

South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 25 October 2012

10.00 a.m.

**Council Chamber
Council Offices,
Brympton Way,
Yeovil,
Somerset BA20 2HT**

The public and press are welcome to attend.

Disabled Access is available at this meeting venue.



If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Anne Herridge** on Yeovil (01935) 462570
Email: anne.herridge@southsomerset.gov.uk

This Agenda was issued on Wednesday 17 October 2012.

Ian Clarke, Assistant Director (Legal & Corporate Services)



2007-2008
Neighbourhood and
Community Champions:
The Role of Elected Members
2006-2007
Improving Rural Services
Empowering Communities
2005-2006
Getting Closer to Communities

**This information is also available on our
website: www.southsomerset.gov.uk**



INVESTOR IN PEOPLE

Audit Committee Membership

Chairman Derek Yeomans
Vice-Chairman Ian Martin

John Calvert Roy Mills
John Dyke Terry Mounter
Marcus Fysh John Richardson
Tony Lock Colin Winder

South Somerset District Council – Corporate Aims

Our key aims are: (all equal)

- **Jobs** – We want a strong economy which has low unemployment and thriving businesses
- **Environment** – We want an attractive environment to live in with increased recycling and lower energy use
- **Homes** – We want decent housing for our residents that matches their income
- **Health and Communities** – We want communities that are healthy, self-reliant and have individuals who are willing to help each other

Members’ Questions on Reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Ordnance Survey mapping/map data included within this publication is provided by South Somerset District Council under licence from the Ordnance Survey in order to fulfil its public function to undertake its statutory functions on behalf of the district. Persons viewing this mapping should contact Ordnance Survey copyright for advice where they wish to licence Ordnance Survey mapping/map data for their own use.

Information for the Public

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;
14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Assistant Director – Finance and Corporate Services (S151 Officer), the Assistant Director – Legal and Corporate Services (the Monitoring Officer), or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are held monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at www.southsomerset.gov.uk

The Council's Constitution is also on the web site and available for inspection in council offices.

Further information can be obtained by contacting the agenda co-ordinator named on the front page.

Audit Committee

Thursday 25 October 2012

Agenda

Preliminary Items

1. **To approve as a correct record the Minutes of the previous meeting held on 27 September 2012**
2. **Apologies for Absence**
3. **Declarations of Interest**

In accordance with the Council's current Code of Conduct (adopted July 2012), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting. A DPI is defined in The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 (SI 2012 No. 1464) and Appendix 3 of the Council's Code of Conduct. A personal interest is defined in paragraph 2.8 of the Code and a prejudicial interest is defined in paragraph 2.9.

4. **Public Question Time**

Items for Discussion

Page Number

- | | | |
|----|---|-----------|
| 5. | Annual Audit Letter | 1 |
| 6. | Treasury Management Practices | 4 |
| 7. | Review of Internal Audit Action Plan | 40 |
| 8. | Audit Forward Plan | 51 |
| 9. | Date of Next Meeting | 54 |

PLEASE NOTE

There will be no training session at the end of the Audit Committee meeting this month.

Audit Committee – 25 October 2012

5. Annual Audit Letter

Portfolio Holder Councillor Ric Pallister, Leader of the Council
Director: Mark Williams, Chief Executive
Lead Officer: As above
Contact Details: Mark.williams@southsomerset.gov.uk (01935) 462101

Purpose of the report

This report introduces the annual audit letter for the 2011/12 financial year.

Recommendations

The Audit Committee is asked to:

Note the contents of the Annual Audit Letter as set out in the report.

Introduction

The review of the Annual Audit Letter is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken”.

“To review and approve the annual Statement of Accounts, external auditor’s opinion and reports to members and monitor management action in response to issues raised”.

Each year the Audit Commission is required to make arrangements for the production of an audit letter for each local authority. This letter has changed in format for 2011/12 and is much shorter and concentrates on the annual accounts and Value for Money.

Statement of Accounts

An unqualified opinion was given on the Statement of Accounts.

The Value for Money Conclusion

An unqualified conclusion was given on the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial Implications

There are no financial implications in accepting this report and the associated recommendations.

Background Papers

Annual Governance Report.

11 October 2012

Members
South Somerset District Council
Council Offices
Brympton Way
Yeovil
Somerset
BA20 2HT

Mobile
Email

07799 478389
m-robinson@audit-
commission.gov.uk

Dear Member

South Somerset District Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of South Somerset District Council.

Financial statements

On 27 September, I presented my Annual Governance Report (AGR) to the Audit Committee outlining the findings of my audit of the Authority's 2011/12 financial statements. I will not replicate those findings in this letter.

Following the Audit Committee on 27 September I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources; and
- certified completion of the audit.

Closing remarks

I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit Committee for their support and co-operation during the audit.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M Robinson', written in a cursive style.

Martin Robinson
District Auditor

Audit Committee – 25 October 2012

6. Treasury Management Practices

Head of Service: Donna Parham, Assistant Director Finance and Corporate Services
Lead Officer: Karen Gubbins, Principal Accountant - Exchequer
Contact Details: karen.gubbins@southsomerset.gov.uk or (01935) 462456

Purpose of the Report

To request members of the Audit Committee approve the attached Treasury Management Practices (TMPs).

Recommendation

- (1) That members approve the attached Treasury Management Policy (Appendix 1);
- (2) That members approve the attached Treasury Management Practices (Appendix 2).

Background

The CIPFA Code of Practice on Treasury Management in the public Services (the Code) was last revised in November 2011. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Council had adopted the original Code and has similarly adopted the revised 2011 Code in March 2012. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities,
- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices comprise:

- TMP 1: Risk management
- TMP 2: Performance measurement
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

This differs significantly from the Treasury Management Practices that were approved last year. The schedules supporting these practices are now at a higher level giving an overview of the processes to be followed. The detail specifying the systems and routines

to be employed and the records to be maintained in fulfilling the Council's treasury functions and any other documents supporting the processes are now held at an operational level within an operations manual.

Financial Implications

There are no financial implications in accepting this report and the associated recommendations

Background Papers: *Cipfa Treasury Management Code of Practice*
Treasury Management Strategy Statement
Treasury Management Operations Manual

Appendix 1

TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and background

- 1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- 1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3 Full Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- 1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to Assistant Director, Finance and Corporate Services, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. Policies and objectives of treasury management activities

- 2.1 The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury

management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

- 2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
- 2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

Treasury Management Practices

Principles and Schedules

October 2012



South Somerset District Council

Introduction

The CIPFA Code of Practice on Treasury Management in the public services (the Code) was last revised in November 2011. The Code requires for the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. South Somerset District Council has adopted the original Code and has similarly adopted the revised 2011 Code in February 2012. The Code recommends the creation and maintenance of:

A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities,

Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices (TMPs) comprise:

- TMP 1: Risk management
- TMP 2: Performance management
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

TMP 1: Risk management

All treasury management activities involve both risk and the pursuit of reward or gain for the council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The responsible officer will design, implement and monitor all arrangement for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP 6: Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

1. **Credit and counterparty risk management: Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.**

Principle: The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4: Approved instruments, methods and techniques, are listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Schedule:

Criteria to be used for creating/managing approved counterparty lists/limits

- The Assistant Director – Finance and Corporate Services is responsible for setting prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria
- The criteria will be agreed by Audit Committee/Full Council
- The current criteria is contained within the operations manual
- The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support, CDS information). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties

Approved methodology for changing limits and adding/removing counterparties

- The Assistant Director – Finance and Corporate Services has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above

Appendix 2

Counterparty list and limits

- A full individual listing of counterparties based on the criteria will be maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis within the operations manual

Country, sector and group listings of counterparties and overall limits applied to each where appropriate

- Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above in terms of monetary value/percentage of overall portfolio, where appropriate

Details of credit rating agencies' services and their application

- The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions

Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment

- The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information of share price. In addition the Corporate Director – Finance and Corporate Services reads quality financial press for information on counterparties
2. **Liquidity Risk Management: Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objective will be thereby compromised.**

Principle: The Assistant Director – Finance & Corporate Services will ensure the Council has adequate (though not excessive) cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

Schedule:

Cash flow and cash balances

- The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling 6 month cash flow forecast.
- The treasury team will seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.
- In order to achieve the maximum return from investments, a daily cash balance of +/- £100,000 is the objective for the Council's bank account

Short term investments

Appendix 2

- The Councils uses various Reserve Accounts and Money Market Funds to manage its liquidity requirements. These accounts/funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.

Temporary Borrowing

- Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.
- At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.

Bank overdraft and standby facilities

- The Council has an authorised overdraft limit with its bankers Natwest of £2,500,000 at an agreed rate of 1% over base rate. The facility is used as a contingency when temporary borrowing is difficult or more expensive, or for amounts of less than £500,000.
3. **Interest Rate Risk Management: Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.**

Principle: The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

Schedule:

Minimum/maximum proportions of fixed/variable rate debt/interest

- Borrowing/investments may be at a fixed or variable rate
- The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.
- In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effect of potentially disadvantageous changes.
- The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.

Managing changes to interest rate levels

- The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.

Appendix 2

- The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.
- Interest rate forecasts are provided by the Council's advisors and are closely monitored by the treasury team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Audit Committee as necessary.
- For its investments, the Council also considers dealing from forward periods dependent upon market conditions

Details of approved interest rate exposure limits

- As per the Council's prudential indicators, the upper limit for variable interest rate investment as a proportion of total investments is 100%. In terms of long term borrowing, the Council can have no more than 80% in variable interest rate borrowings

Details of hedging tools used to manage risk

- The Authority's legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Authority does not intend to use derivatives to manage interest rate risk.
- Should this position change, the Authority will develop a detailed risk management framework governing the use of derivatives, but this will also require full Council approval.

4. **Exchange Rate Risk Management: The risk that the fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.**

Principle: The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuation in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Schedule:

Exchange rate risk management

- This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity.
 - If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.
 - At the present time statute prevents the Council borrowing in currencies other than Sterling. The Council has determined that all its investments will be in sterling.
5. **Refinancing Risk Management: The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.**

Principle: The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule:

Projected capital investment requirements

- 3 year projections are in place for capital expenditure and its financing of funding. Financing will be from capital receipts, reserves and any grants or contributions awarded. Funding will be from internal or external borrowing, as decided.
- As required by the Prudential Code, the Council will undertake options appraisal to evaluate the best capital expenditure financing route.
- The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.

Debt profiling, policies and practices

- Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.
- The Council will maintain through its treasury and capital systems reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancings.
- Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.

Policy concerning limits on revenue consequences of capital financings

- The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.
6. **Legal and Regulatory Risk Management: The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.**

Principle: The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 (1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers. Authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

Appendix 2

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Schedule:

References to relevant statutes and regulations

- The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:
 - CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
 - CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
 - CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
 - CIPFA Standard of Professional Practice on Treasury Management
 - The Local Government Act 2003
 - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments
 - The CLG's statutory Guidance on Minimum Revenue Provision (MRP)
 - The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments
 - The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
 - LAAP Bulletins
 - Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards)
 - Accounts and Audit Regulations 2003, as amended together with CLG's Guidance
 - The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets
 - Council's Constitution including:-
 - Standing Order relating to Contracts
 - Financial Regulations
 - Scheme of Delegation

Procedures for evidencing the organisation's powers/authorities to counterparties

- The Council's Financial Procedure Rules contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Audit Committee.
- The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.
- Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

Required information from counterparties concerning their powers/ authorities

- Lending shall only be made to institutions on the Council's authorised lending list.
- The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial

banks who are on the Council's list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4.

Statement on political risks and management of the same

- Political risk is managed by:
 - adoption of the CIPFA Treasury Management Code of Practice
 - adherence to Corporate Governance (TMP 12 – Corporate Governance)
 - adherence to the Statement of Professional Practice by the Assistant Director Finance & Corporate Services
 - the roles of the Audit Committee

7. **Fraud, Error and Corruption, and Contingency Management: This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.**

Principle: The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Schedule:

Details of systems and procedures to be followed, including Internet services

- Segregation of duties minimises the possibility of fraud and loss due to error and is detailed in TMP 5 Organisation, Clarity and segregation of responsibilities and, dealing arrangements.
1. Electronic Banking and Dealing
 - a) The Council's online banking service provided by Natwest is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data
 - b) Access to the Council's Treasury management drive is limited to those roles listed below, each having a separate log-on and password
 - Assistant Director – Finance & Corporate Services
 - Finance Manager
 - Principal Accountant – Exchequer
 - Corporate Accountant
 - Benefits and Control Officer
 - Insurance and Accounting Technician
 - c) Full procedure notes covering the day to day operation of the on-line banking system and the treasury management systems are documented and included within the operations manual.
 2. Standard Settlement Instructions
 - a) a list is maintained of named officers who have the authority to transact loans and investments
 - b) Brokers and counterparties with whom the Council deals direct are provided a copy of the Standard Settlement Instructions list

Appendix 2

3. Payment authorisation

- a) payments can only be authorised by an agreed signatory(ies) of the council, the list of signatories having previously been agreed with the Council's bank
- b) inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts

Verification

- Loans and investments will be maintained in registers which will include fees and brokerage paid.
- Transactions will be cross checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.

Substantiation

- The Treasury Management spreadsheets are reconciled with financial ledger codes at the end of each month and at the financial year end.
- Working papers are retained for audit inspection.
- The bank reconciliation is carried out monthly from the bank statement to the financial system.

Internal Audit

- Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.

Contingency Management

- All treasury spreadsheets are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the IT department to restore files, if necessary.
- If the electronic banking system fails the Council have to contact the bank via telephone who will provide balances for the day. If any CHAPS payments are to be made manual forms are completed and faxed to the bank before 12 noon so it can be processed on the Council's behalf.

Insurance Cover details

- The Council has Fidelity guarantee insurance cover. Details of the provider and cover are held by the Insurance and Accounting Technician.
8. **Market Risk Management: This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.**

Principle: This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule:

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc)

- Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these, risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.
- Additionally the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk :
 - (a) Maximum weighted average duration of the fund;
 - (b) Maximum permitted exposure to gilts/bonds;
 - (c) Maximum maturity of any instrument.

Accounting for unrealised gains/losses

- The method of accounting for unrealised gains or losses on the valuation of financial assets comply with the Accounting Code of Practice

TMP 2: Performance Measurement

Principle: The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.

Schedule:

Policy concerning methods for testing value for money

- Best value reviews will include the production of plans to review the way services are provided by :
 - Challenging
 - Comparing performance
 - Consulting with other users and interested parties
 - Applying competition principlesin order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

Policy concerning methods for performance measurement

- Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury

Management Strategy and the Council's Prudential Indicators and to enhance accountability.

- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.
- Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to
 - 1) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and
 - 2) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.
- In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.

Methodology to be applied for evaluating the impact of treasury management decisions

- Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to Audit Committee on a quarterly basis.
- The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.
- The Council's Treasury Management advisors compare the performance of the Council's in-house funds against all its other clients and submits the results quarterly.

Benchmarks and calculation methodology with regard to risk and return

- Investment returns are compared to the 7-day LIBID benchmark. For Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.

Best Value

- The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.
- When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations.

TMP 3: Decision Making and Analysis

Principle: The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Appendix 2

Schedule:

Major treasury decisions

- As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either:
 - a) Changes to Prudential Indicator(s) during the course of the financial year
 - b) Options Appraisal to determine a funding decision
 - c) raising a new long-term loan / long-term source of finance
 - d) prematurely restructuring/redeeming an existing long-term loan(s)
 - d) investing longer-term (i.e. in excess of 1 year)
 - f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a corporate body)
 - g) leasing
 - h) change in banking arrangements
 - i) appointing/replacing a treasury advisor
 - j) appointing/replacing a fund manager

Process

- The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.

Delegated powers for treasury management

- The Assistant Director – Finance & Corporate Services has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.

Issues to be addressed, evaluation, authorisation

- In exercising these powers, the Assistant Director – Finance & Corporate Services and those to whom the treasury activity have been delegated will
 - have regard to the nature and extent of any associated risks to which the Council may become exposed;
 - be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;
 - be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;
 - ensure that the perceived credit risk associated with the approved counterparties is judged satisfactory and is within agreed limits;
 - be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive;
 - follow best practice in implementing the treasury transaction.
- In exercising Borrowing and Funding decisions, the responsible person will:
 - evaluate economic and market factors that may influence the manner and timing of any decision to fund;
 - consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;

Appendix 2

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider ongoing revenue liabilities created.
- In exercising Investment decisions, the responsible person will:
 - Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
 - consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
 - consider the alternative investment products and techniques available if appropriate.

Processes to be followed

- The processes to be followed will be in keeping with TMP 4: The Council's Approved, Instruments, Methods and Techniques.

Evidence and records to be kept

- The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for a historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.
- Records and working papers will be maintained by the Council electronically, and in relevant files.

TMP 4: Approved Instruments, Methods and Techniques

Principle: The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk Management.

Schedule:

Approved treasury management activities

- The Council is permitted to undertake the following activities:
 - Managing cashflow
 - Capital financing
 - Borrowing including debt restructuring and debt repayment
 - Lending including redemption of investments
 - Banking
 - Leasing
 - Managing the underlying risk associated with the Council's capital financing and surplus funds activities.
- The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

Approved capital financing methods and types/sources of funding

- On balance sheet
 - Public Works Loans Board (PWLB) loans
 - long term money market loans including LOBOs
 - temporary money market loans (up to 364 days).
 - bank overdraft
 - loans from bodies such as the European Investment Bank (EIB)
 - Stock issues
 - Finance Leases
 - Deferred Purchase
 - Government and EU Capital Grants
 - Lottery monies
 - Other Capital Grants and Contributions
 - PFI/PPP
- Internal Resources
 - Capital Receipts
 - Revenue Balances
 - Use of Reserves
- Off balance sheet
 - Operating Leases
 - Structured Finance
- The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

Approved investment instruments

- The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).
- The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply.
 - Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), and UK local authorities
 - Term deposits with banks and building societies
 - Certificates of deposit
 - Callable deposits
 - Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
 - Gilts
 - Bonds issued by multilateral development banks
 - Bonds issued by financial institutions guaranteed by the UK government
 - Sterling denominated bonds by non-UK sovereign governments
 - Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534

Appendix 2

- Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534
 - Bonds and debt instruments issued by corporate bodies e.g.
 - Corporate bonds
 - Commercial Paper
 - Floating Rate Notes
 - Asset Backed Securities
- The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the manager

Use of Derivatives

- The Council intends to use derivative instruments for the management of risks, limited to those set out in the annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.
- Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Authority does not intend to use derivatives. Should this position change, the Authority may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements

Principle: The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the responsible officer in respect of treasury management are set out in the schedule below. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedule:

- Limits to responsibilities at Executive levels

Council

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Receiving and reviewing Prudential Indicators as part of the budget setting process
- Budget consideration and approval.

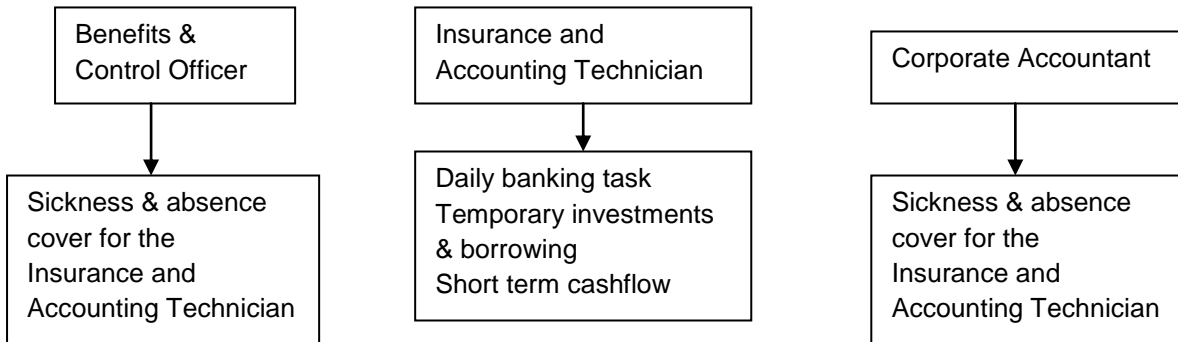
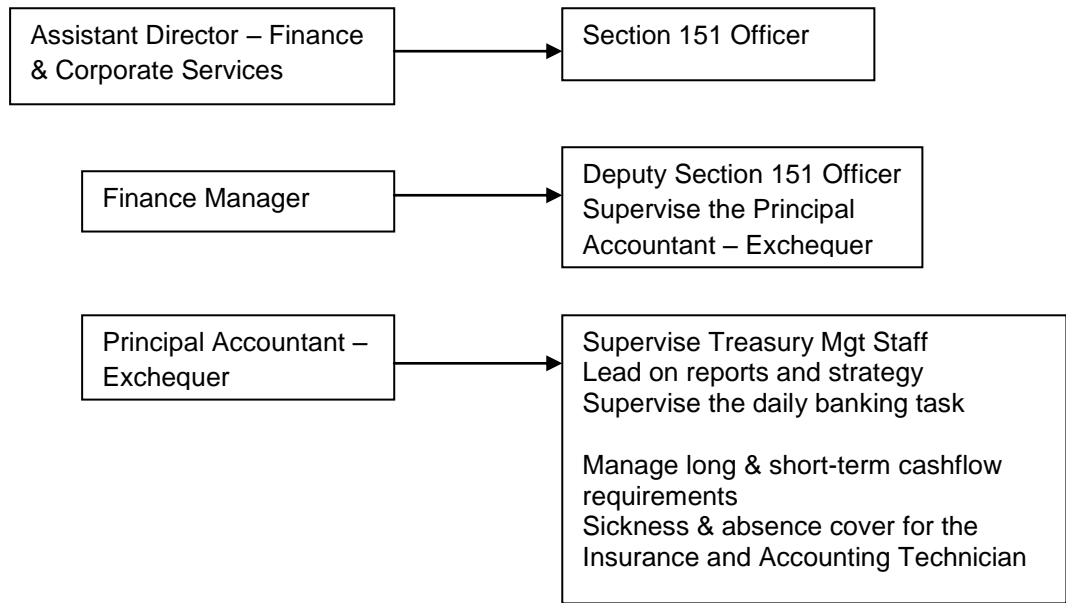
Audit Committee

- Approval of amendments to the organisation's adopted clauses and treasury management policy statement and treasury management practices.
- Approval of annual report on Treasury Management
- Budget consideration and amendments.
- Approval of the decision of responsibilities
- Receiving and reviewing external audit reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment
- Approval of amendments to Treasury Management Procedures
- Overview of Treasury Management function

- Principles and practices concerning segregation of duties

- Officers involved in the daily banking task are not to undertake bank reconciliation duties.
- Authorised signatories signing CHAPS forms are not to authorise that payment on the Bankline system.

- Statement of duties/responsibilities of each treasury post



Statement of duties/responsibilities of each treasury post

Assistant Director – Finance & Corporate Service

1. The Assistant Director – Finance and Corporate Service will:
 - a) Recommend clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance
 - b) Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy
 - c) Submit regular treasury management policy reports
 - d) Submit budgets and budget variations
 - e) Receive and review management information reports
 - f) Review the performance of the treasury management function and promote best value reviews
 - g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
 - h) Ensure the adequacy of internal audit, and liaising with external audit
 - i) Recommend the appointment of external service providers.
- 2 The Assistant Director – Finance & Corporate Services has delegated powers in consultation with the Assistant Director – Legal & Corporate Services through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.
- 3 The Assistant Director – Finance & Corporate Services may delegate her power to borrow and invest to members of her staff. The Finance Manager, Principal Accountant – Exchequer, Corporate Accountant, Insurance and Accounting Technician or Benefits & Control Officer must conduct all dealing transactions, or staff authorised by the Assistant Director – Finance & Corporate Services to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
- 4 The Assistant Director – Finance & Corporate Services and the Assistant Director – Legal & Corporate Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- 5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Assistant Director – Finance & Corporate Services to be satisfied, by reference to the Monitoring Officer (Assistant Director – Legal & Corporate Services), the Organisation's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Organisation's Financial Regulations
- 6 It is also the responsibility of the Assistant Director – Finance & Corporate Services to ensure that the Organisation complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

Principal Accountant – Exchequer

The responsibilities of this post will be:-

- a) Adherence to agreed policies and practices on a day-to-day basis
- b) Supervising treasury management staff
- c) Monitoring performance on a day-to-day basis
- d) Monitoring responsibility of the Treasury Management Budget
- e) Managing long and short term cashflow

- f) Overseeing and authorising execution of transactions
- g) Submitting management information reports to the responsible officer

Chief Executive Officer

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Assistant Director – Finance & Corporate Services reports regularly to the responsible committee/the Council on treasury policy, activity and performance.

Monitoring Officer

The responsibilities of this post will be: -

- a) Ensuring compliance by the Assistant Director – Finance & Corporate Services with the treasury management policy statement and treasury management practices and that they comply with the law
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
- c) Giving advice to the Assistant Director – Finance & Corporate Services when advice is sought.

Internal Audit (SWAP)

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures
- b) Reviewing division of duties and operational practice
- c) Assessing value for money from treasury activities
- d) Undertaking probity audit of treasury function.

Absence cover arrangements

- In the absence of the Assistant Director – Finance & Corporate Services, the Finance Manager shall take on board the responsibilities and duties of the Assistant Director – Finance & Corporate Services.
- Under the supervision of the Principal Accountant – Exchequer, the general day to day activities shall be undertaken by the Insurance and Accounting Technician. However this may be from time to time passed onto the Benefits & Control Officer or the Corporate Accountant
- In the absence of the Principal Accountant - Exchequer her responsibilities and duties will be undertaken by the Finance Manager or the Assistant Director – Finance & Corporate Services (or officers authorised by her to act as temporary cover) supported by the rest of the Treasury Management team.

Dealing limits

- Currently there is a £5m upper limit in the total value of out-going CHAPS transactions in any one day without reference to the National Westminster Bank plc. Transactions that will exceed the £5m limit will be referred back to the Treasury team for explanation.

Appendix 2

List of approved brokers

- Martins Brokers (UK) plc, 25 Dowgate Hill, London, EC4R 2BB
- London Currency Brokers, LCB House, 3 Scrutton Street, London, EC2A 4HF
- Prebon Yamane (UK) Ltd, 155 Bishopsgate, London, EC2N 3DA
- Tradition (UK) Ltd, Beaufort House, 15 St Botolph Street, London, EC3 7QA

Policy on brokers' services

- The treasury function has always maintained a good relationship with four brokers. This has been deemed adequate for the size and number of market transactions conducted by the Council whilst simultaneously ensuring there is sufficient spread to ensure that the best deals are being struck. Any changes to the list of approved brokers will not be made without prior consultation to with the Assistant Director – Finance & Corporate Services.

Policy on taping of conversations

- In line with good practice, all conversations relating to deals with either brokers or direct dealing institutions are recorded. The cassette tapes are to be kept for a period of one year from the last recording.

Direct dealing practices

- Direct dealing is carried out with institutions identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.

Settlement transmission procedures

- The preferred method of transmitting information relating to all deals is by FAX. Alternative methods are Royal Mail and email.

Documentation requirements

- Copy of CHAPS form confirming transmission of funds to counterparty
- Broker/direct dealer documentation confirming counterparty, deal amount, maturity date and rate.

Arrangements concerning the management of third-party funds.

- The following funds are managed by South Somerset District Council:
 - Joint Burial Committee
 - Dorcas House Trust
 - SWAP
 - ACI Chard Regeneration Scheme

However, there are still small amounts of money held on behalf of third parties that have been held for many years. These sums are immaterial and absorbed into the cash balances of the Council. There being no further interest payable, the principal will be repaid to the third party on the production of appropriate documentation.

TMP 6: Reporting Requirements and Management information arrangements

Principle: The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, Full Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Audit Committee will receive regular monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

Schedule:

Frequency of executive reporting requirements

- The responsible officer will annually submit budgets and will report on budget variations as appropriate.
- The responsible officer will submit the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to Full Council before the start of the year.
- The Annual Treasury Report will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.
- A Mid-Year Treasury Report will be prepared by the responsible officer, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Full Council during the year.
- All of the above reports will also be submitted to Audit Committee, who will be responsible for the scrutiny of treasury management policies and practices.

Content of Reporting: 1. Prudential Indicators

- The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of:
 - Financing costs as a proportion of net revenue stream (estimate; actual)
 - Capital expenditure (estimate; actual)
 - Incremental impact of capital financing decisions (estimate)
 - Capital Financing Requirement (estimates; actual)

Appendix 2

- Authorised limit for external debt
 - Operational boundary for external debt
 - Actual external debt
 - Upper limits on fixed and variable rate interest exposures
 - Upper and lower limits to maturity structure of fixed rate borrowing
 - Upper limit to total of principal sums invested longer than 364 days.
- The Prudential Indicators are approved and revised by Full Council and are integrated into the Council's overall financial planning and budget process.
 - The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 2. Treasury Strategy Statement including the Annual Investment Strategy

- The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:
 - Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years
 - Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt
 - the extent to which surplus funds are earmarked for short term requirements
 - the investment strategy for the forthcoming year(s)
 - the minimum to be held in short term/specified investments during the coming year
 - the interest rate outlook against which the treasury activities are likely to be undertaken.
- Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out
 - the objectives, policies and strategy for managing its investments;
 - the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances;
 - the limits for the use of Non-Specified Investments.
- The AIS will be integrated into the Treasury Strategy Statement.
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 3. Annual Treasury Report

- The Principal Accountant - Exchequer will produce an annual report for Full Council on all activities of the treasury management function as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.
- The main contents of the report will comprise:

Appendix 2

- confirmation that the Council calculated its budget requirements and set a balanced budget for the forward year;
 - the prevailing economic environment
 - a commentary on treasury operations for the year, including their revenue effects;
 - commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council
 - compliance with agreed policies/practices and statutory/regulatory requirements
 - compliance with Prudential Indicators;
 - performance measures.
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 4. Mid-Year Treasury Report

- The Principal Accountant - Exchequer will produce a mid-year report for Full Council on the borrowing and investment activities of the treasury management function (including performance of fund managers) for the first six months of the financial year.
- The main contents of the report will comprise:
 - Economic background
 - Economic forecast (including interest rates forecast)
 - Treasury Management Strategy Statement update
 - Performance versus benchmarks
 - Borrowing information (including premature repayment, new loans information)
 - Information on investments, including current lending list
 - Prudential indicators relating to treasury management
 - Governance framework and scrutiny arrangements
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content and frequency of management information reports

- Management information reports will be prepared every month by the Principal Accountant – Exchequer and will be presented to the Assistant Director – Finance & Corporate Services
- These reports will contain the following information: -
 - Information on investment in Bonds, Certificates of Deposits and Treasury Bills.
 - Details of in-house investments, including interest to date, benchmark rate and rate achieved, and forecast of interest for the remainder of the year.
 - Details of fees payable.
 - Forecast of surplus/deficit for the financial year against budget.
 - Narrative highlighting any areas of concern or areas of note.

TMP 7: Budgeting, accounting and audit arrangements

Principle: The Responsible Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which

Appendix 2

will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The form which the Council's budget will take is set out in the schedule below.

The Responsible Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:

Statutory/regulatory requirements

- The framework for accounting in local government in the UK comes from the Code of Practice on Local Authority Accounting in Great Britain, A Statement of Recommended Practice (SORP), and guidance issued by CIPFA.

Proper accounting practice

- CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

Treasury-related information requirements of external auditors

- The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.
- Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.
 - Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
 - Prudential Indicators.
 - Treasury Management Strategy including Annual Investment Strategy.
- Investments:

Appendix 2

- Investment transactions during the year including any transaction-related costs
 - cash and bank balances at year end
 - Short-term investments at year end
 - Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
 - calculation of (i) interest received (ii) accrued interest
 - actual interest received
 - External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
 - Basis of valuation of investments
 - Evidence of existence and title to investments (e.g. Custodian's Reports; FRAG-21 report from Custodian.
 - Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.
- Cash Flow:
 - Reconciliation of the movement in cash to the movement in net debt
 - Cash inflows and outflows (in respect of long-term financing)
 - Cash inflows and outflows (in respect of purchase/sale of long-term investments)
 - Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

Internal Audit

- Internal Audit generally conducts an annual review of the treasury management function and probity testing.
- The internal auditors will be given access to treasury management information/documentation as required by them.

Compliance with CIPFA Treasury Management and Prudential Codes

- Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.
- Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.

TMP 8: Cash and cash flow management

Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [2] liquidity risk management. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Schedule:

Arrangements for preparing /submitting cash flow statements

Appendix 2

- The Principal Accountant – Exchequer oversees the Insurance and Accounting Technician who prepares the monthly cash flow statement and the daily cash flow statement. Information from both statements is then used to plan investments. The forecasts should be maintained for a minimum of six months ahead.
- The Principal Accountant – Exchequer also prepares a long-term cash flow forecast covering the current financial year and the next three financial years.

Content and frequency of cash flow projections

- The detailed annual cash flow model includes the following:
 - revenue income and expenditure based on the budget.
 - profiled capital income and expenditure as per the capital programme

Monitoring, frequency of cash flow updates

- The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with:
 - net RSG and NNDR payments as notified;
 - precept payments
 - actual salaries and other employee costs paid from account bank statements;
 - actual payments to Inland Revenue from general account bank statements;
 - actual council tax received
 - actual rent allowances paid
 - actual housing benefit;
 - actual capital programme expenditure and receipts.

Bank statements procedures

- The Council receives bank statements on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger on a monthly basis.

Payment scheduling

- Major payments to creditors are pre-arranged and usually bypass the normal creditors cheque processing, ie they are paid via the CHAPS system. Of the remaining creditors, statute requires that invoices are paid within 30 days of receipt. Current agreed practice is that invoices will be paid within 10 working days or in accordance with the creditors supplier terms, this is in line with the prompt payment code we have signed up to.

Monitoring debtor/ creditor levels

- Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report to the service managers which includes an analysis of debt by age.
- The level of Creditor invoices being processed is monitored on a monthly basis by the Exchequer Services Team.

Banking of funds

Appendix 2

- Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received in the incomes team are banked daily.
- All the Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.

Listing of sources of information

- The treasury function receives cash flow information for the following:-
 - Government information eg NNDR/RSG payments and dates
 - Information from other outside bodies eg Somerset County Council precepts and dates
 - Debtor payments
 - Creditor payments
 - Housing Benefit payments
 - Direct Debit payments
 - Monthly salaries & wages
 - Capital Programme

Practices concerning prepayments to obtain benefits

- Payments received in advance by debtors are credited to their respective account. No interest or discount is given for early settlement.

TMP 9: Money Laundering

Background: The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

Principle: The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting

Appendix 2

suspicious, and will ensure that staff members involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.

Schedule:

Anti money laundering policy

- This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.
- The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

Treasury documentation

- The Authority will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:
 - Awareness of what constitutes money laundering;
 - The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed;
 - Maintaining up-to-date direct dealing and SSI mandates with counterparties

Procedures for establishing the Identity of Lenders and Borrowers

- The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions. It will ensure that staff involved in this area are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed below.
- SSDC does not accept loans from individuals. All loans are obtained from the PWLB or from authorised institutions under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1.12.2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on www.fsa.gov.uk).
- Whilst the Council is not directly required to implement the requirements of the Money Laundering Regulations 2007 (SI 2007 number 2157), which replaced the Money Laundering Regulations 2003 (SI 2003 number 3075) with effect from 15 December 2007, (except through this TMP), the implications of the Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and the Proceeds of Crime Act 2002 place an onus of responsibility on individuals associated with treasury process to consider its implications.
- Suspicion of any money laundering activity, fraud or use of the proceeds of crime is to be report to the Money Laundering Reporting Officer (MLRO), currently the Assistant Director – Finance & Corporate Services.

TMP 10: Training and qualifications

Principle: The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Assistant Director – Finance & Corporate Services will recommend and implement the necessary arrangements.

The responsible officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Schedule:

Qualifications/ experience for treasury staff

- CCAB part or fully qualified
- Member of the Association of Accounting Technicians part or fully qualified

Details of approved training courses

- As yet no courses have been designated as 'approved' for the purposes of determining qualification to work within Treasury Management. All courses offered by colleges, independent organisations shall be judged on their respective merits and relevance to the needs of the Financial Services Unit.

Records of training received by treasury staff

- The Council participates in the CIPFA/ACCA/CIMA Employer Accreditation Schemes for CPD purposes which is based on planning, recording and evaluating development. Employees are required to register with the scheme and declare participation in the CPD scheme annually.

TMP 11: Use of external service providers

Principle: The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule below.

Schedule:

Banking services

- Service provided by: National Westminster Bank plc
- Contract commenced 1/7/11 and runs for 3 years until 30/6/14.
- Cost of service as per the contract in 11/12 £43,290
- Payments due quarterly in arrears and monthly for the electronic banking service.
- Terms for early termination of the contract: The organisation may terminate the agreement at any time by 3 months' written notice to the Manager and the Manager may terminate the agreement on 3 months' written notice to the organisation.

Money-broking services

- Providers of service:-
 - Martin Brokers (UK) plc
 - Prebon Yamane
 - London Currency Brokers
 - Tradition UK

Cash/fund management services

- None

Consultants'/advisers' services

- Name of supplier of service – Arlingclose Ltd.
- Contract commenced 1 March 2010 and expires upon 28th February 2013, with the option to extend for a further two years in accordance with the relevant terms of the agreement
- Cost of service £25,500 per annum – increasing by 5% plus VAT
- Payments due annually on 1 April
- Terms for early termination of the contract: The Council may terminate the agreement by giving three months notice after 28th February 2013.

TMP 12: Corporate governance

Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule:

- *List of documents to be made available for public inspection.*
 - Annual Statement of Accounts
 - Budget Book

Appendix 2

- Treasury Management Policy
- Treasury Management Strategy
- Budget Monitoring Reports
- Annual Treasury Report
- Council Committee Agendas and Minutes

Council's website

- Financial information is additionally available on the Council's website

Procedures for consultation with stakeholders

- Members and senior officers of the Council are consulted via reports to Management Board and District Executive and officer/member briefing sessions

Audit Committee – 25 October 2012

7. Review of Internal Audit Action Plan

Purpose of Report

To update the Audit Committee on the actions against the Quality Assurance Action Plan for the South West Audit Partnership (SWAP).

Recommendations

That the Audit Committee notes the current status of the action plan.

Background

The South West Audit Partnership (SWAP) is a partnership that provides the Internal Audit service to all of the six Somerset authorities, Dorset County Council, Weymouth and Portland Borough Council, West Dorset District Council, Forest of Dean District Council, East Devon District Council, and Wiltshire Council as well as a number of related bodies such as the Somerset Waste Partnership.

The review of Internal Audit was reported to the Audit Committee in May 2012. However at that time the independent review of controls to support the Statement of Accounts had not yet been received, nor had an independent quality review of the service. It was agreed that these would be reported to the Committee in July 2012.

The Audit Committee reviewed the action plan in July 2012 and has requested regular updates of the status of the plan.

Report

The action plan is attached at Appendix A.

Financial Implications

The actions outlined can be achieved within budget.

SWAP Quality Assessment Improvement Plan (QAIP)

Final Action Plan

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
SWAP has no formal process for benchmarking its costs or performance.	I recommended that the SWAP Management Team devise a process for benchmarking SWAP against other service providers.	3	Through this process we have engaged with like Partnerships and are currently looking at the option of comparing data with them.	Group Audit Manager, Quality and Delivery	December 2012
Periodic Reviews of SWAP to be regularly completed.	I recommend that the SWAP Management Team agree a time period for regular reviews, currently recommend every five years minimum, with an interim review part way through the agreed period.	3	This Action Plan will be kept under constant review. We envisage completing a full review every three years.	Head of Internal Audit Partnership	On-Going March 2015
The Registers for Declaring Interests and Gifts or Hospitality are not reviewed by the SWAP Management Team.	I recommend that the SWAP Management Team periodically review the Gifts and Hospitality Register and sign the document off as an accurate record.	3	The current Register has been reviewed and signed off. This will form part of a quarterly review by the SWAP Management Team.	Head of Internal Audit Partnership	Completed and On-Going
	I also recommend that the SWAP Management Team review the Declaration of Interest Register at least annually to approve all declarations as acceptable and ensuring that adequate processes are in place to manage any potential conflicts.	3	The current Register has been reviewed and we are currently in the process of informing staff of our response to their declaration.	Group Audit Manager, Quality and Delivery	Completed and On-Going

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
A Register capturing Declarations of Interest is maintained by the PA to the HoIAP (Head of Internal Audit Partnership). However, there are no annual reminders sent out and as a result the Register is out of date.	I recommend that the SWAP Management Team ensure that annual reminders are sent out to all staff with specific reference to any items individuals may have on the Register to ensure it is current.	3	This has been completed as agreed.	PA to HoIAP	Completed
The Audit Manual has not been regularly reviewed. The process for updating and adding new procedures has become disjointed and staff do not have access to the whole Manual, only the documents held on the MKi Library.	I recommend that the content page of the existing Manual is revisited by the SWAP Management Team to ensure it is relevant, accurate, current and complete.	3	Agreed.	Head of Internal Audit Partnership	March 2013
	I also recommend that the SWAP Management Team ensure that each documented procedure is reviewed for accuracy and currency and that where gaps are identified, a plan is put in place to develop the Manual further.	3	Agreed.	Head of Internal Audit Partnership	March 2013

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
	Whilst waiting for an MKi solution, I recommend that the Head of Internal Audit Partnership ensures that the Audit Procedure Manual is made available to all staff on the shared drive via a shortcut link from their pc desktop.	3	We need some help with the technical solution and will pursue this with or IT Support at SDC.	Head of Internal Audit Partnership	October 2012
SWAPs Mission, Vision and Objectives are all captured in the Partnership Business Plan. However, these are not regularly reviewed or presented to staff for refreshment.	I recommend that the Head of Internal Audit Partnership ensures that awareness of the Mission, Vision and Objectives of SWAP is periodically raised with staff.	3	Promotion of this to staff is now included in the SWAP Communication Strategy . This will also be promoted by HoIAP at staff Away Day 24 th April 2012 – See Agenda	Group Audit Manager, Quality and Delivery Head of Internal Audit Partnership	Completed Completed
Staff Suggestions whilst discussed at Management Team Meetings there is not always evidence to support that they have been 'formally' responded to.	Reported Verbally	2	Staff Suggestions, where agreed, are now included in Management Key Messages and individuals responded to immediately after the Management Team Meeting.	Head of Internal Audit Partnership	Completed
Somerset Waste Partnership and possibly SPTC who do not have agreed IA Charters should at least have a document that outlines External Client Engagements.	I recommend that the Head of Internal Audit Partnership engages with external bodies where an annual opinion is offered to ensure an External Clients Engagement document is introduced and agreed.	3	There are currently two clients this applies to. We have started to draft a suitable document for agreement by these clients.	Group Audit Manager, Quality and Delivery	One Completed and One In Progress October 2012

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
While SWAP has a good process for Training, including a Strategy, it does not have a formal process for effectively measuring CPD (Continuous Professional Development).	I recommend that the Group Audit Manager, Resources introduces a framework whereby CPD can be demonstrated and monitored.	4	Agreed - Initial enquiries have been made with the IIA.	Group Audit Manager, Resource Management	Completed and On-Going
	I recommend that when devising in-house training courses that the Group Audit Manager, Resources ensures that they are assessed for CPD value.	4	Agreed – as and when internal courses are devised.	Group Audit Manager, Resource Management	Completed and On-Going
	I recommend that the Group Audit Manager, Resources gives consideration to identifying suitable training for audit staff in relation to technical areas they may be required to audit as this could improve the quality and credibility of the audit service to clients.	3	At the moment we rely on staff carrying out adequate desk review of a service before commencing an audit. We have completed specific training in the past such as SAP. However, we will consider this need further.	Group Audit Manager, Resource Management	December 2012
SWAP does not have a Document Retention Policy.	I recommend that the Head of Internal Audit Partnership ensures that a Document Retention Policy is developed with SWAP which includes the secure disposal of information no longer required.	3	Auditors obtain data securely and electronically. Such data is held within MKi and we will explore with MKi the best options for cleansing this data at regular intervals. A Policy will be developed to reflect this and to comply with regulations and operational need.	Group Audit Manager, Planning and Performance.	December 2012

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
It is not explicit within the Data Sharing Policy that SWAP will only share data with outside bodies if they receive consent from the relevant Partner.	I recommend that the Group Audit Manager, Resources includes a more definite statement within the Data Sharing Policy which confirms that SWAP will never share a Partners data without first receiving their consent.	2	These documents have only just been signed. However, changes have already been suggested by the SCC Client Officer and we will incorporate this and the recommended change in the next revision of the document.	GAM, Resource Management	28/11/2012
The Staff Questionnaire Returns have highlighted a number of matters that need consideration by the Management Team and a plan devised as to how SWAP will respond to improve some of the issues raised.	I recommend that the SWAP Management Team review the results of the staff questionnaire and focus priority on the four areas identified above.	3	Agreed.	SWAP Management Team	Completed and reflected under the heading - Actions in response to staff feedback
	I also recommend that the SWAP Management Team review the comments made by staff and prepare a response plan for each theme, where appropriate. <i>(One method maybe for Group Audit Managers to be assigned a theme and work with groups of staff to address the points raised).</i>	3	Agreed.	SWAP Management Team	Completed and reflected under the heading - Actions in response to staff feedback

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
The Client Questionnaire Returns have highlighted a number of matters that need consideration by the Management Team and a plan devised as to how SWAP will respond to improve some of the issues raised.	I recommend that the SWAP Management Team review the results of the client questionnaire and focus priority on the three areas identified above.	4	Agreed.	SWAP Management Team	October 2012
	I also recommend that the Head of Internal Audit Partnership ensures that Group Audit Managers (GAM) follow up all scores assessed below 3 (Good) with individual Client Officers.	4	Agreed.	SWAP Management Team	October 2012
	In line conjunction with following up on scores assessed below 3 (Good), I recommend that the Head of Internal Audit Partnership ensures that GAM follow up on all comments made with individual Client Officers.	4	Agreed.	SWAP Management Team	October 2012
The desk review section of the Initial Meeting Template could be enhanced by including Physical Properties.	Reported Verbally	2	This will be considered at the next review/update of the IMT.	GAM, Quality and Delivery	Completed

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
The HoIAP does not have a Job Description.	I recommend that the Chair of the Management Board, in liaison with the HoIAP draws up a Job Description and Personal Specification for the HoIAP outlining the role and requirements of the post holder; both documents should be formally agreed by the Management Board.	3	TBA	Chair of the SWAP Management Board	TBA
<p>External assessments must be carried out at least once every five years by a qualified independent reviewer or team from outside the organisation. The chief audit executive must discuss with the board:</p> <p>The need for more frequent external assessments; and</p> <p>The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.”</p>	<p>I would therefore recommend the following:</p> <p>The HoIAP should use the results of this review to determine whether there is a need for more frequent external assessment.</p>	3	<p>The results of this Assessment have been favourable identifying no failings with regards to the Standards.</p> <p>However, as referred to above we will endeavour to carry out a full Quality Review Assessment every three years.</p>	Head of Internal Audit Partnership	March 2015

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
	As a very minimum it is essential that the HoIAP ensure that the observations and issues arising from this Assessment form the basis of a Quality Assessment Improvement Plan (QAIP).	4	Agreed – this document becomes SWAP’s QAIP.	GAM, Quality and Delivery	Completed
	The HoIAP in conjunction with the Management Board should ensure that the QAIP is developed and reviewed at least annually to ensure continuous improvement.	3	Agreed.	Head of Internal Audit Partnership / SWAP Management Board	On-going
ACTIONS IN RESPONSE TO STAFF FEEDBACK:					
Managing Plans across all Audit Managers seems to be becoming unwieldy. Lack of structure and difficulties in working for a number of AM’s in each quarter.	The Group Audit Manager, Planning and Performance will revisit the planning process and consider the benefits of geographical planning in three areas. Provide quarterly plans as far in advance as possible.		The Plan has now been allocated on a geographical basis but will continue to remain flexible to meet the needs of our Partners.	Group Audit Manager, Planning and Performance	Completed and in Progress
The increase in internal procedures appears to be leading to inefficiencies.	Group Audit Managers to produce an outline process chart of SWAP procedures to be analysed in detail by Audit Managers to identify areas for potential efficiency.			Group Audit Managers and Audit Managers	March 2013

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Lack of clarity of strategic direction of SWAP.	Management Team to raise awareness of SWAP's vision, strategy and priorities (see above). MT to provide an overview of Strategy and Budget to Audit Managers Meeting.			Head of Internal Audit Partnership	Completed in Progress
Whilst communication has improved there is a perceived lack of understanding of the why decisions have been taken.	Management Team to ensure that when decisions are communicated, an explanation as to the why should be included.			SWAP Management Team	Immediate and on-going
General Lack of Awareness of Planning Process.	Group Audit Manager, Resource Management to ensure Induction Programme is updated to include an overview of the Audit Planning Process.			Group Audit Manager, Resource Management	Immediate and on-going
	Group Audit Manager, Planning and Performance to provide an overview of SWAP's Planning Process at the next Away Day.			Group Audit Manager, Planning and Performance	October 2012
Perceived Poor IT Performance	Group Audit Manager, Planning and Performance to move the hosting of MKi to Morgan Kai to increase resilience and limit disruption to service.			Group Audit Manager, Planning and Performance	Completed

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
	<p>Group Audit Manager, Quality and Delivery in liaison with the current service host (SDC) to investigate options and solutions for the poor performance of the PANDA Server.</p>			<p>GAM, Quality and Delivery</p>	<p>In Progress</p>

Audit Committee – 25 October 2012

8. Audit Forward Plan

Assistant Director: Donna Parham – Finance and Corporate Services
Lead Officer: Anne Herridge, Committee Administrator
Contact Details: anne.herridge@southsomerset.gov.uk or (01935) 462570

Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendation

Members are asked to:-

Comment upon and note the proposed Audit Committee Forward Plan as attached at Appendix A.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Background Papers: None

Audit Committee – 25 October 2012

Audit Committee Forward Plan

Appendix A

Meeting Date	Agenda Item	Lead Officer
22 Nov 12	Internal Audit – second quarter and Half Year update	Ian Baker/Andrew Ellins
	<i>Risk management update including partnering (Suppliers, other agencies etc)</i>	Gary Russ
	Treasury Management – second Quarterly Monitoring report and mid year Review of Strategy	Karen Gubbins
	Wincanton Community Sports Centre Audit Action plan	Steve Joel
	Treasury Management Training after Audit Committee 22 November 2012	
20 Dec 12	No reports to date	
24 Jan 13	Health, Safety & Welfare – Annual report	Pam Harvey
28 Feb 13	Internal Audit – Third Quarter Update	Ian Baker/Andrew Ellins
	Internal Audit Plan – Approve 2013/14 Plan	Ian Baker/Andrew Ellins
	Review of Internal Audit Charter	Ian Baker/Andrew Ellins
	Annual Governance Statement Action Plan	Donna Parham
	Treasury Management - Third Quarterly Monitoring Report	Karen Gubbins

Meeting Date	Agenda Item	Lead Officer
	Treasury Management Strategy Statement and Investment Strategy 2013/14	Karen Gubbins
	Audit Commission Audit Plan	Donna Parham
	Audit Commission – Certification of Claims and Returns: Annual Report	Donna Parham

Audit Committee – 25 October 2012

9. Date of Next Meeting

The next scheduled meeting of the Audit Committee will be held on Thursday, 22 November 2012 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil. It is hoped to hold a training session for Treasury Management after this meeting.
