</b>	<b>Bishopstone CoE School 2012/13</b>				<b>Date of Report:</b>		November 2013
<b>Number of 'High Priority' Recommendations:</b>	5	<b>Current Audit Opinion:</b>	3	<b>Previous Audit Opinion:</b>	N/A	<b>Overall Evaluation (Risk):</b>	<b>Moderate</b>
<p><b><u>Key Recommendations</u></b></p> <ul style="list-style-type: none"> <li>Strategies to increase pupil numbers should be identified and formalised and the success of these monitored on an ongoing basis by the FGB and Finance Committee. A future format and timetable of monitoring of both the budget and of pupil number forecasts should be established with the LA, outside of the existing submissions, in order to ensure any gaps can be highlighted at the earliest opportunity and for contingencies to be identified and put in place.</li> <li>The School's budget setting in future years should be aimed at identifying specific savings to achieve any projected reduction in budget share. Governors should be involved in identifying a contingency plan for savings, in the event that the School needs to take action to balance future year budgets.</li> <li>Budgets should be based on up to date and accurate information. Although it is acknowledged that there is uncertainty in budgeting for future years and figures will not be static, more focus should be given to future year predictions during budget setting. In addition, these should be set in line with the strategy of the School, for example, if specific savings are necessary, budgets should be set with targets to achieve a specific rollover each year. This would also enable clear monitoring of future required savings. Challenge provided by Governors should be increased regarding the figures set in future years, to ensure that the school are financially secure beyond the current budgeted year.</li> <li>It is a requirement of the Financial Regulations that all purchases with the exception of emergencies, utilities and reimbursements have an official purchase order raised. These should be raised prior to payment, at the point of order, to ensure the purchase can be afforded and is budgeted for, commitments are on the system, the School's financial monitoring position is up to date, appropriate authorisation is obtained and segregation of duties exists in the purchasing process.</li> <li>In future, the SFVS (Schools Financial Value Standard) should be formulated by Governors. All should assure themselves that the school have met each criteria, providing challenge where appropriate, prior to approval.</li> </ul>							



Audit Title: Social Care Transport 13/14		Date of Report:			January 2014	
Number of 'High Priority' Recommendations:	7	Current Audit Opinion:	3	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):
Moderate						
<p><b>Key Recommendations</b></p> <ul style="list-style-type: none"> <li>The responsibilities of the LA to provide transport should be reviewed and then communicated to key stakeholders (e.g. Social Workers, parents, foster carers and children) to avoid unnecessary or overly generous transport arrangements being put in place across the Teams. Where necessary, specific consideration should be given to defining expectations in relation to the age, needs and vulnerability of the child, the journey distance, etc, that should be taken into account when deciding on transport.</li> <li>To supplement future guidance regarding eligibility of transport, the merits of determining a policy on transport options should be reviewed to ensure priorities in regards to transport options are clear, in particular, to reinforce the view that transport is not by default the LA's responsibility and that taxis should be a last resort. Where necessary, this should include any wider initiatives to encourage options, such as walking or cycling schemes.</li> <li>Transport requests should include clear justification for why SBC are providing transport and the reason why other modes of transport are not possible. Any other reasons outside those agreed in the policy (as above) should be clearly justified.</li> <li>A suitable method of collating issues and incidents relating to transport should be determined i.e. designating an officer within Children and Families to coordinate complaints. Once established, issues with transport should be recorded within the Care Teams and forwarded to the designated officer and then the Passenger Transport Manager to resolve. Complaints and issues should be reviewed on a routine basis and common issues identified and discussed in order to resolve issues and raise standards of the service provided. Where necessary, consideration for penalties should be pursued, as per the contract specification.</li> <li>The way in which budget monitoring of social care transport is undertaken should be reviewed, as the current arrangements do not allow for an accurate or timely picture of the cost of transport provision to be determined. A centralised transport budget in Children and Families could allow for reductions in the administration time associated with recharging expenditure to Teams and allow savings (such as those gained by sharing taxis) to be better demonstrated, without distorting the costs to individual Care Teams.</li> <li>It should be reviewed whether to include Care Team budget headings within the authorised cost centres for the Passenger Transport Manager and other relevant signatories in the Transport Team. If this is not deemed appropriate, invoices in future should be sent to Team Managers of Care Teams to review and authorise their transport expenditure prior to passing the invoice for payment.</li> <li>A review of the foster carer allowance scheme should be undertaken, in consultation with foster carers and Social Care Teams, with specific consideration for the cost of transport, including any limits and the rate that these will be paid. Once the allowance scheme has been reviewed, the expectations of Foster Carers in regards to transport should be reinforced to both the Carers and Social Care Teams.</li> </ul>						

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	April	May	June	July	August	September	October	November	December	January	February	March
Managed Audits Completed									Treasury Management	Council Tax		
(total 11)										NINDR		
										Payroll		
										Risk Management		
Managed Month Total	0	0	0	0	0	0	0	0	1	4	0	0
Managed Cumulative Total	0	0	0	0	0	0	0	0	1	5	5	5
Managed Target %	0	0	0	0	0	2	3	4	5	7	9	11
Managed Achieved %	0%	0%	0%	0%	0%	0%	0%	0%	9%	45%	45%	45%

Total Non Managed Audits Completed - Draft

	April	May	June	July	August	September	October	November	December	January	February	March
Other Audits Issued	Oasis Transfer	Financial Reg's	Annual Governance Statement	Employment of Consultants	St Luke's School	Security Breach Policy	Inv 13/14-3	Review of HB Fraud Policies	Community Use of Assets	Payroll: Starters and Leavers		
Target: 86	Highways Project Management	Common Assessment Framework	Compliance with CIPFA Statement on role of s.151	Troubled Families	Shaw Ridge School	Change Programme Governance	Inv 13/14-1	Uplands School	Tenancy Engagement	Hillmead		
	Stronger Together	Bishopstone School	WB 13/14-1	Chiseldon School	PSN: Code of Connection	Corporate VFM	Inv 13/14-5	Inv 13/14-4	Corporate Manslaughter follow-up	WB 13/14-8		
	Nova Hreod		WB 12/13-3	Inv 13/14-1	Car Park Income	VFM - Life	WB 12/13-6		Dorcan SCITT	WB 13/14-9		
	One Swindon		Change Programme: Adults	Contract Carers	Carbon Reduction: Plans for future reductions	VFM - Oasis	Housing Capital Programme			Cash Collection		
	SCS 24.7 working			SCS Housing Voids	NFI: HB Taxis	W/Blowing and Disciplinary Policy Review	Information Governance			Welfare Reform		
	SCS Licence Agreement			Highways Asset Management	NFI: Concessionary travel: Deceased	Golf Facilities	Reduction in Energy Use					
				Inv 12/13-3	NFI: HB Payroll	Social Care Transport	Cash Handling: Vulnerable adults follow-up					
				Payroll System Control & Integrity: follow up	Protective Monitoring Strategy	StreetSmart Contract Arrangements	Museum Storage follow-up					
				WB 13/14-2	GPG13 Compliance (ICT Security)		NFI: Overpaid VAT					
				Duplicate Payments Creditors	NFI: Blue Badges: Deceased		NFI: Insurance					
				Carbon Reduction Commitment			Public Health and Emergency Planning integration					
Non-managed total for month	7	3	5	12	11	9	12	3	4	6	0	0
Cummulative non managed audits	7	10	15	27	38	47	59	62	66	72	72	72

	April	May	June	July	August	September	October	November	December	January	February	March
Overall Month Total Audits	7	3	5	12	11	9	12	3	5	10	0	0
Overall Total Audits	7	10	15	27	38	47	59	62	67	77	77	77
Target Completion of Plan %	5	10	15	28	36	43	54	62	71	79	86	94
Audit Plan Achievement %	7%	10%	15%	28%	39%	48%	61%	64%	69%	79%	79%	79%

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