

South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 26th June 2014

10.00 a.m.

**Main Committee Room
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 18th June 2014

Ian Clarke, Assistant Director (Legal & Corporate Services)

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
David Norris 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.

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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 26th June 2014

Agenda

Preliminary Items

1. To approve as a correct record the Minutes of the previous meeting held on 24th April 2014
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

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Audit Committee – 26th June 2014

5. Housing Benefit Subsidy certification work plan for South Somerset District Council

Portfolio Holder *Cllr Tim Carroll*
Director: *Donna Parham, Assistant Director – Finance and Corporate Services*
Lead Officer: *Donna Parham*
Contact Details: *donna.parham@southsomerset.gov.uk or (01935) 462225*

Purpose of the report

This report introduces the certification work plan for Housing Benefits Subsidy from our external auditors Grant Thornton for the year ended 31st March 2014.

Recommendation

The Audit Committee is asked to note the contents of the Housing Benefits Subsidy certification work plan for 2013/14.

Introduction

The Housing Benefits Subsidy certification work plan is included within the remit of the Audit Committee under its terms of reference as follows:

“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 has been taken”.

“To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken”.

Grant Claim

The external auditors now only certify the Housing Benefits Subsidy claim. The Department for Work and Pensions (DWP) requires external certification of the claim each year.

Financial Implications

The indicative fee for this work is £10,736 and is within the budget as set.



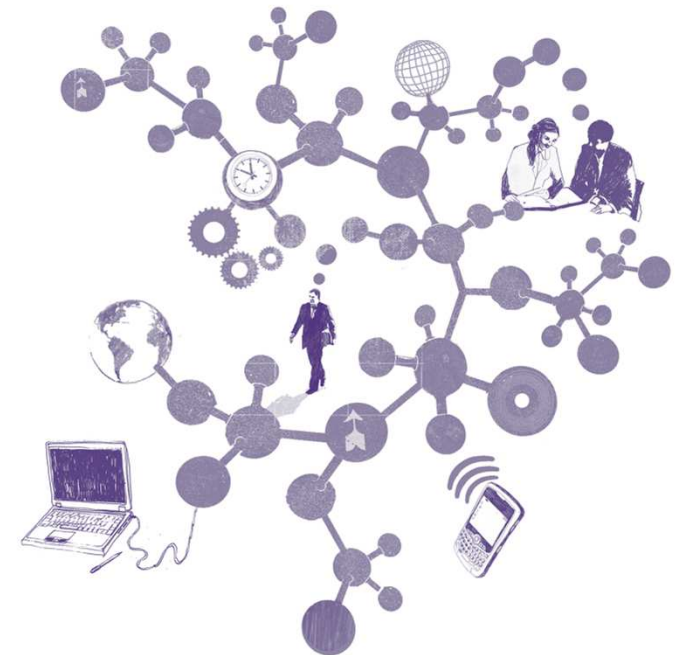
Housing Benefit Subsidy certification work plan for South Somerset District Council

Year ended 31 March 2014

7 May 2014

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Our approach to Housing Benefit Subsidy certification work

Introduction

As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission. The only claim which requires certification at South Somerset for 2013/14 is the Housing Benefit Subsidy claim.

The Department for Work and Pensions (DWP) requires external certification of the Housing Benefit Subsidy claim each year. The Audit Commission agrees certification arrangements with the DWP and issues a certification instruction. The arrangements include the deadline for submission of each claim by authorities (30/4/2014) and the deadline for certification by auditors (30/11/2014).

Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
DWP	Sets conditions of subsidy and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instruction ('BEN01') for auditor work
Council	Submits claim for certification to the Appointed Auditor within DWP submission deadlines
Appointed Auditor	Certifies claim in accordance with Audit Commission certification instruction and within certification deadline

The Council's role is set out in more detail below:

- the Benefits and Control Officer is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to the Housing Benefit Subsidy claim
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies
- the DWP requires the Council's certificate to be given by an appropriate senior officer. This is typically the Assistant Director (Finance and Corporate Services)
- the Council should monitor arrangements with any third parties involved in the certification process.

Claims history

The most significant claims and returns in 2012/13 were:

- housing and council tax benefits scheme
- national non-domestic rates return

Due to changes in government funding, there are a number of schemes that either finished in 2012/13 or where funding is no longer ring-fenced. For the Council this means that there will be no certification under the Audit Commission regime of the following schemes this year:

- council tax benefit (previously part of the housing and council tax benefits scheme)
- national non-domestic rates return

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this states that the claim is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the DWP's terms and conditions, there is a risk that the DWP will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

In addition, where the claim requires amendment or is qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

Certification work fees

The Audit Commission sets an indicative fee for grant claim certification based on the 2011/12 actual certification fees for each council. The indicative fee reported in the Audit Plan to the Audit Committee in March 2014 was £12,200. The Audit Commission has reduced the indicative fee to £10,736 because certification of council tax benefit is no longer required as part of the Housing Benefit Subsidy scheme. The fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year
- the Council provides adequate working papers to support each entry in the claim
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with the Council and the Audit Commission.

Administration

When the claim is completed, a copy of the signed claim should be sent to Peter Lappin at the following address, please:

**Grant Thornton UK LLP
Suite 4, Stowey House
Bridport Road
Poundbury
DORCHESTER
DT1 3SB**

- The **original** claim should be retained by the Council.

Managing the certification process – our role

- We intend to certify the Housing Benefit Subsidy claim in accordance with the deadlines set by the Audit Commission. If we receive the claim after the Council's submission deadline, we will endeavour to certify it within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of the certified claim will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instruction can be provided on request
- We expect to complete the certification work by 30/11/2014 and will issue a grant certification report highlighting any issues that need to be brought to the Council's attention.



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Audit Committee – 26th June 2014

6. Internal Audit Plan - Review of 2013/14

Head of Service: Gerry Cox, Chief Executive - SWAP
Lead Officer: Andrew Ellins, Audit Manager
Contact Details: andrew.ellins@southwestaudit.co.uk

Purpose of the Report

This report provides an update on the position of the Internal Audit Plan at the end of 2013/14 and also provides Internal Audits overall Opinion on the systems of internal control at South Somerset District Council.

Recommendation

To note the content of the Internal Audit Annual Report and Opinion.

Background

The Audit Committee agreed the original 2013/14 Internal Audit Plan at its February 2012 meeting. The plan was revised and approved by Audit Committee in June 2013. A report on plan progress was provided in November 2013 (for half year) and in February 2014 (for quarter three).

Appendix A - Detailed Internal Audit Annual Report and Opinion for 2013/14

Appendix B - Audit Plan 2013/14 Progress Table

Appendix C - Audit Assurance Definitions

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None



Appendix A

South Somerset District Council

Internal Audit Plan – Review of 2013/14

Contents

The contacts at SWAP in connection with this report are:

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Summary of Internal Audit Activity:

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Audit Manager’s Annual Opinion Page 8

AM’s Opinion—continued Page 9

Annual Opinion:

The Chief Executive is required to provide an annual opinion report to support the Annual Governance Statement.

Purpose of Report and Recommendation

The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Chief Executive of SWAP should provide a written annual report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Chief Executive judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Background

The Internal Audit service for South Somerset District Council is provided by the South West Audit Partnership (SWAP) Ltd. SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the Unit is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the year April 2013 to March 2014.

Summary of Work 2013/14

The agreed Annual Audit Plan covers the following key areas of Activity:

- OPERATIONAL AUDITS
- INFORMATION SYSTEMS
- KEY CONTROLS, Finance
- KEY CONTROLS, Income
- GOVERNANCE & FRAUD
- SPECIAL REVIEWS
- THEMED AUDITS

Audits Completed - Operational

Operational Audits—are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested; risks are assessed against the risk appetite agreed with the SWAP Management Board. Where weaknesses or areas for improvement are identified, actions are agreed with management, prioritised and target dated. Based on the findings of each review, an overall Control Assurance is offered. Agreed actions are entered onto the TEN System and monitored through to completion by this Committee. Where Partial Assurance is given in the final report the relevant Service Manager should be called by the Committee to provide assurance that the risks are being managed and to see this through to satisfactory completion:

Audit Area	Audit Opinion
Payroll Service	▲ ★★ ★ Substantial
Fleet Workshop and Stores	▲ ★★ ★ Reasonable
Town Council Licensing Controls	▲ ★★ ★ Reasonable

The 3 reviews receiving audit opinions identified 20 recommendations for improvement; 1 level 4 priority risk, 17 level 3's and 2 level 2's.

The level 4 risk was a need for risk assessments for licensing enforcement performed by Yeovil Town Council rather than the District.

It was pleasing to be able to provide reasonable and substantial assurance for all of the Operational reviews. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Definitions of Risk Levels, please refer to Appendix C.

Summary of Work 2013/14

Continued.....

Audits Completed – Information Systems

Information Systems—IS audits are completed to provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given. The following IS audits were completed in 2013/14:

Audit Area	Audit Opinion
ICT Strategy	▲ ★★ ★ Reasonable
Event, Incident and Problem Management	▲ ★★ ★ Reasonable
Disaster Recovery Planning	Non Opinion

The ICT strategy Audit had 4 priority 3 recommendations and 1 priority 2 recommendation and was found to be generally well controlled.

Event, Incident and Problem Management also had 5 recommendations, all priority 3.

Audits Completed – Key Controls, Finance

In a change to previous years, it was agreed by the Audit Committee to replace Key Control Audits with Operational and Governance Audits for 2013/14. This reflects the positive assurance opinions that have been awarded in relation to Key Control Audits over the last few years, and an appetite to explore other risks and processes at the Council.

Summary of Work 2013/14

Continued.....

Audits Completed – Key Controls - Main Income Streams

These other Key Control Audits have been performed as South Somerset considers these Services to have a significant impact on the Councils ability to meet its overall budget. These are areas of high and in many cases volatile income streams where poor internal controls could result in material losses.

Key Control Audits – Main Income Streams completed by SWAP for the period April 2013 to March 2014.

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Careline Income	▲★★★★ Substantial	Licensing Income	▲★★★★ Substantial
Car Parks Income	▲★★★★ Substantial	Plant Nursery Income	▲★★★★ Reasonable
Goldenstones / LED	▲★★★★ Reasonable	Homelessness Prevention Income	▲★★★★ Substantial
Octagon Theatre Income	▲★★★★ Reasonable		
Wincanton Sports Centre Income	▲★★★ Partial	Wincanton Sports Centre Follow Up	Non Opinion

The Wincanton Sports Centre audit was followed up as it received partial assurance and it was found that significant progress has been made, largely through transfer of the Sports Centre to Leisure East Devon. 31 out of 35 recommendations had been implemented with the remainder expected to be completed in the near future.

The remaining Key Income reviews resulted in 23 recommendations, though none of these were level 4 or high risks. There were 19 priority level 3's and 4 priority 2 recommendations.

Summary of Work 2013/14

Continued.....

Audits Completed — Governance and Fraud

Governance and Fraud Reviews — The Governance, Fraud and Corruption Audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. The following reviews of this type were completed:

Audit Area	Opinion	Audit Area	Opinion
External Collections	▲★☆☆ Partial	Yeovil Crematorium and Cemetery Annual Return	Non Opinion
Business Rates - Managing New Risks and Liabilities Theme	▲★★★★ Substantial	Fighting Fraud Locally	▲★★★★ Reasonable
Housing Benefits Fraud Prevention	▲★★★★ Reasonable	Corporate Procurement Cards	▲★★★★ Reasonable
Boden Mill and Chard Regeneration Scheme Statement of Accounts	Non Opinion	S106 Discharge of Planning Obligations	▲★★★★ Substantial
Debt Management Theme	Non Opinion	Asset Management – Leasing Theme	▲★★★★ Substantial
Family Focus Theme	In Progress	Resource Centre - Contract Compliance	In Progress

Summary of Work 2013/14

Continued.....

Audits Completed — Governance and Fraud continued

Audit Area	Opinion	Audit Area	Opinion
Unofficial Voluntary Funds	Non Opinion	TEN Risk Management Follow-Up	Non Opinion
Better Contact Management Follow Up	Non Opinion	Contract Management Standing Orders Compliance Follow-Up	Non Opinion

The Cash Receipting and Bank Reconciliation review was replaced by an audit on S106 Discharge of Planning Obligations during the year at the request of the Audit Committee.

The External Collections Audit resulted in 2 priority 4 recommendations, 17 priority 3 recommendations and 4 priority 2 recommendations. The findings concluded that a more corporate approach to managing external collections should be adopted. In addition to this, the introduction of new legislation in April 2014 has provided a fresh opportunity to reassess and re-launch existing practices and procedures in line with audit findings.

The remaining 6 reviews where an assurance rating has been given resulted in 32 recommendations, of which 23 were priority 3 recommendations and 9 were priority 2.

Where the review is of a consultancy nature they are usually non-opinion. For audits that received a partial assurance in 2012-13 we do a follow-up audit to ensure that agreed improvements have been implemented and that the risks identified are now controlled. These are also non-opinion though we would raise any concerns if they were still found.

Summary of Work 2013/14

Continued.....

Performance:

The Chief Executive of SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.

Audits Completed - Special Reviews

I am pleased to report that since April 2013 there have been no irregularities reported to SWAP that have required investigation on behalf of SSDC.

SWAP Performance

With regards to the 2013/14 Annual Plan for South Somerset District Council, there was originally 36 reviews planned including advice. The Cash Receipting and Bank Reconciliation review was deferred to 2014/15 as the new system had not yet been embedded. An additional audit on S106 Discharge of Planning Obligations was added on the request of the Audit Committee.

Most audits have been completed and only 2 reviews are still in progress at the time of this report. These are targeted to be at report stage by the end of June 2014.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 75% would represent good. The latest Scorecard for the Partnership shows the current average feedback score to be 82%. For South Somerset the average feedback score had increased this year to 85%.

Annual Opinion:

The Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.

Audit Manager's Opinion

Of the Audits planned in 2013/14 there were 2 that were agreed with the S151 Officer to be removed/deferred as changes in the area meant that the audit would not be best done in 2013/14. There were 9 reviews which were non-opinion, primarily as we do not give an opinion for follow-up audits on the areas that had received partial assurance previously.

For the completed 20 audits where we gave a reported audit opinion, we were pleased to provide the highest level 'Substantial Assurance' to 8, we gave 10 'Reasonable Assurance' and only 2 have been afforded a 'Partial Assurance'. The reviews that received Partial Assurance are;

- External Collections (Bailiffs)
- Wincanton Sports Centre

Since the audit of External Collections, the introduction of new legislation in April 2014 has provided a fresh opportunity to reassess procedures in line with audit findings which identified the need for a more corporate approach to managing external collections. A follow up audit is planned for next year.

Because of the large numbers of recommendations made as a result of the Wincanton Sports Centre Audit, a follow up review was completed later in the year. We are pleased to report that a substantial number of recommendations have been implemented by Leisure East Devon, with plans in place to complete the remaining few.

I am pleased to report that out of an audit plan of 419 days, there have been no significant corporate risks identified. There have been areas requiring improvements in control and in total SWAP provided management with 143 actions for the 2013/14 audits. Of these actions, only 11 were assessed as being above level 3 priority. A list of all of the audits planned and completed for 2013/14, their status and the assurance ratings provided are tabled in Appendix B. There are 2 reviews awaiting an opinion as they are in progress at the time of this report.

Annual Opinion:

The Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.

Audit Manager's Opinion (Continued)

It is not possible for the Annual Internal Audit Plan to cover and provide assurance on all areas of the Council's business. In order to seek assurance, the Head of Finance annually seeks the assurance of Senior Managers as to the adequacy of the internal control environment for their service areas. A signed Operational Statement has been returned for each service offering assurance that necessary controls are in place and operating as intended.

As identified already, all audit recommendations are entered onto the TEN system for monitoring by Management and this Committee. This process is based on a self assessment by the service manager and where target dates are not achieved and signed off; the Committee will call the relevant service manager to account.

Over the year SWAP have found the Senior Management of South Somerset District Council to be supportive of SWAP findings and responsive to the recommendations made. In addition there is a good relationship with Management whereby they feel they can approach SWAP openly into areas where they perceive potential problems and again welcome the opportunity to take on board recommendations for improvement.

I have considered the balance of audit work and outcomes against this environment and am able to offer ▲★★★ **Reasonable** assurance in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Only 2 audits received partial assurance (compared to 2 audits in 2012/13) and Management and Audit Committee will address these issues. It should also be noted that there were no fraud (theft) investigations required in 2013/14 which is indicative of the control environment at South Somerset.

South Somerset District Council Audit Plan Progress 2013/14

APPENDIX B

Audit Type	Audit Title	Quarter	Status	Opinion	No. of recs	Major - Recommendations - Minor				
						5	4	3	2	1
Governance	Boden Mill and Chard Regeneration Scheme Statement of Accounts	Qtr 1	Final	Non Opinion	0	0	0	0	0	0
Governance	Yeovil Crematorium and Cemetery Annual Return	Qtr 1	Final	Non Opinion	0	0	0	0	0	0
Operational	Fleet Workshop and Stores	Qtr 1	Final	Reasonable	5	0	0	4	1	0
Governance	Fighting Fraud Locally	Qtr 2	Final	Reasonable	8	0	0	8	0	0
Governance	Corporate Procurement Cards	Qtr 2	Final	Reasonable	10	0	0	7	3	0
Operational	Town Council Licensing Controls	Qtr 2	Final	Reasonable	13	0	1	11	1	0
Operational	Wincanton Sports Centre Income	Qtr 2	Final	Partial	35	0	8	23	4	0
Governance	Housing Benefits Fraud Prevention	Qtr 2	Final	Reasonable	11	0	0	7	4	0
Follow-Up	Better Contract Management Follow-Up	Qtr 3	Final	Non Opinion	0	0	0	0	0	0
Follow-Up	TEN Risk Management System Follow-Up	Qtr 3	Final	Non Opinion	0	0	0	0	0	0
Follow-Up	Contract Management Standing Orders Compliance Follow-Up	Qtr 3	Final	Non Opinion	0	0	0	0	0	0
IT Audits	Disaster Recovery Planning	Qtr 3	Final	Non Opinion	0	0	0	0	0	0
Operational	Payroll Service	Qtr 3	Final	Substantial	2	0	0	2	0	0
Governance	Unofficial Voluntary Funds	Qtr 3	Final	Non Opinion	0	0	0	0	0	0
Governance	External Collections	Qtr 3	Final	Partial	23	0	2	17	4	0
Governance	S106 Discharging Planning Obligations	Qtr 3	Final	Substantial	0	0	0	0	0	0
Governance	Business Rates - Managing New Risks and Liabilities Theme	Qtr 3	Draft	Substantial	2	0	0	0	2	0
Governance	Debt Management Theme	Qtr 4	Draft	Non Opinion	0	0	0	0	0	0
Governance	Cash Receipting & Bank Reconciliation (& Cash Collection Contract)	Qtr 4	Deferred	n/a	0	0	0	0	0	0
Governance	Asset Management - Leasing Theme	Qtr 4	Draft	Substantial	1	0	0	1	0	0
IT Audits	ICT Strategy	Qtr 4	Final	Reasonable	5	0	0	4	1	0
IT Audits	Event, Incident and Problem Management	Qtr 4	Final	Reasonable	5	0	0	5	0	0
Operational	Careline Income	Qtr 4	Final	Substantial	1	0	0	0	1	0
Operational	Car Parks Income	Qtr 4	Final	Substantial	1	0	0	1	0	0
Operational	Goldenstones / LED	Qtr 4	Final	Reasonable	13	0	0	13	0	0
Operational	Homelessness Prevention Income	Qtr 4	Final	Substantial	0	0	0	0	0	0
Operational	Licensing Income	Qtr 4	Final	Substantial	1	0	0	0	1	0
Operational	Octagon Theatre Income	Qtr 4	Final	Reasonable	3	0	0	1	2	0
Operational	Plant Nursery Income	Qtr 4	Draft	Reasonable	4	0	0	4	0	0
Governance	Resource Centre - Contract Compliance	Qtr 4	In Progress		0	0	0	0	0	0
Governance	Family Focus Theme	Qtr 4	In Progress		0	0	0	0	0	0
Follow-Up	Wincanton Sports Centre Follow-Up	Qtr 4	Final	Non opinion	0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

Substantial



I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Reasonable



I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Partial



I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

None



I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Committee – 26th June 2014

7. Internal Audit Charter Annual Review

Head of Service: Gerry Cox, Chief Executive - SWAP
Lead Officer: Andrew Ellins, Audit Manager
Contact Details: andrew.ellins@southwestaudit.co.uk

Purpose of the Report

It is a requirement that the Audit Committee approve the Internal Audit Charter annually.

This report has been prepared for the Audit Committee to review the Internal Audit Charter and approve the changes made.

Recommendation

That Audit Committee agree to the Revised Charter.

Background

The Charter sets out the nature, role, responsibility, status and authority of internal auditing within South Somerset District Council, and outlines the scope of internal audit work. Without an agreed Charter there is a risk that conflicts may occur due to unclear requirements and authorities.

The Charter was amended last year to reflect the new governance arrangements for SWAP Limited, together with new Public Sector Internal Audit Standards and some changes in role titles. These were agreed by Committee in August 2013.

There have been no amendments to the Charter since it was last approved.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None

Internal Audit Charter

1. Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within the Council - South Somerset District Council, and to outline the scope of internal audit work.

2. Approval

The Internal Audit Charter is reviewed each year by the Audit Committee to confirm it remains accurate and up to date. It was last reviewed by the Committee at its meeting on the 22nd August 2013. This was later than normal as there was a delay to account for SWAP changing its status to Ltd.

3. Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting (represented by a Councillor from each of the 12 Partners). The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

4. Responsibilities of Management and of Internal Audit

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Management¹

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit²

Internal audit is responsible for operating under the policies established by management in line with best practice.

¹ In this instance Management refers to the South Somerset DC Corporate Management Team

² The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for South Somerset District Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

5. Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

6. Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the Audit Manager also report to the Assistant Director – Finance and Corporate Services as Section 151 Officer, and reports to the Audit Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the SWAP Members Meeting.

7. Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of South Somerset District Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraising the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assisting management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether South Somerset District Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the Council in support of the Council's anti-fraud and corruption policy.

¹ In this instance Management refers to the South Somerset DC Corporate Management Team

² The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

8. Planning and Reporting

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Head of Service. SWAP will report at least four times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the S151 Officer and the Monitoring Officer (Assistant Director – Legal and Corporate Services) as well as to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the Council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the Audit Manager have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Chief Executive Officer or the External Audit Manager.

Revised August 2013

¹ In this instance Management refers to the South Somerset DC Corporate Management Team

² The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

Audit Committee – 26th June 2014

8. Review of Internal Audit

Chief Executive *Mark Williams*
Service Head: *Donna Parham, Assistant Director – Finance and Corporate Services*
Lead Officer: *Donna Parham, Assistant Director – Finance and Corporate Services*
Contact Details: *donna.parhamt@southsomerset.gov.uk or (01935) 462225*

Purpose of the Report

To inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2013-14.

Recommendation

That the Audit Committee notes the findings of the review.

Background

The South West Audit Partnership (SWAP) is a company wholly owned by its local authority partners 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.

Internal audit forms a part of the corporate governance and internal control framework that provides accountability to stakeholders on all areas of the Council Plan. Their opinion on the adequacy and effectiveness of the Council's internal control framework forms a part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2013-14, which will be published as part of the Council's Statement of Accounts in September 2014.

There are several statutory requirements regarding Internal Audit:

- The Accounts and Audit (England) Regulations 2011 require authorities to review the effectiveness of the system of Internal Audit. They also state "A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."
- Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the proper administration of those affairs." CIPFA has defined "proper administration" in that it should include "compliance with the statutory requirements for accounting and internal audit".
- The CIPFA Statement on the Role of the Chief Finance Officer in Local Government states that the Chief Finance Officer (CFO) must:
 - Ensure an effective internal audit function is resourced and maintained;

- Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- Support the authority's internal audit arrangements; and
- Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

Therefore it is important for the findings of the review of the effectiveness of the system of Internal Audit are considered by a committee such as the Audit Committee as a part of the consideration of the system of internal control. This review has to be carried out by someone independent of SWAP.

Compliance with PSIAS and Local Government Application Note

The Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note set out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Standards also refer to the wider elements of the "system of internal audit", including the importance of the direct relationship between Internal Audit and the Audit Committee. The Standards cover:

- Purpose, authority, and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality Assurance and Improvement Programme;
- Managing the Internal Audit Activity;
- Nature of Work;
- Engagement Planning;
- Performing the Engagement;
- Communicating Results;
- Monitoring Progress.

The Audit Charter for 2013-14 was revised in August 2013 and approved by the Audit Committee to comply with these new requirements. SWAP have a Quality Assessment Improvement Plan in place (as attached).

The Review of SWAP

South Somerset District Councils' review of Internal Audit has been carried out by the Assistant Director – Finance and Corporate Services (the Council's S151 Officer). The findings have been reported to the Corporate Governance Group as part of the overall evaluation and supporting evidence for the Annual Governance Statement. The following criteria were used in the evaluation:

- Annual report and opinion of the Head of Internal Audit;
- Audit plan and monitoring reports;
- Reports on significant findings;
- Key performance measures and service standards;
- Reports by the Council's External Auditor covering the extent of reliance placed on internal audit work on key financial systems.

It was found that overall the team performed well and that this view was supported by the comments of external auditors and client satisfaction. The table below shows some of the overall performance of the service during the year compared to the previous three years:

Performance Measure	2010/11	2011/12	2012/13	2013/14
Levels of satisfaction from feedback questionnaires	86.25%	84.0%	78.1%	85%
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	105% (39 out of 37)	91% (41 out of 45)	90% (36 out of 40)	86% (31 out of 36)
Total completed audits and reviews	49 (1 in progress)	45 (4 in progress)	40 (4 in progress)	36 (5 in progress)
Cost of audit service to SSDC	£156,500	£128,500	£117,300	£117,300
Number of actions for improvements agreed by managers	170	148	133	140
Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £299	SWAP = £280 Private Sector = £299

1. The table shows that the satisfaction with the audits carried out at SSDC has increased to 85% which is the target set by the Board where 75% is 'good'.
2. The slight reduction in the number of planned audits compared to the previous year despite the number of audit days remaining the same at 419 days, is due to the removal of the key control audits for more specific risk based audits.
3. The average number of actions for improvements per audit has increased slightly from 3 to 4 however, this is due to new higher risk areas being reviewed instead of key control audits that in recent years were getting very few if any recommendations for improvement.

Service Standards

In assessing SWAP's performance it is important to review the standards of service and that each authority is afforded the same standards and also senior officer time. The following table outlines the minimum standards to be introduced and whether they would have been delivered for South Somerset District Council had they been in place:

Service Standard	Expected Standard	Delivery of Standard
Attendance by SWAP Chief Executive / Director at Audit Committee.	At least 1 times per annum	1 time in 2013/14
Attendance by Audit Manager at Audit Committee	At least 4 times per annum	9 times in 2013/14
Attendance by SWAP Chief Executive at Corporate Governance Group	4 times per annum	The CEO for SWAP attended all Corporate Governance meetings in 2013/14
Liaison meetings with S151 Officer and Audit Manager	6 times per annum	6 times in 2013/14

Agreement of Audit Plan:		
Prepared for Management Board/S151	By mid January each year	Completed and approved in March 2014
Prepared for Audit Committee	By end January each year	Approved Revised Plan by Audit Committee in June 2014
Audit Plan monitoring reports	4 times per annum including Annual Report	4 times (quarterly report) per annum
Agreement of Audit Charter:		
Prepared for Management Board/S151	By mid January each year	Completed
Prepared for Audit Committee	By end January each year	Approved by Audit Committee in February 2014
To assist with member/officer training in audit and governance	Once per annum	SWAP provided Audit Committee Member training in June 2013

2013/14 Action Plan

The following shows progress *in italics* against the actions to be completed in 2013/14:

- SSDC has requested that the Devon Audit Partnership review the annual return and control environment as part of the assurance framework for the statement of accounts. This will be completed over the next few weeks.

Completed

- Update the Audit Charter to reflect the new Public Sector Internal Audit Standards (PSIAS) to be approved by the Audit Committee in June 2013.

Completed in August 2013

- To update and maintain the Quality Assurance and Improvement Programme (update attached) and report conformance with the PSIAS in October 2013.

Completed but not reported to Audit Committee

Opinion

It is the opinion of the Assistant Director – Finance and Corporate Services and the Corporate Governance Group that the system of internal audit is effective.

Actions to be completed in 2014/15

- To update and maintain the Quality Assurance and Improvement Programme (update attached).

Financial Implications

The financial implications can be found from existing budgets

SWAP Quality Assessment Improvement Plan (QAIP)

Final Action Plan

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
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.	Chief Executive	On-Going March 2015
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. In Progress - Intranet has only just been completed and going through final testing – Manual and procedure documents will be refreshed and uploaded.	Chief Executive	September 2013 On-Going
	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. In Progress – focus has been on Financial and HR Processes – others will be reviewed in line with above.	Chief Executive	September 2013 On-Going

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
	Whilst waiting for an MKi solution, I recommend that the Chief Executive 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. In Progress with above.	Chief Executive	October 2012 On-Going
While SWAP has a good process for Training, including a Strategy, it does not have a formal process for effectively measuring CPD.	I recommend that the Company Secretary introduces a framework whereby CPD can be demonstrated and monitored.	4	Agreed - Initial enquiries have been made with the IIA.	Company Secretary	Completed and On-Going
	I recommend that when devising in-house training courses that the Company Secretary ensures that they are assessed for CPD value.	4	Agreed – as and when internal courses are devised.	Company Secretary	Completed and On-Going
SWAP does not have a Document Retention Policy.	I recommend that the Chief Executive 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. As part of the development of the Intranet we are looking at the retention of documents.	Director of Planning and Performance.	December 2012 May 2014

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. Some clients have been seen but we have failed to complete this action and in some respects it will have lost its relevance – I would suggest that the questionnaire is re-launched.	SWAP Management Team	October 2012 June 2014
	I also recommend that the Chief Executive ensures that Directors follow up all scores assessed below 3 (Good) with individual Client Officers.	4	Agreed. As Above	SWAP Management Team	October 2012 June 2014
	In line conjunction with following up on scores assessed below 3 (Good), I recommend that the Chief Executive ensures that Directors follow up on all comments made with individual Client Officers.	4	Agreed. As Above	SWAP Management Team	October 2012 June 2014
The CEO does not have a Job Description.	I recommend that the Chair of the Management Board, in liaison with the Chief Executive draws up a Job Description and Personal Specification for the Chief Executive 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 Board	TBA

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
<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 Chief Executive 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>	Chief Executive	March 2015
	<p>The Chief Executive in conjunction with the Management Board should ensure that the QAIP is developed and reviewed at least annually to ensure continuous improvement.</p>	3	Agreed.	Chief Executive / SWAP Board	On-going

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
ACTIONS IN RESPONSE TO STAFF FEEDBACK:					
General Lack of Awareness of Planning Process.	The Company Secretary to ensure Induction Programme is updated to include an overview of the Audit Planning Process.	3		Company Secretary	Immediate and on-going May 2014
Quality and timeliness of reporting is not always adequate – (Source DCC Review, point 2, 3, 4, 5)	<p>There appears scope to improve the quality and timeliness of reporting, but raw performance figures need more detailed examination to assess where the problem lies and to bring greater clarity to the definitions used in reporting performance.</p> <p>Staff used to deliver the DCC internal audit plan should have suitable experience and skills relative to the degree of challenge posed by individual audit themes.</p> <p>The timing of delivery of audits within the plan is a factor that is crucial to getting the optimal benefits from audit work by providing information to the organisation on issues at points in the planning and delivery cycle when it is likely to be of greatest use.</p>	4	<p>We will continue to closely monitor SWAP performance through KPI's.</p> <p>The SDR and Performance process has been reviewed and refreshed. As part of this the IIA Competency Framework will be completed by each Member of staff to identify specific training needs. In addition in collaboration with DAP and SAG we are profiling staff skills and experience.</p> <p>A programme of Quality reviews are being completed by the GAM's and results fed back to staff, with individual performance issues being addressed.</p> <p>Review and maintenance of Audit Universe.</p>	SWAP Management Team/Board	On-going Immediate and on-going Immediate and on-going

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Partner Websites do not all have clear links to the SWAP website. (Source FFL Reviews)	Audit Managers have agreed to liaise with Client Officers to ensure there is a clear link from Partner Websites to SWAPs.	3	Agreed	SWAP Management Team/ Audit Managers	April 2014

Audit Committee – 26th June 2014

9. 2013/14 Annual Governance Statement

Chief Executive *Mark Williams*
Service Head: *Donna Parham, Assistant Director – Finance and Corporate Services*
Lead Officer: *Donna Parham, Assistant Director – Finance and Corporate Services*
Contact Details: *donna.parhamt@southsomerset.gov.uk or (01935) 462225*

Purpose of the Report

This report has been prepared for the Audit Committee to approve the Annual Governance Statement (AGS) for 2013/14.

Recommendation

To approve the 2013/14 Annual Governance Statement.

Background

As a local authority SSDC is required to demonstrate compliance with the underlying principles of good governance and that a framework exists to demonstrate this. One of the Councils requirements in demonstrating this is to produce an Annual Governance Statement (AGS).

The Chartered Institute of Public Finance and Accountancy (CIPFA) provides guidance on the processes for the establishment, operation and review of the system of internal control. Their guidance also provides help on the format and content of the AGS.

Annual Governance Statement

Regulation 4, of Accounts and Audit (England) Regulations 2011 includes a requirement to publish an Annual Governance Statement (AGS). The regulations require authorities to carry out a review of the effectiveness of their system of internal control and may include an Annual Governance Statement in the annual accounts. This is to provide assurance that SSDC has a sound internal control framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.

The statement also reflects the compliance with the “Statement on the Role of the Chief Finance Officer in Local Government (2010) and the CIPFA statement of the Role of the Head of Internal Audit (2010).” This is evidenced within the Annual Governance Statement where the authority meets with best practice.

The Annual Governance Statement will continue to be signed by the Leader of the Council, the Chief Executive. The framework used for this review is attached at Appendix A.

The Statement also reflects the new Public Sector Internal Audit Standards (PSIAS) introduced on the 1st April 2013. A revised Audit Charter that reflects these new standards was presented to Audit Committee in August 2013. The Standards also require a Quality Assurance and Improvement Programme which has been included within the Review of internal Audit and will be monitored by the Audit Committee. In October 2013 the Audit Committee approved a revised Local Code of Corporate

Governance. This updated the Council's code to reflect best practice. In producing the Annual Governance Statement reports from SSDC's external auditors, South West Audit Partnership, a review of the effectiveness of internal audit, the annual review of the Group Auditor, and a review of all Statements of Operational Service Internal Controls have been undertaken. The review has been completed by the Corporate Governance Group (the Chief Executive, Monitoring Officer, and S151 Officer). There are no significant issues to be addressed. Significant issues are issues that would be highlighted through the Corporate Governance Group, the S151 Officer, Internal Audit as a risk score of 5 or highlighted through the work of External Audit. The actions included within the Annual Governance Statement include those highlighted at a level 4 risk by Internal Audit as well as a number of actions are planned to further strengthen the control framework. The actions will be monitored and reviewed by the Audit Committee in 2014/15.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *Annual Governance Statement 2013/14*
 Local Code of Corporate Governance

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

SSDC is responsible for ensuring that:

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

SSDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, SSDC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

SSDC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework "*Delivering Good Governance in Local Government*". A copy of the authority's code can be obtained on request. This statement explains how SSDC has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

SSDC's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

The purpose of the governance framework

The governance framework comprises the systems and process, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process that is designed to:

- identify and prioritise the risks to the achievement of SSDC's policies, aims and objectives;
- evaluate the likelihood and potential impact of those risks being realised;
- managing the risks efficiently, effectively and economically.

The governance framework has been in place at SSDC for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

The governance environment

The key elements of SSDC's governance arrangements are outlined in the Local Code of Corporate Governance. The main areas and the key areas of evidence of delivery are as follows:

Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- The Council Plan sets out the priority areas for South Somerset District Council.
- Annual accounts are published on a timely basis to communicate the council's activities and achievements, its financial position and performance.
- Guidance has been produced to facilitate partnership working and a Partnership Register published and updated annually.
- All reports to be considered for approval must show a clear outline of purpose so the community can understand each committee report. All reports must have a clear outline of financial implications before consideration by members.

Members and officers working together to achieve a common purpose with clearly defined functions and roles

- The three statutory officers (Head of Paid Service, Monitoring Officer and s151 Officer) regularly meet as a Corporate Governance Group. The Monitoring Officer and s151 Officer report directly to the Head of Paid Service and are members of the senior Management Board.
- Regular weekly meetings between the Leader and Chief Executive in order to maintain a shared understanding of roles and objectives.
- An arrangement with East Devon District Council is in place for sharing a Chief Executive through a Section 113 agreement outlining the detail of function and role.
- Protocols developed and enforced to ensure effective communication between members and officers in their respective roles.
- Regular meetings between the Executive members and senior management.
- There is a clear scheme of delegation for officers and members within the Constitution.
- The s151 Officer leads the promotion and delivery of good financial management through Management Board, Corporate Performance Team, attendance at committees, is the lead office for the Audit Committee, and specialist workshops and training. The s151 Officer has line management responsibility for finance staff.

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- The financial management of the Council is conducted in accordance with the rules set out in Part 4 of the Constitution.
- The Council maintains an Internal Audit Service through the South West Audit Partnership (SWAP) that operates to standards specified by the Chartered Institute of Internal Auditors (CIIA) and the CIPFA statement of the Role of the Head of Internal Audit (2010) but with some delegation within SWAP.
- There is a countywide code of conduct and this will be regularly reviewed by the Standards Committee.
- There is a voluntary Standards Committee in place with an agreed constitution containing its terms of reference.
- Regular communication is made through Staff Awareness Sessions, Insite, and Team Brief.
- A Management Charter has been introduced and signed by all Managers and compliance will be reviewed through Staff Appraisal and Development Reviews.
- A Staff Charter will be introduced in 2013/14.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- The Council has adopted a Constitution that sets out how it operates, how decisions are taken and the procedures to follow.
- The District Executive facilitates decision-making and its Sub Committees, four Area Committees and meetings are open to the public except where personal or confidential matters are disclosed.
- Portfolio Holders can make decisions under delegated authority and these are fully publicised. Senior officers can also take decisions under delegated authority.
- Regulation Committee determines planning applications that are referred from Area Committees.
- The Council publishes a Forward Plan that provides details of key decisions to be made by the Council and its committees.
- Area Committees also hold regular workshops where local issues are identified and discussed.
- The Council has an approved a Risk Management Policy that identifies how risks are managed.
- Responsible officers are required to maintain their part of the Strategic Risk Register. The Strategic Risk Register is available to all Managers and elected Members.

- All Assistant Directors have the following included within their job descriptions, “Lead the service(s) in a full and comprehensive understanding of risk, risk assessment and risk management as it relates to the operational areas relevant to the service(s).”
- Any Internal Audit actions showing the highest risk score of 5 will be outlined annually and monitored within the Annual Governance Statement.

Developing the capacity and capability of members and officers to be effective

- The Council looks to develop skills on a continuing basis to improve performance of officers through the Staff Development and Appraisal Review process including the use of training and development plans.
- Succession planning encourages participation and development for members and officers.
- Through a comprehensive member training and development programme.
- An induction programme is in place for all new staff.
- Clear job descriptions and personal specifications are in place for all roles.
- The s151 Officer and five of the finance team are qualified accountants with several years’ experience. The finance function has sufficient resources to perform its role effectively.

Engaging the local people and other stakeholders to ensure robust public accountability

- Area Committees ensure further local accountability and local access.
- Budget consultation has been carried out for specific savings plans and equalities assessments carried out on each proposal.
- A summarised Statement of Accounts is published each year explaining the key financial areas to the public.

Review of effectiveness

SSDC has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Governance Group, Management Board and the Corporate Performance Team, who have responsibility for the development and maintenance of the governance environment, the annual report from the Head of Internal Audit (SWAP), and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied to maintaining and reviewing the effectiveness of the governance framework includes:

- The monitoring officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are adequate. The Council reviews the constitution annually through its Standards Committee.

- The Council has a Scrutiny Committee that can call in any decision made by an Executive Committee before implementation. This enables them to consider whether or not the decision is appropriate. Pre-decision scrutiny has evolved to aid in the decision making process.
- The Audit Committee reviews the Annual Statement of Accounts, the Review of the Effectiveness of Internal Audit, and the Annual Governance Statement. It monitors the performance of internal audit quarterly and agrees the Internal and External Audit Plans. It reviews specific parts of the Constitution and makes recommendations on any amendments to full Council.
- The Audit Committee has a call in role for any service that receives a “partial” or “no assurance” audit opinion and monitors the action plans are completed through regular reports from the Service Manager and Assistant Director.
- Internal Audit through SWAP is responsible for monitoring the quality and effectiveness of systems of internal control. The Audit Service has a Charter approved by the Audit Committee and there are no restrictions on the scope of their work. A risk model is used to formulate the plan and approved by the Audit Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the Service Manager with copies to the relevant Assistant Director, Assistant Director – Finance and Corporate Services, Assistant Director - Legal and Corporate Services, and Chief Executive. All audit reports include an ‘opinion’ that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports include recommendations for improvement that are detailed in an action plan that is agreed with the service manager.
- Internal Audit (SWAP) is subject to the Public Sector Internal Audit Standards (PSAIS). This includes an external assessment at least every five years. It requires an action plan to implement improvements and assess the efficiency and effectiveness of internal audit. This will be regularly reviewed by the Audit Committee.
- For performance management, a ‘traffic light’ monitoring and reporting system is in place reporting quarterly to the Executive Committee.
- The Council’s Financial Procedure Rules are kept under review and revised periodically – the last review was approved in April 2011.
- Each Manager and Assistant Director is required to review their adherence to the governance framework and demonstrate compliance through reviewing and signing a Statement of Internal Operational Control. Each return is assessed by S151 Officer for compliance and any apparent organisational improvements are included in the Governance Action Plan.
- Audit Committee has been advised on the implications of the result of the review of the effectiveness of the governance framework and a plan to address weaknesses and ensure continuous improvement of the system is in place.

We have been advised on the implications of the results of the **review of the effectiveness of the governance framework** by the Audit Committee and that the arrangements **continue to be regarded as fit for purpose in accordance with the**

governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below:

Already Addressed from 2012/13:-

- A refresh of the **Procurement Procedure Rules** to clarify Equalities responsibilities and include Internal Audit recommendations.
- Complete the **Fraud and Data Strategy** to link all anti-fraud work.
- Retender the **cash collection contract** by September 2013.
- Review **General Account reconciliations** as part of implementation of the **Cash Receipting System**.

Actions for 2013/14

Brought forward from 2012/13 - a refresh of the **Risk Management Strategy** and reporting risk management regularly to **Management Board** and **Audit Committee (November 2014)**;

Provide refresher training on **Data Protection** and **data encryption (October 2014)**.

Significant governance issues

There are no significant governance issues to report for 2013/14.

However, we propose over the coming year to take steps to address the actions outlined in our review to strengthen and enhance our governance arrangements. These actions will be monitored by the Audit Committee during 2014/15.

Signed on behalf of SSDC:

Mark Williams
Chief Executive

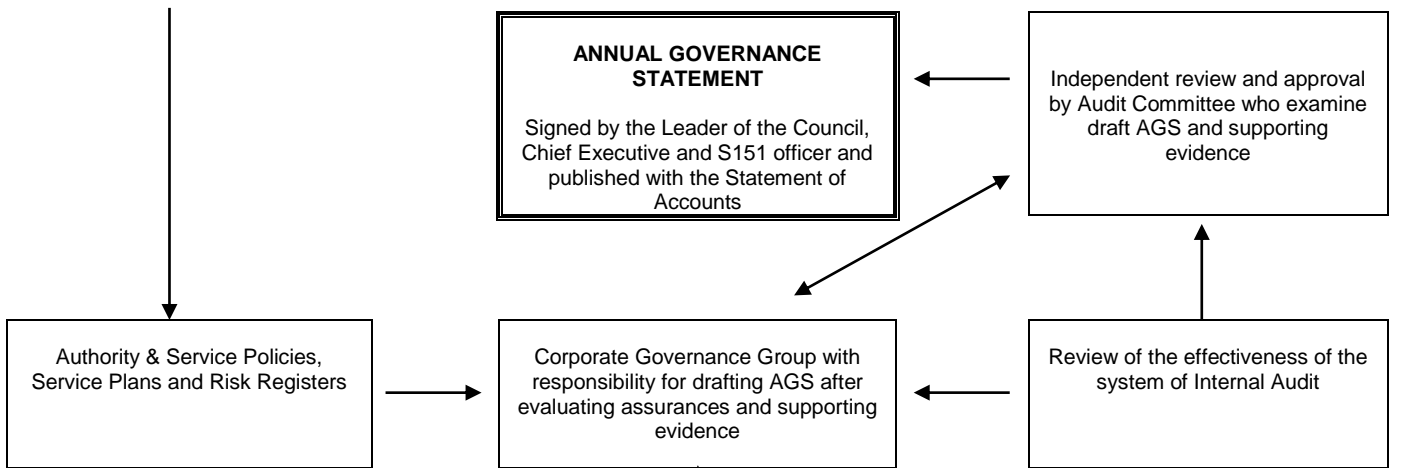
Cllr Ric Pallister
Leader



SSDC'S ANNUAL GOVERNANCE STATEMENT FRAMEWORK

Governance Framework – Key Documents/Functions

- | | | |
|--|---|--|
| <ul style="list-style-type: none"> ○ Constitution ○ Council Plan/Service Planning Framework ○ Business Transformation Projects ○ Access Strategy ○ Communication Strategy ○ Performance Management Framework ○ Schedule of Council Meetings ○ Local Code of Corporate Governance ○ Record of Decisions ○ Fraud and Data Strategy | <ul style="list-style-type: none"> ○ Partnership Register ○ Code of Conduct for Members ○ Members Induction & Training Programme ○ Code of Conduct for Employees ○ Officer and Member Protocols ○ Confidential Reporting Policy ○ Risk Management Strategy ○ Anti-Fraud & Corruption Policy ○ Whistleblowing Policy ○ Anti Money Laundering Policy ○ Anti Bribery Policy ○ Project Management Methodology | <ul style="list-style-type: none"> ○ Capital Strategy ○ Procurement Strategy ○ Medium Term Financial Plan/Strategy ○ Treasury Management Strategy Statement, MRP Strategy, and Annual Investment Strategy ○ Annual Statement of Accounts ○ Financial Procedure Rules ○ Procurement Procedure Rules ○ Scheme of Delegation ○ Complaints Procedure ○ Equalities Plan |
|--|---|--|



Performance Management	Risk Management	Information Governance	Legal and Regulatory Assurance	Members' Assurance
<ul style="list-style-type: none"> • Embedded system • Operates throughout the organisation • Internal and external reviews • Action orientated • Local PI's • Periodic progress reports 	<ul style="list-style-type: none"> • Risk management strategy • Embedded in planning processes and project/partnership methodologies • Effectiveness evaluated • Outcomes reported to committee • Training programme 	<ul style="list-style-type: none"> • Training programme • Outcomes reported to committee 	<ul style="list-style-type: none"> • Monitoring Officer's reports • Sections of committee reports • Legal advice 	<ul style="list-style-type: none"> • Standards committee • Audit committee • Scrutiny function
Assurances by Directors/ Heads of Service	Other Sources of Assurance (including third party)	Financial Management	Internal Audit	External Audit
<ul style="list-style-type: none"> • Periodic reports • Statement of operational service internal control 	<ul style="list-style-type: none"> • Reports by inspectors • Service review reports • Fraud reports and investigations • Ombudsman reports • Post implementation reviews of projects 	<ul style="list-style-type: none"> • Medium Term Financial Plan • Revenue Budget and Capital Programme • Revenue and Capital Management reports • Treasury management • Statement of accounts • Compliance with codes of accounting practice • Statutory returns • Grant claims 	<ul style="list-style-type: none"> • Operates under approved terms of reference • Approved risk-based plans • Periodic and annual reports to Audit Committee, Group Auditor Opinion • PSIAS code compliance assessment • Has an active Quality Assurance and Improvement Programme in place • Operates under an Internal Audit Charter 	<ul style="list-style-type: none"> • Annual Plan • Annual Governance Report • Audit Letter • Audit Opinion and VFM conclusion

Ongoing assurance on adequacy and effectiveness of control over key risks

Audit Committee – 26th June 2014

10. 2013/14 Treasury Management Activity Report

Chief Executive: Mark Williams
Assistant Director: Donna Parham – Finance and Corporate Services
Service Manager: Amanda Card - Finance
Lead Officer: Karen Gubbins, Principal Accountant - Exchequer
Contact Details: karen.gubbins@southsomerset.gov.uk or (01935) 462456

Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the 2013/14 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Strategy and Annual Investment Policy and Treasury Management Practices.

Recommendations

2. The Audit Committee are asked to:
 - Note the Treasury Management Activity for the 2013/14 financial year;
 - Note the position of the individual prudential indicators for the 2013/14 financial year;
 - Note the outlook for the investment performance in 2014/15;
 - Recommend the 2013/14 Treasury Management Activity Report to full Council.

Background

3. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. Treasury management in this context is defined as:

"The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".
5. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
6. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

Summary of Investment Strategy for 2013/14

7. The Council's strategy for investments was based upon minimising risk and safeguarding the capital sum. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.
8. Investments with banks and building societies were primarily fixed-rate term deposits and certificates of deposit. The maximum duration of these investments was 12 months in line with the prevailing credit outlook during the year as well as market conditions.
9. In addition, the Authority invested £4m with organisations and pooled funds without credit ratings, these included Payden and CCLA (Property fund) following external assessment and advice from the Authority's treasury management adviser, Arlingclose.
10. The Treasury Management Strategy Statement and Annual Investment Policy were both approved by Council on 21st March 2013.

Credit developments and credit risk management

11. The Authority assessed and monitored counterparty credit quality with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP and share price. The minimum long-term counterparty credit rating determined by the Authority for the 2013/14 treasury strategy was A- across rating agencies Fitch, S&P and Moody's.
12. The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors.
13. Proposals were also announced for EU regulatory reforms to Money Market Funds which may result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper in the future.
14. The material changes to UK banks' creditworthiness were (a) the strong progress made by the Lloyds Banking Group in strengthening its balance sheet, profitability and funding positions and the government reducing its shareholding in the Group to under 25%, (b) the announcement by Royal Bank of Scotland of the creation of an internal bad bank to house its riskiest assets (this amounted to a material extension of RBS' long-running restructuring, further delaying the bank's return to profitability) and (c) substantial losses at Co-op Bank which forced the bank to undertake a liability management exercise to raise further capital and a debt restructure which entailed junior bondholders being bailed-in as part of the restructuring.
15. In July Moody's placed the A3 long-term ratings (equivalent to A- under Fitch & S&P) of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial

strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Authority reduced its duration to overnight for new investments with the bank(s). In March Moody's downgraded the long-term ratings of both banks to Baa1. As this rating is below the Authority's minimum credit criterion of A-, the banks were withdrawn from the counterparty list for further investment. NatWest is the Authority's banker and will continue to be used for operational and liquidity purposes.

Interest Rates 2013/14

16. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels which continued to have a significant impact on investment income. The average 3-month LIBID rate during 2013/14 was 0.45%, the 6-month LIBID rate averaged 0.53% and the 1-year LIBID rate averaged 0.78%. The low rates of return on the Authority's short-dated money market investments reflect prevailing market conditions and the Authority's objective of optimising returns commensurate with the principles of security and liquidity.

17. Our advisors are forecasting that the outlook is for official interest rates to remain at 0.5% until June 2016, as shown below:

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Jun-17
Official Bank Rate												
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Downside risk									0.25	0.25	0.50	0.50

Investment Portfolio

18. The table below shows the Council's portfolio of investments at the start and end of the 2013/14 financial year:

	Value of Investments at 01.04.13 £	Value of Investments at 31.03.14 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
World Bonds	3,028,271	0	Fixed
Certificates of Deposit	8,501,524	6,519,416	Fixed
Money Market Fund (Variable Net Asset Value)	1,000,000	997,565	Variable
Property Fund		3,052,479	Variable
Corporate Bonds		8,127,004	Fixed
Floating Rate Notes (FRNs)	5,985,000	3,006,315	Variable
Total	18,514,795	21,702,779	
Internal Investments			
Short Term Deposits (Banks)	12,000,000	9,000,000	Variable
Short Term Deposits (Other LAs)	5,000,000	5,000,000	Variable
Money Market Funds (Constant Net Asset Value & Business Reserve Accounts)	3,810,000	7,690,000	Variable
Total	20,810,000	21,690,000	
TOTAL INVESTMENTS	39,324,795	43,392,779	

Returns for 2013/14

19. The returns to 31st March 2014 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
World Bonds	17	0.80
Certificates of Deposit (CD's)	51	0.59
Payden Money Market Fund (VNAV)	9	0.89
Property Fund (CCLA)	61	4.80
Corporate Bonds	50	1.08
Floating Rate Notes (FRNs)	53	0.77
Total	<u>241</u>	
Internal Investments		
Fixed Term Deposits	116	0.71
Money Market Funds (CNAV) & Business	61	0.61
Reserve Accounts		
Total	<u>177</u>	
Other Interest		
Miscellaneous Loans	14	
Total	<u>14</u>	
TOTAL INCOME TO 31st MARCH 2014	<u><u>432</u></u>	0.82
BUDGETED INCOME	<u><u>314</u></u>	
SURPLUS	118	

20. The table above shows investment income for the year compared to the budget. The figures show a surplus over budget of £118,000.

21. The outturn position is affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of capital expenditure and the collection of council tax and business rate.

22. The original Treasury Management budget of £313,900 was derived by forecasting an average rate of return of 0.60%. The actual interest rate received for the year was 0.82%.

Investments

23. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14. New investments can be made with the following institutions:

- Other Local Authorities;
- AAA-rated Money Market Funds;

- Certificates of Deposit (CDs) and Term Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australian, Canadian and American);
- T-Bills and DMADF (Debt Management Office);
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank;
- Commercial Paper;
- Other Money Market Funds and Collective Investment Schemes meeting the criteria in SI 2004 No 534, SI 2007 No 573 and subsequent amendments.

24. The graph shown in appendix A shows the performance of the in-house Treasury team in respect of all investments for the quarter ending 31st March 2014 in comparison to all other clients of Arlingclose.

25. The graph shows that SSDC is in a very good position in terms of the risk taken against the return on investments.

Borrowing

26. An actual overall borrowing requirement (CFR) of £9.7 million was identified at the beginning of 2013/14. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 31st March 2014 the Council had no external borrowing.

Breakdown of investments as at 31ST March 2014

Date Lent	Counterparty	Amount	Rate %	Maturity Date
17 Feb 14	Barclays Bank Plc	1,000,000	0.85	17 Feb 15
17 Jul 13	Barclays Bank Plc	1,000,000	0.85	17 Jul 14
7 Nov 13	Barclays Bank Plc	1,000,000	0.86	7 Nov 14
12 Aug 13	Nationwide Building Society	1,000,000	0.72	12 Aug 14
30 Sep 13	Birmingham City Council	1,000,000	0.50	26 Sep 14
28 Mar 14	Bank of Scotland	1,000,000	0.70	29 Sep 14
3 Jun 13	Nationwide Building Society	1,000,000	0.70	3 Jun 14
2 Jan 14	Bank of Scotland	1,000,000	0.75	2 Jul 14
25 Oct 13	Lancashire County Council	1,000,000	0.55	24 Oct 14
4 Mar 14	Santander UK Plc	1,000,000	0.60	4 Sep 14
11 Dec 13	Lancashire County Council	1,000,000	0.60	5 Nov 14
6 Jan 14	Greater London Authority	2,000,000	1.03	6 Oct 15
31 Mar 14	Bank of Scotland	1,000,000	0.95	27 Mar 15
	Corporate Bonds			
7 Aug 13	Vodafone Group Plc	1,042,239	1.02	8 Sep 14
10 Dec 13	GE Capital UK Funding	1,065,903	1.42	18 Jan 16
20 Dec 13	Lloyds TSB Bank Plc	824,655	0.61	15 Apr 14
17 Jan 14	Places for People Capital Markets	1,069,895	2.67	27 Dec 16
10 Feb 14	Thames Water Utilities Finance Ltd	475,977	1.02	30 Jun 15
10 Feb 14	Heathrow Funding Ltd	1,030,012	1.16	8 Jun 15
10 Feb 14	Volkswagen International Finance NV	507,258	0.88	19 Dec 14
17 Feb 14	National Australia Bank Ltd	1,047,401	0.62	8 Dec 14
7 Mar 14	Standard Chartered Plc	1,063,664	0.52	28 Apr 14
	Certificates of Deposit (CDs)			
6 Jun 13	Deutsche Bank LDN	1,005,718	0.62	5 Jun 14
5 Jun 13	Rabobank	1,005,567	0.60	4 Jun 14
15 Aug 13	Rabobank	1,004,792	0.62	13 Aug 14
14 Feb 14	Deutsche Bank LDN	1,001,509	0.70	16 Feb 15
7 Mar 14	Standard Chartered	1,500,977	0.56	8 Sep 14
24 Mar 14	Barclays Bank Plc	1,000,853	0.87	25 Mar 15
	Floating Rate Notes (FRNs)			
16 Jul 13	Rabobank - 3mth Libor + 13bp	1,001,589	0.68	6 Jun 14
25 Nov 13	HSBC Bank Plc - 3 mth Libor + 28bp	1,003,820	0.83	16 May 16
25 Feb 14	Volkswagen Financial Services NV – 3mth Libor + 17bp	1,000,906	0.72	14 May 14
	Pooled Funds & Money Market Funds			
	Payden Fund VNAV	997,565	0.89	
	CCLA Property Fund	3,052,479	4.80	
	Santander Business Reserve	2,990,000	0.59	
	Handelsbanken	4,000,000	0.59	
	Federated Money Market Fund	700,000	0.41	
		43,392,779		

* Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate

Prudential Indicators – 2013/14**Background:**

27. In March 2013, Full Council approved the indicators for 2013/14, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

Prudential Indicator 1 - Capital Expenditure:

28. The actual capital expenditure incurred for 2013/14 compared to the original estimate was:

	2012/13 Outturn £'000	2013/14 Original Estimate £'000	2013/14 Outturn £'000	2013/14 Variance £'000	Reason for Variance
Approved capital schemes	3,078	2,140	2,244	104	There was slippage on the original programme but this was compensated by projects being moved from the reserve schemes and new in year bids being approved. The new bids included: Disaster Recovery & Business Continuity, Microsoft Lync and Northgate Business Rates Software.
Total Expenditure	3,078	2,140	2,244	104	

Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:

29. A comparison needs to be made between financing capital costs and the revenue income stream to support these costs. This shows how much of the revenue budget is committed to the servicing of finance.

Portfolio	2012/13 Outturn £'000	2013/14 Original Estimate £'000	2013/14 Outturn £'000	2013/14 Variance £'000	Reason for Variance
Financing Costs	(277)	(193)	(259)	(66)	Increased income on investments
Net Revenue Stream	17,102	17,955	19,082	1,127	Carry Forwards approved from 2012/13 and incorporated within the budget for 2013/14
%*	(1.6)	(1.1)	(1.4)		

*figures in brackets denote income through receipts and reserves

30. The financing costs include interest payable and notional amounts set aside to repay debt less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for SSDC but is nevertheless relevant since it shows the extent to which the Council is dependent on investment income.

Prudential Indicator 3 - Capital Financing Requirement:

31. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The year-end capital financing requirement for the council is shown below:

	2012/13 Outturn restated £'000	2013/14 Original Estimate £'000	2013/14 Outturn £'000	2013/14 Variance £'000	Reason for Variance
Opening CFR	9,502	9,666	9,499	(167)	The original estimate was based on the information held at the time which turned out to be higher than the 2012/13 actual closing balance
Capital Expenditure	3,077	3,202	3,892	690	Additional expenditure due to in year bids being approved and items being moved to the main programmed from the reserve schemes
Capital Receipts*	(1,590)	(1,744)	(2,244)	(500)	An increase in capital expenditure has increased the amount of capital receipts needed to fund these
Grants/Contributions*	(1,487)	(1,458)	(1,648)	(190)	
Minimum Revenue Position (MRP)	(148)	(121)	(173)	(52)	Additional leases have incurred additional MRP
Additional Leases taken on during the year	145	0	298	298	New leases relating to Mower, Transit Tipper box van and Printers
Closing CFR	9,499	9,545	9,624	79	

*Figures in brackets denote income through receipts or reserves.

Prudential Indicator 4 – Net external Borrowing compared to the medium term Capital Financing Requirement:

32. The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2012/13 Outturn £'000	2013/14 Original Estimate £'000	2013/14 Outturn £'000	2013/14 Variance £'000	Reason for Variance
Net Borrowing	(38,939)	(38,910)	(43,569)	(4,659)	The estimate was a prediction of the year-end balance based on a forecast usage of capital resources. There was slippage on the capital budget.
CFR	9,656	9,545	9,624	79	See explanations for indicator 3 above

33. The figures above in brackets described as net borrowing actually represent net investments. Our net borrowing is forecast to remain as net investment for the foreseeable future and therefore will not at any time be in excess of the capital financing requirement.

Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

34. The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. For this purpose, term deposits of less than 365 days are deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

	2012/13 Actual %	2013/14 % Limit	2013/14 Actual %	2013/14 Variance %	Reason for Variance
Fixed	7.7	80	13	(67)	Within limit
Variable	92.3	100	87	(13)	Within limit

35. The Council must also set limits to reflect any borrowing we may undertake.

	2012/13 Actual %	2013/14 % Limit	2013/14 Actual %	2013/14 Variance %	Reason for Variance
Fixed	0	100	0	100	SSDC currently has no borrowing
Variable	0	100	0	100	SSDC currently has no borrowing

36. The indicator has been set at 100% to maximise opportunities for future debt as they arise.

Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:

37. SSSC must also set upper limits for any investments of longer than 364 days. The purpose of this indicator is to ensure that SSSC, at any time, has sufficient liquidity to meet all of its financial commitments.

Upper Limit for total principal sums invested over 364 days	2012/13 Actual £'000	2013/14 Maximum Limit £'000	2013/14 Actual £'000	Variance £'000	Reason for Variance
Between 1-2 years	0	25,000	4,572	(20,428)	Within limit
Between 2-3 years	0	20,000	2,074	(17,926)	Within limit
Between 3-4 years	0	10,000	0	(10,000)	Within limit
Between 4-5 years	0	10,000	0	(10,000)	Within limit
Over 5 years	0	5,000	0	(5,000)	Within limit

38. The table above shows that the Council adopts a policy of safeguarding its investments by minimising investments that are redeemable more than five years ahead.

Prudential Indicator 7 – Credit Risk:

39. The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Prudential Indicator 8 - Actual External Debt:

40. This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2014	£'000
Borrowing	0
Other Long-term Liabilities (Finance Leases)	511
Total	511

Prudential Indicator 9 - Authorised Limit for External Debt:

41. This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A ceiling of £12 million was set for each year.

	2012/13 Actual £'000	2013/14 Original Estimate £'000	2013/14 Actual £'000	2013/14 Variance £'000	Reason for Variance
Borrowing	0	11,000	0	(11,000)	SSDC currently has no borrowing
Other Long-term Liabilities	386	1,000	511	(489)	Within limit
Total	386	12,000	511	(11,489)	

Prudential Indicator 10 – Operational Boundary for External Debt:

42. The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million for each of the next three years was set.

	2012/13 Actual £'000	2013/14 Original Estimate £'000	2013/14 Actual £'000	2013/14 Variance £'000	Reason for Variance
Borrowing	0	9,200	0	(9,200)	SSDC currently has no borrowing
Other Long-term Liabilities	386	800	511	(289)	Within limit
Total	386	10,000	511	(9,289)	

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

43. This indicator is relevant when we borrow, then we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

Maturity structure of fixed rate borrowing	2012/13 Upper Limit %	2013/14 Lower Limit %	2013/14 Actual %	2013/14 Variance %
Under 12 months	100	0	0	Not applicable
12 months and within 24 months	100	0	0	Not applicable
24 months and within 5 years	100	0	0	Not applicable
5 years and within 10 years	100	0	0	Not applicable
10 years and within 20 years	100	0	0	Not applicable
20 years and within 30 years	100	0	0	Not applicable
30 years and within 40 years	100	0	0	Not applicable
40 years and within 50 years	100	0	0	Not applicable
50 years and above	100	0	0	Not applicable

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

44. SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figure below actually shows the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

Incremental Impact of Capital Investment Decisions	2012/13 Actual £	2013/14 Original Estimate £	2013/14 Actual £	2013/14 Variance £
Decrease in Band D Council Tax	0.65	0.47	0.29	(0.18)

Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:

45. This indicator demonstrates that the Council has adopted the principles of best practice.

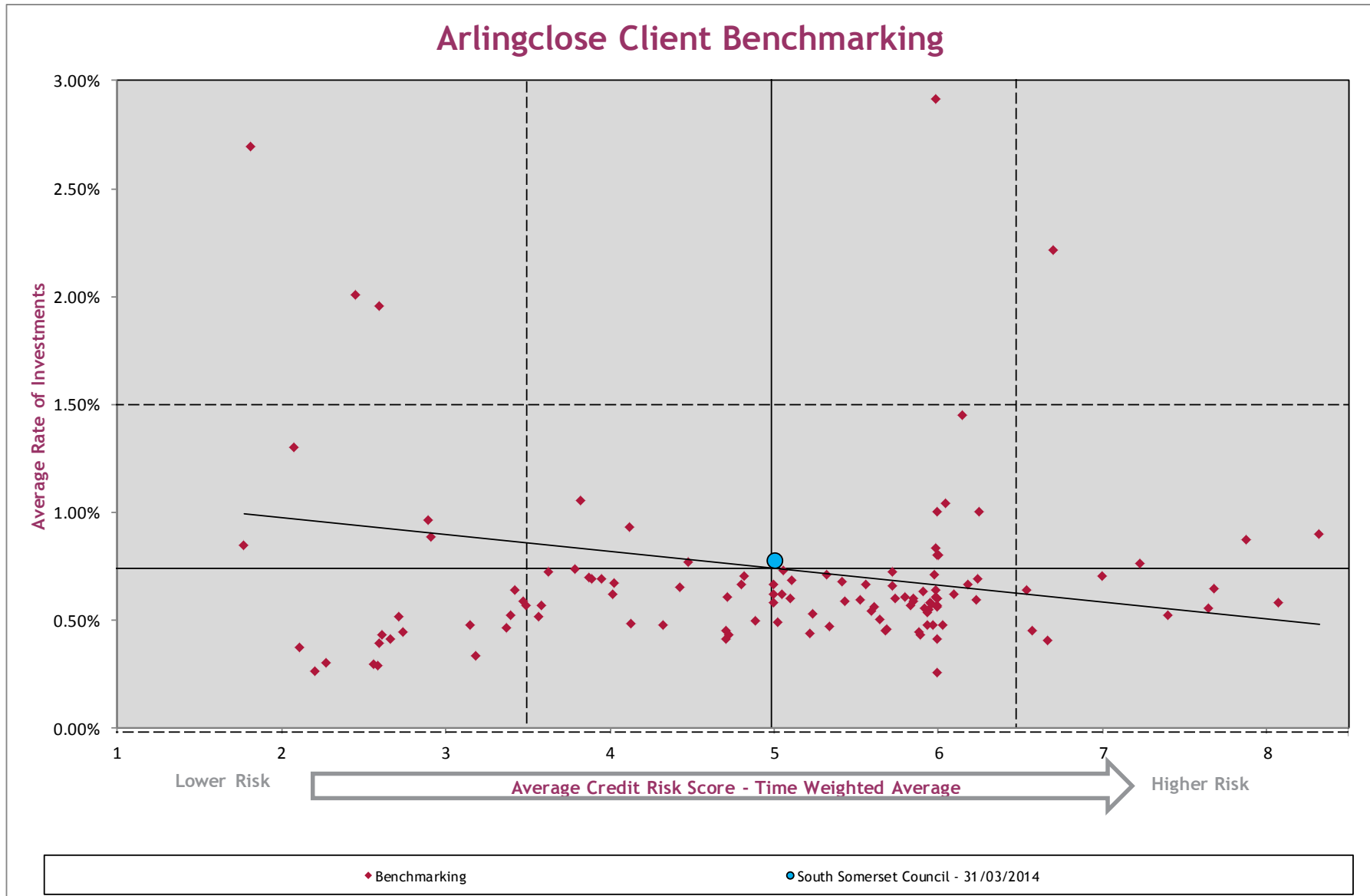
Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 th April 2002.

Conclusion

46. The council operated within all of the Prudential Indicators during 2013/14

Background Papers: *Prudential Indicators Working Paper, Treasury Management Strategy Statement 2013/14*

Appendix A



Audit Committee – 26th June 2014

11. Audit Committee 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:-

1. 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.

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee – 26th June 2014

Appendix A

Audit Committee Forward Plan

Committee Date	Responsible Officer
24 July 2014 <ul style="list-style-type: none"> • Review exemptions given through Procurement Procedure Rules 2013/14 • Register of staff interests – Annual Review • Risk Management Update • Debt Write Offs Report 	Gary Russ Ian Clarke Gary Russ Amanda Card
28 August 2014 <ul style="list-style-type: none"> • Treasury Management – First quarter monitoring report • Internal Audit – First quarter update • Annual Governance Statement Action Plan • Financial Procedure Rules 2013/14 	Karen Gubbins Andrew Ellins Donna Parham Donna Parham
25 September 2014 <ul style="list-style-type: none"> • Treasury Management Practices • Approve Annual Statement of Accounts • Approve Summary of Accounts • External Audit Annual Governance Report • <i>External Audit - Value for Money (VFM) conclusion to include an update of the Council's financial resilience and a comparison of how well similar councils are doing</i> Mid-year review of Treasury Strategy – Needs to go on to Full Council	Karen Gubbins Amanda Card Amanda Card Donna Parham Donna Parham Karen Gubbins
23 October 2014 <ul style="list-style-type: none"> • Annual Audit Letter • Update on Debt Management 	Donna Parham Karen Gubbins
27 November 2014 <ul style="list-style-type: none"> • Treasury Management – Second quarter monitoring report • Internal Audit – second quarter and half year update • Annual Governance Statement Action Plan • Risk Management Update 	Karen Gubbins Karen Gubbins Andrew Ellins Donna Parham Gary Russ
18 December 2014 TBC	
22 January 2015 <ul style="list-style-type: none"> • Annual Fraud Programme 	Tom Chown/Lynda Creek

<p>26 February 2015</p> <ul style="list-style-type: none"> • Treasury Management Strategy and Prudential Indicators for 2014/15 – Needs to go to Full Council in March • Annual Governance Statement Action Plan • Treasury Management – Third quarter monitoring report • Internal Audit – third quarter update • Internal Audit Plan – approve 14/15 plan • Internal Audit - Charter • External Audit – Audit Plan • External Audit – Certification of Housing Benefit Subsidy Claim 	<p>Karen Gubbins</p> <p>Donna Parham Karen Gubbins</p> <p>Andrew Ellins Andrew Ellins Andrew Ellins Donna Parham Donna Parham</p>
<p>26 March 2015</p> <ul style="list-style-type: none"> • Risk Management Update • Health, Safety, and Welfare (Annual Report) 	<p>Gary Russ Pam Harvey</p>

Pending – Update on Community Infrastructure Levy

Audit Committee – 26th June 2014

12. Date of Next Meeting

The next scheduled meeting of the Audit Committee will be held on Thursday 24th July 2014 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.
