



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY 15TH DECEMBER 2011, AT 6.00 P.M.

CONFERENCE ROOM, THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

MEMBERS: Councillors L. C. R. Mallett (Chairman), J. S. Brogan (Vice-Chairman), Ms. M. T. Buxton, Dr. B. T. Cooper, S. J. Dudley, Miss P. A. Harrison and Mrs. H. J. Jones

AGENDA

1. Apologies for absence
2. Declarations of Interest
3. To confirm the accuracy of the minutes of the meeting of the Audit Board held on 9th June 2011 (Pages 1 – 4)
4. Protecting the Public Purse: Fighting Fraud against Local Government (Pages 5 - 18)
5. Corporate Anti Fraud Performance Report 2010 - 2011 (Pages 19 - 24)
6. Internal Audit Monitoring Report (Pages 25 - 48)
7. Treasury Management Outturn Report (Pages 49 - 62)
8. To consider any other business, details of which have been notified to the Head of Legal, Equalities and Democratic Services prior to the commencement of the meeting and which the Chairman, by reason of special circumstances, considers to be of so urgent a nature that it cannot wait until the next meeting

K. DICKS
Chief Executive

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

7th December 2011

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Agenda Item 3

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY, 9TH JUNE 2011 AT 6.00 P.M.

PRESENT: Councillors J. S. Brogan, S. Dudley, Miss P. A. Harrison and L. Mallett

Officers: Ms. J. Pickering, Ms. M. Wall, Mr. A. Bromage and Ms. P. Ross

1/11 **ELECTION OF CHAIRMAN**

RESOLVED that Councillor L. Mallett be elected Chairman of the Board for the ensuing municipal year.

2/11 **ELECTION OF VICE-CHAIRMAN**

RESOLVED that Councillor J. S. Brogan be elected Vice-Chairman of the Board for the ensuing municipal year.

3/11 **APOLOGIES**

Apologies for absence were received from Councillors Ms. M. T. Buxton, Dr. B. T. Cooper, Mrs. H. J. Jones and R. Hollingworth, Portfolio Holder for Finance, Partnerships and Economic Development.

4/11 **DECLARATIONS OF INTEREST**

No declarations of interest were received.

5/11 **MINUTES**

The minutes of the meeting of the Audit Board held on 11th April 2011 were submitted.

RESOLVED that the minutes be approved as a correct record.

6/11 **BRIBERY ACT 2010**

Members considered a report that provided the information necessary to prepare the Council to implement processes and procedures to ensure compliance with the Bribery Act 2010 that would come into effect on 1st July 2011.

The Fraud Services Manager presented the report and informed Members that Local Authorities were not exempt from the Bribery Act 2003, as they were 'formed' within the United Kingdom and conducted business. She informed Members of 'The Six Principles' that the Council should comply with in order to have a level of defence:

- Proportionality
- Top Level Commitment
- Risk Assessment
- Due Diligence
- Communication
- Monitoring and Review

The Fraud Services Manager responded to Councillor J. S. Brogan and confirmed that the 3 month implementation period was from 31st March 2011 to 30th June 2011 and not 31st March 2011 to 30th June 2010 as shown in section 2.1 of the report.

RESOLVED that the information as set out in Appendix A to the report be noted and that the implications of the Bribery Act 2010 be included in future Council strategies.

RECOMMENDED that procedures be put in place to avert any possible actions against the Council, in relation to Bribery actions and in relation to potential legal actions that could be taken against the Council for not having 'adequate' procedures in place.

7/11

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) UPDATE AND DRAFT ACCOUNTING STANDARDS

Consideration was given to a report which requested Members to note progress made in the implementation of the new International Financial Reporting Standards (IFRS) and to approve the proposed draft Accounting Standards in preparation for the 2010/2011 Accounts.

The Executive Director Finance and Corporate Resources presented the report and informed Members that officers had completed the following work; reinstatement of the 2008/2009 balance sheet and the 2009/2010 accounting statements. This had included a review of all Asset Categories and the production of a new Asset Register on the IFRS basis.

RECOMMENDED:

- (a) that the current position with regard to the implementation of International Financial Reporting Standards (IFRS), be noted; and
- (b) that the Accounting Policies as set out in Appendix 1 to the report, be approved.

8/11 **INTERNAL AUDIT MANAGER'S - DRAFT AUDIT OPINION 2010/2011**

Members considered a report which detailed the draft 2010/2011 Acting Worcestershire Internal Audit Shared Services Manager's Opinion to be included as part of the Annual Governance Statement and included with the Statement of Accounts for 2010/2011.

Mr. A. Bromage, Worcestershire Internal Audit Shared Service, Audit Manager presented the report and informed Members that based on the audits performed in accordance with the approved revised plan, he had concluded that the internal control arrangements during 2010/2011 effectively managed the principal risks identified in the audit plan and could be reasonably relied upon to ensure that the Council's corporate objectives had been met. He informed Members that all of the completed audits had been allocated an opinion of either 'Full' or 'Significant' Assurance which meant that there was a generally sound system of internal control in place, no significant control issues had been encountered and no material losses had been identified during a time of significant transformation and change.

RESOLVED that the Internal Audit Opinion to be included in the Annual Governance Statement as set out in Appendix 1 to the report, be noted.

9/11 **INTERNAL AUDIT PERFORMANCE AND WORKLOAD 2010/2011**

Consideration was given to a report that provided the Internal Audit Out-turn statement for the period 1st April 2010 to 31st March 2011.

The Executive Director Finance and Corporate Resources and Mr. A. Bromage, Worcestershire Internal Audit Shared Service, Audit Manager responded to Members' questions regarding the significant time placed in the 'management' budget.

RESOLVED:

- (a) that the revised Internal Audit Plan 2011/2012 approved by the Audit Board during its meeting held on 11th April 2011 be presented to the next meeting of the Audit Board; and
- (b) that the Internal Audit Out-turn Statement for the period 1st April 2010 to 31st March 2011 be noted.

10/11 **RISK MANAGEMENT TRACKER - QUARTER 4**

Members considered a report which presented an end of year overview in relation to Actions/Improvements (actions) as detailed in the service area risk registers for the period 1st April 2010 to 31st March 2011. Members were asked to note that Regulatory Services were currently not included within the risk management process to allow for the shared service to be fully embedded.

The Executive Director Finance and Corporate Resources and Mr. A. Bromage, Worcestershire Internal Audit Shared Service, Audit Manager

responded to Members' questions regarding the 46 actions excluded during the course of the year, as detailed in section 4.4 of the report.

RESOLVED:

- (a) that the Worcestershire Internal Audit Shared Service, Audit Manager be tasked to provide details of the 46 actions excluded during the course of the year to the next meeting of the Audit Board; and
- (b) that the end of year position for all service area risk registers for 1st April 2010 to 31st March 2011, be noted.

11/11 **LOCAL GOVERNMENT ACT 1972**

RESOLVED that under Section 100 I of the Local Government Act 1972, as amended, the public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act, as amended, the relevant paragraph of that part, being as set out below, and that it is in the public interest to do so:-

<u>Item No.</u>	<u>Paragraphs</u>
12	3

12/11 **RECOMMENDATION TRACKER**

Members considered a report presenting a summary of progress to date against audit report "priority one" and key "priority two" findings and agreed actions.

Members were asked to note that for the audits completed as part of the 2010/2011 Annual Audit Plan there were no "priority one" or key "priority two" actions to report.

The Executive Director Finance and Corporate Resources and Mr. A. Bromage, Worcestershire Internal Audit Shared Service, Audit Manager responded to Members' questions regarding the revised target completion dates.

RESOLVED:

- (a) that officers provide feedback to the Audit Board with regards to any future slippage on revised target completion dates; and
- (b) that the "priority one" and key "priority two" findings and agreed actions as set out in Appendix 1 to the report be noted; and
- (c) that any necessary action and reporting process be agreed.

The meeting closed at 6.58 p.m.

Chairman

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PROTECTING THE PUBLIC PURSE 2011: FIGHTING FRAUD AGAINST LOCAL GOVERNMENT

Relevant Portfolio Holder	Councillor Roger Hollingworth, Portfolio Holder for Finance, Partnerships and Economic Development.
Portfolio Holder Consulted	
Relevant Head of Service	Teresa Kristunas, Head of Finance and Resources.
Wards Affected	All Wards
Ward Councillor Consulted	
Non-Key Decision	

1. SUMMARY OF PROPOSALS

This document provides an overview of the recently published document by the Audit Commission, 'Protecting the Public Purse 2011: Fighting Fraud against Local Government'. It includes a self-assessment checklist for those responsible for governance so that counter fraud activity is monitored and actions taken appropriately. The self-assessment checklist has not yet been completed detailing the current situation (Appendix 1). **Please note** that the section on Personal Budgets in the Appendix is not relevant to a District Council.

2. RECOMMENDATIONS

- 2.1 That the Audit Board recommend the Council to undertake a commitment to fight possible fraud, bribery and corruption against the Council, initially using the self-assessment checklist in Appendix 1 and to consider potential risks to the Council by utilising the Corporate Anti-Fraud Team (CAFT) to identify and prevent such risks.

3. KEY ISSUES

Financial Implications

- 3.1 Councils are having to make reductions in spending. Significant savings can be made by reducing the impact of potential fraud against the Council. This can help to protect frontline jobs and services.
- 3.2 Central Government is recommending that Councils should ensure they keep the capability to investigate fraud that is not related to housing benefit, by maintaining a culture that supports action against fraud and has the facility to undertake such investigations. This can be achieved by developing focussed plans and strategies for tackling

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fraud and target resources on areas where prevention and detection can have the most impact.

Legal Implications

- 3.3 There were no legal implications identified.

Service/Operational Implications

Key Fraud Risks

- 3.4 **Housing Tenancy Fraud** – whilst Bromsgrove Council does not own housing stock anymore, there is scope for closer working with the Bromsgrove District Housing Trust to reduce the levels of Housing Tenancy Fraud. It is unknown what the precise levels of Housing Tenancy Fraud are for this district but joint working on two specific cases does indicate that there are issues. By assisting with Housing Tenancy Fraud there will be a direct impact on the number of properties available for Homeless Persons, thereby reducing the level of investment that the council currently has.
- 3.5 **Council Tax Fraud** – Council Tax Fraud has been well documented in recent years, yet it remains a focus of activity. The Corporate Anti-Fraud Team has been involved in a number of investigations on this topic and it is clear that the system is being abused. Single Person Discount cases have been investigated and rectified. A data-match is due from the Audit Commission in February 2012, which the Corporate Anti-Fraud Team will receive and action. Following this, a better understanding of the impact of this type of fraud will be known.
- 3.6 **Student Reductions in Council Tax** – this area has not been considered at all within the Bromsgrove area, until now. Nationally it is clear that this element of the system is also being abused with false college/university certificates being received within local authorities from bogus further education facilities. A report contained 205 cases has been produced and is currently being reviewed by the Corporate Anti-Fraud Team.
- 3.7 **Procurement Fraud** - Fraud can occur at any stage of the procurement cycle, from the first business case to the award and management of the contract. The key areas of external fraudulent abuse include:
- a) Collusion amongst bidders.

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- b) Applicants tendering but not in accordance with contract specifications, and then submitting false claims for extra costs under the contract.
 - c) Contractors providing inferior goods or services.
 - d) Contractors intentionally overriding minimum statutory pay and health and safety regulations for financial gain.
 - e) Contractors presenting false invoices
- 3.8 Procurement fraud is estimated to cost Councils about £855 million per year. It is imperative that local authorities treat procurement fraud as high risk, with significant potential financial impact. The number of cases identified between 2009/10 and 2010/11 increased by 400% nationally.
- 3.9 **Housing and Council Tax Benefit Fraud** – this continues to receive high levels of publicity. The value of housing benefit fraud (excluding council tax benefit) in the UK is about £260 million per year. Whilst there has been a national drop in the number of detected cases since 2009/10 (6%) there has been an 11% increase in the value of detected losses.
- 3.10 With the proposed major welfare reforms under Universal Credit, there will be major changes to the Benefit Services provided by Local Authorities. It is proposed that a Single Fraud Investigation Service is set up from 2013, involving investigation staff from Local Authorities, Department for Work and Pensions and HMRC. No final details have been issued regarding these changes.
- 3.11 DCLG have published in 2011 a ten point plan for local authorities countering fraud, as follows:
- a) Measure exposure to fraud risk.
 - b) More aggressively pursue a preventative strategy.
 - c) Make better use of data analytics and credit reference agency checks to prevent fraud.
 - d) Adopt tried and tested methods for tackling fraud in high risk areas.
 - e) Follow best practice to drive down Housing Tenancy Fraud and Single Person Discount Fraud.

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- f) Pay particular attention to high risk areas such as procurement and grant awards.
- g) Work in partnership with service providers to tackle organised fraud across local services.
- h) Maintain specialist fraud investigative teams.
- i) Vet staff to a high standard to stop organised criminals infiltrating key departments.
- j) Implement national counter fraud standards developed by CIPFA.

Customer / Equalities and Diversity Implications

- 3.12 Any fraud taking place that directly affects the Council will be investigated in line with nationally recognised investigative techniques, which are bound by relevant criminal legislation. Therefore there would be no implications on Equality and Diversity, as ALL customers (internal and external) are treated equally in accordance with the law.
- 3.13 Information is already held on the BDC website to inform external customers of the 'zero tolerance' stance taken by Bromsgrove Council. This information is replicated on the internal intranet for staff and on quarterly fraud newsletters for staff.

4. RISK MANAGEMENT

- 4.1 The prime risk of not preventing, and investigating where necessary, fraud related issues leave the Council exposed to attacks of fraud. Both low level fraud and organised fraud rely on the fact that organisations are weak in their approach to this topic. By having a team to educate both staff and the public alike, ensuring their presence is known whilst also ensuring that the knowledge and the professionalism of the team is made public, this reduces the risk of being targeted. This allows the team to continually monitor across the Council and investigate any allegations or referrals made to them. Prevention of fraud is far cheaper financially than investigating offences after the event. Corporate Fraud should be on the corporate risk register.
- 4.2 Other risks associated with not having a facility to prevent and detect any fraud affecting the Council are:
 - a) loss of income
 - b) loss of reputation

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c) protection of public funds

5. APPENDICES

Appendix 1 – Self-Assessment Checklist

6. BACKGROUND PAPERS

None.

AUTHOR OF REPORT

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Appendix 1

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Checklist

General	Yes	No
1 Do we have a zero-tolerance policy towards fraud?	<input type="radio"/>	<input type="radio"/>
Comments		
2 Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	<input type="radio"/>	<input type="radio"/>
Comments		
3 Do we have dedicated counter-fraud staff?	<input type="radio"/>	<input type="radio"/>
Comments		
4 Do counter-fraud staff review all the work of our organisation?	<input type="radio"/>	<input type="radio"/>
Comments		
5 Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	<input type="radio"/>	<input type="radio"/>
Comments		

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Appendix 1

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General	Yes	No
6 Have we assessed our management of counter-fraud work against good practice?	<input type="radio"/>	<input type="radio"/>
Comments		
7 Do we raise awareness of fraud risks?		
a. With new staff (including agency staff)?	<input type="radio"/>	<input type="radio"/>
b. With existing staff?	<input type="radio"/>	<input type="radio"/>
c. With elected members?	<input type="radio"/>	<input type="radio"/>
d. With our contractors?	<input type="radio"/>	<input type="radio"/>
Comments		
8 Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	<input type="radio"/>	<input type="radio"/>
Comments		
9 Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	<input type="radio"/>	<input type="radio"/>
Comments		

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Appendix 1

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General	Yes	No
10 Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	<input type="radio"/>	<input type="radio"/>
Comments		
11 Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches investigated?	<input type="radio"/>	<input type="radio"/>
Comments		
12 Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	<input type="radio"/>	<input type="radio"/>
Comments		
13 Do we have effective whistleblowing arrangements?	<input type="radio"/>	<input type="radio"/>
Comments		
14 Do we have effective fidelity insurance arrangements?	<input type="radio"/>	<input type="radio"/>
Comments		

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Appendix 1

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Fighting fraud with reduced resources	Yes	No
15 Have we reassessed our fraud risks since the change in the financial climate?	<input type="radio"/>	<input type="radio"/>
Comments		
16 Have we amended our counter-fraud action plan as a result?	<input type="radio"/>	<input type="radio"/>
Comments		
17 Have we reallocated staff as a result?	<input type="radio"/>	<input type="radio"/>
Comments		

Current risks and issues	Yes	No
Housing tenancy		
18 Do we take proper action to ensure that we only allocate social housing to those who are eligible?	<input type="radio"/>	<input type="radio"/>
Comments		
19 Do we ensure that social housing is occupied by those to whom it is allocated?	<input type="radio"/>	<input type="radio"/>
Comments		

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Appendix 1

15th December 2011

Current risks and issues	Yes	No
Procurement		
20 Are we satisfied our procurement controls are working as intended?	<input type="radio"/>	<input type="radio"/>
Comments		
21 Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	<input type="radio"/>	<input type="radio"/>
Comments		
Recruitment		
22 Are we satisfied our recruitment procedures achieve the following?		
a. Do they prevent us employing people working under false identities?	<input type="radio"/>	<input type="radio"/>
b. Do they confirm employment references effectively?	<input type="radio"/>	<input type="radio"/>
c. Do they ensure applicants are eligible to work in the UK?	<input type="radio"/>	<input type="radio"/>
d. Do they require agencies supplying us with staff to undertake the checks that we require?	<input type="radio"/>	<input type="radio"/>
Comments		

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Appendix 1

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Current risks and issues	Yes	No
Personal budgets		
23 Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?	<input type="radio"/>	<input type="radio"/>
Comments		
24 Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	<input type="radio"/>	<input type="radio"/>
Comments		
Council tax		
25 Are we effectively controlling the discounts and allowances we give to council taxpayers?	<input type="radio"/>	<input type="radio"/>
Comments		

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CORPORATE ANTI FRAUD - PERFORMANCE 2010-2011 and APRIL 2011 TO SEPTEMBER 2011

Relevant Portfolio Holder	Councillor Roger Hollingworth, Portfolio Holder for Finance, Partnerships and Economic Development.
Portfolio Holder Consulted	
Relevant Head of Service	Teresa Kristunas, Head of Finance and Resources.
Wards Affected	All Wards
Ward Councillor Consulted	
Non-Key Decision	

1. SUMMARY OF PROPOSALS

This document provides an overview of activities undertaken by the Corporate Anti-Fraud Team during 2010/11 and for the period April 2011 to September 2011. It provides information on the types of cases investigated / considered, whilst also showing the financial impact to the Council.

2. RECOMMENDATIONS

- 2.1 Audit Board is asked to approve this 'information only' document on the basis that it is provided to the Board, allowing Members to remain up to date with anti-fraud work being undertaken by the Corporate Anti-Fraud Team.

3. KEY ISSUES

Financial Implications

- 3.1 For the period April 2010 to March 2011, the following cases were investigated. The amount of money obtained from such activity is also noted.

	Benefit Fraud cases	Council Tax Fraud	Employee Fraud / cases	Disability Grant cases
Number of referrals	281	8	1	1
Number of cases investigated	167	14	1	1
Number of Formal	44	0	0	0

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Cautions issued				
Number of Administrative Penalties issued	1	0	0	0
Number of prosecutions	7	0	0	0
Housing Benefit and Council Tax Benefit Overpayments Raised	£163,691.77	N/A	N/A	N/A
Other Social Security Overpayments raised	£27,020.80	N/A	N/A	N/A
Amount of money obtained fraudulently	N/A	£983.20	Estimated at £53,934.39 – employee dismissed	£30,000

The total financial figure for all fraud affecting the Council is **£275,630.16**

3.2 From April 2011 to September 2011, the following cases have been investigated. The Financial implications for the Council are also noted.

	Benefit Fraud cases	Council Tax Fraud	Employee Fraud / cases	National Fraud Initiative 2010
Number of cases investigated	135	4	1	1629
Number of Formal Cautions issued	29	0	0	Inc in Benefit figures
Number of Administrative Penalties	1	0	0	0

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issued				
Number of prosecutions	0 – several pending outcome	0	0	Inc with Benefit figures
Housing Benefit and Council Tax Benefit Overpayments Raised	£176,274.90	N/A	N/A	£36,596.07 (inc in Benefit figures)
Other Social Security Overpayments raised	£4652.48	N/A	N/A	N/A
Amount of money obtained fraudulently	N/A	£918.45	Employee dismissed	Inc in Benefit figures

The total financial figure for all fraud affecting the Council, for the first six months of the year is **£181,845.83**

Legal Implications

- 3.3 Due to the Vassell v Coventry City Council High Court case, the legal department have seen a significance reduction in the number of cases being referred to them for consideration of prosecution proceedings, as the Benefit Fraud offences under the summary legislation of Section 112 of the Social Security Administration Act 1992, is virtually impossible to prove. This is having an impact on the number of sanctions being applied to benefit fraud cases.

Service/Operational Implications

- 3.4 This report has been written to provide information to Members of the work being undertaken by the Corporate Anti-Fraud Team.
- 3.5 The future of the Corporate Anti-Fraud Team is still unknown, however it is expected that this will become clearer in the near future. There remains a need for a Corporate Anti-Fraud Team as there are many areas that will still need consideration from a “potential fraud” angle. Central Government is issuing a new strategy nationally on 1st December 2011, regarding ‘Fighting Fraud Locally’ from a local authority perspective. As yet, these details are not known but a further

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report will be made to the Audit Board once they are clear. Datamatching remains a source of information for the team, such as the National Fraud Initiative, whilst internal Datamatching needs to be considered in the future despite it not being done at the moment. The Section 151 Officer still retains the responsibility for ensuring that governance of the Council from a financial viewpoint is closely monitored. Any fraud affecting the council, whether from an internal or external source is part of that remit.

Customer / Equalities and Diversity Implications

- 3.6 Local residents expect the Council to manage public funds effectively. Minimising and investigating any risk of fraud is part of this function, particularly when the officers are professionally trained. Any fraud investigation is handled through nationally adhered to techniques and legislation, therefore the risk of equalities and diversity issues are managed through those laid down in criminal legislation (as regards the procedure of an investigation). Having professionally trained staff ensures that Equality and Diversity concerns are minimised from the outset. These include Human Rights issues.

4. RISK MANAGEMENT

The prime risk of not preventing, and investigating where necessary, fraud related issues leave the Council exposed to incidence of fraud. Both low level fraud and organised fraud rely on the fact that organisations are weak in their approach to this topic. By having a team to educate both staff and the public alike, ensuring their presence is known whilst also ensuring that the knowledge and the professionalism of the team is made public, this reduces the risk of being targeted. This allows the team to continually monitor across the Council and investigate any allegations or referrals made to them. Prevention of fraud is far cheaper financially than investigating offences after the event.

5. APPENDICES

There are no appendices with this report.

6. BACKGROUND PAPERS

None.

AUTHOR OF REPORT

AUDIT BOARD

15th December 2011

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AUDIT BOARDDate 15th December 2011**THE INTERNAL AUDIT MONITORING REPORT OF THE SERVICE MANAGER OF THE WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.**

Relevant Portfolio Holder	Councillor Roger Hollingworth
Relevant Head of Service	Executive Director (Finance & Corporate Resources)
Key Decision / Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 To present:

- the monitoring report of internal audit work as at 30th October 2011. The involvement of Members in progress monitoring is considered to be an important facet of good corporate governance, contributing to the internal control assurance given in the Council's Annual Governance Statement.

2. RECOMMENDATION

2.1 That the Audit Board considers and notes:

- the Internal Audit Monitoring Report; and
- the Recommendation Tracker

3. BACKGROUND**Internal Audit Monitoring Report**

3.1 This section of the report provides commentary on Internal Audit's performance for the period 1st April 2011 to 30 October 2011 against the performance indicators agreed for the service for 2011/12.

3.2 **AUDIT REPORTS ISSUED SINCE 9th June 2011:****2011 / 2012**

- **Garden Waste.**
This was a full scope review to assess the effectiveness of controls within the Garden Waste Collection service. Key areas reviewed include: information provided to residents, back office activities, performance monitoring and utilising customer feedback to help maximise service provision.

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Overall, the review found that adequate arrangements exist in relation to the collection of Garden Waste. The two points detailed in relation to Waste Collection audit 2010/11, see below, are equally applicable to this review.

Assurance level ~ Significant

- Creditors.
This was a limited scope audit that included testing in relation to user access to the Agresso (POP) system, reconciliations, amendments to supplier details, the BACS process and management information.

All of the key controls tested were found to be operating effectively and no weaknesses were identified in the design or operation of the system.

Assurance Level ~ Full

- Debtors.
This was a limited scope audit that included testing in relation to the actioning of credit notes, amendments to account details, the debt recovery process, reconciliations and management information.

There is generally a sound system of control with management reviews being performed in relation to account amendments, reconciliations and aged debt. The review identified that the control environment could be improved with the maintenance of records in relation to suppressed reminders.

Assurance level ~ Significant

2010/11

- Waste Collection.
This was a full scope review to assess the effectiveness of controls within the Waste Collection service. Key areas reviewed included: collection of domestic waste and recycling; trade waste; emptying of septic tanks; security of stock and utilising customer feedback to help enhance service provision.

The review verified that adequate arrangements exist in relation to the collection of waste with clear communications to customers and effective monitoring of staff performance. Key areas where improvements could be made include: the operational system does not appear to be fit for purpose and requires 'manual work arounds' and vehicles do not have a tracking device; accordingly, there is a potential risk of fraudulent activity.

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Assurance level ~ Significant

- Corporate Governance for the Shared Service.
This was a joint audit with Redditch Borough Council on Corporate Governance for the Shared Service. After the audit commenced the shared service agenda was accelerated. A single business case was presented to the 18th August 2011 Shared Service Board and the proposals were approved at the full Council held on 14th September 2011. The audit was based on there being separate business cases for each shared service and, therefore, the single business case meant that the systems and processes that were in operation are to be superseded and, accordingly, the audit would no longer add value and therefore the decision was made to discontinue it.

Summary of Assurance Levels:

<u>Audit</u>	<u>Assurance Level</u>
Garden Waste	Significant
Creditors	Full
Debtors	Significant
Waste Collection (10/11)	Significant

3.3 AUDITS IN PROGRESS AS AT 30th November 2011

The following audits are currently in progress:

- Budgetary Control and Strategy.
This is a focussed review with testing concentrating on budget preparation, approval, monthly monitoring and reporting.
- Treasury Management.
This is a limited scope audit with testing being focussed on approval of investments, bank reconciliations and management information.
- Section 106 Agreements.
This is a full scope review to assess the effectiveness of controls that are operated within the Planning, Finance and Legal sections. A key area is to review controls in connection with the collection of monies and ensuring that they are used for the stated purpose.

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As work on the above audits is ongoing an 'Assurance' level will be assigned on completion.

3.4 AUDIT DAYS

The tables in Appendices 1 and 2 show that significant progress has been made since April 2011 towards delivering the Internal Audit Plan and achieving the targets set for the year. Chargeability and productivity are currently showing at 56% and 47% respectively. As at 30 October 2011 a total of 130 chargeable days had been delivered against a target of 305 chargeable days for 2011/12.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Board on the 11th April 2011.

Appendix 3 shows the 'high' and 'medium' priority recommendations which have been reported against 2011/12 audits and are reported to the Board for information. It has been agreed with the S151 officer that a management review of all audit recommendations prior to the new service would be undertaken to ensure Heads of Service have clear actions to address any concerns that have been raised. A full report on prior year actions will be reported to the next Audit Board meeting.

3.5 OTHER KEY AUDIT WORK

Much internal audit work is carried out "behind the scenes" but is not always the subject of a formal report. Productive audit time is accurately recorded against the service or function as appropriate. Examples include:

- Governance for example assisting with the Annual Government Statement
- Risk management
- Dissemination of information regarding potential fraud cases likely to affect the Council
- Drawing managers' attention to specific audit or risk issues
- Audit advice and commentary
- Internal audit recommendations: follow up review to analyse progress
- Day to day audit support and advice for example control implications, etc.
- Networking with audit colleagues in other Councils on professional points of practice
- National Fraud Initiative.
- Investigations

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3.6 ACTIONS TAKEN TO ACCELERATE INTERNAL AUDIT PLAN DELIVERY 2011/12

The Service Manager for Worcestershire Internal Audit Shared Service has taken the following steps to ensure that delivery against the 2011/12 Plan is such that management, external audit and members are provided with the assurances that they require over the system of internal control and for the Annual Governance Statement and Statement of Accounts:

- Additional resource has been recruited to the team and resource within the team has been managed robustly in order to accelerate the delivery against the plan and ensure that the service remains effective;
- The Service Manager is rigorously monitoring delivery against the Plan to ensure that performance and delivery continue to improve and that risk is managed effectively; and
- The Service Manager is proactively and rigorously monitoring and managing absenteeism across the service.

3.7 CONCLUSION

The Service Manager for the Worcestershire Internal Audit Shared Service is confident she will be able to provide the required coverage for the year over the authority's core financial systems, work on which is historically undertaken in the third and fourth quarters of the year, as well as over other systems which have been deemed to be high and medium risk.

4. KEY ISSUES

- 4.1 Progress towards the delivery of the internal audit plan can be seen at Appendices 1 and 2.

5. FINANCIAL IMPLICATIONS

- 5.1 None as a direct result of this report.

6. LEGAL IMPLICATIONS

- 6.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

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7. POLICY IMPLICATIONS

7.1 None as a direct result of this report.

8. COUNCIL OBJECTIVES

8.1 Compliance with the accounting standards supports the improvement objective across the Council.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

9.1 The main risks associated with the details included in this report are.

- Non-compliance with statutory requirements.

10. CUSTOMER IMPLICATIONS

10.1 None as a direct result of this report.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 None as a direct result of this report.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 A robust internal control environment ensures that Value for Money is delivered in the service provision across the Council.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 None as a direct result of this report.

14. HUMAN RESOURCES IMPLICATIONS

14.1 None as a direct result of this report.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 Effective overall governance process.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None as a direct result of this report.

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17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None as a direct result of this report.

18. LESSONS LEARNT

18.1 Nothing to report for this Board.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None as a direct result of this report.

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Finance and Resources	No
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

21. WARDS AFFECTED

All Wards.

22. APPENDICES

Appendix 1 ~ Delivery against the Internal Audit Plan 2011/12

Appendix 2 ~ Key performance indicators

Appendix 3 ~ High and Medium priority recommendations

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23. BACKGROUND PAPERS

None.

AUTHOR OF REPORT

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APPENDIX 1

Delivery against Internal Audit Plan for 2011/12 as at 30 October 2011

Audit Area	DAYS USED TO 30/10/11	2011/12 PLANNED DAYS
Core Financial Systems (Note 1)	9	86
Corporate Audits (Note 2)	1	55
Other Systems Audits	99	130
TOTAL PRODUCTIVE	109	271
Audit Management Meetings	3	15
Corporate Meetings / Reading	1	5
Annual Plans and Reports	1	8
Audit Committee support	6	6
Other chargeable	10	0
TOTAL CHARGEABLE	130	305
Annual leave	36	48
Statutory leave	12	15
Sickness	11	10
Other leave	6	13
Training	5	3
General administration	17	20
General management	7	8
Attendance at general meetings	5	5
WIASS projects	3	3
TOTAL	232	430

Note 1

Core Financial Systems are audited in quarters 3 and 4 in order to maximise the assurance provided for Annual Governance Statement and Statement of Accounts.

Note 2

Due to the transformation a number of the corporate audits are under consideration / review as to whether there will be any value added at this time. A number of audits may be deferred if no value added at this time can be demonstrated.

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APPENDIX 2

Performance against Key Performance Indicators as at 30 October 2011

	KPI	As at 30th October 2011	Target	Frequency of monitoring	Frequency of reporting
1	Chargeability %	56%	72%	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
2	Productivity %	47%	64%	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
3	% Plan delivered excluding overruns	33%	95% for year	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
4	Overruns as a % of time spent	23%	5%	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
5	Customer satisfaction surveys	100%	95% Good or above	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
6	Number of audits delivered compared to plan	N/a (Annual)	19	Annually by WIASS management	Annually to Client Officer Group and Audit Committee
7	Annual survey of Internal Audit Service	N/a (Annual)	Good or above	Annually by WIASS management	Annually to Client Officer Group and Audit Committee

The Internal Audit Self-Assessment checklist assessing compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 will also be completed at the end of the annual cycle. Any areas of partial or non-compliance with the Code will be reported as exceptions to the Client Officer Group and Audit Committee.

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HIGH AND MEDIUM PRIORITY RECOMMENDATIONS

APPENDIX 3

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
2010/11 Waste Collection					
1	M	<p><u>Promotion of services</u></p> <p>In discussion with the Business Support Manager it was advised that no advertisement is currently undertaken for the Trade Waste and Cesspool services provided.</p> <p>It is acknowledged that there is information available on the Councils website, for example, 'Frequent Asked Questions' and the opportunity to apply for contracts online; however, there is no formal advertisement of these services.</p> <p>Through Internal Audit discussions it has have been</p>	<p>Failure to maximize the potential for income</p>	<p>We recommend that an exercise is undertaken to ascertain the potential cost benefits of advertising the additional paid for services, for example, Trade Waste, Septic Tank and Cesspool emptying.</p> <p>Following this exercise, the decision should be made as to whether the Council would benefit from advertising and decide upon the most appropriate method.</p> <p>If management perceives there is be no benefit from advertising then no further action needs to be</p>	<p>Response: Agreed.</p> <p>Responsible Manager:</p> <p>Business Support Manager</p> <p>Implementation date:</p> <p>31st March 2012</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		advised that Bromsgrove District Council currently have approximately 550 trade waste customers with the potential for 1200 and that some customers have been 'lost' in recent years.		taken.	
2	M	<p><u>Uniform System</u></p> <p>Through Internal Audit discussion it has been advised that the current system in operation (Uniform) is not fit for purpose, that is, it is not a system specifically designed for the tasks at hand and relies on the team to 'make it fit'. It does however hold information in relation to Household refuse rounds, Garden waste service requests for example, who has/hasn't paid and delivery lists</p>	Inadequate records management potential resulting in poor customer service.	<p>We recommend that as part of the transformation and shared service agenda with Redditch Borough Council, consideration is given to:</p> <ul style="list-style-type: none"> - assessing the functionality of the Uniform system to establish whether it can be utilised on a day to day basis; - assessing the capabilities of the system in operation at Redditch Borough Council and whether it has the functionality and/or capacity to be utilised across both Councils; 	<p>Response: Agreed</p> <p>Responsible Manager:</p> <p>Head of Environment Services</p> <p>Implementation date:</p> <p>31st March 2013</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>for bins.</p> <p>In addition, it has been set up to handle service requests but is not used due to duplication of work, that is, the information held on the 'Oneserve' system used at the Customer Service Centre has no automated integration with Uniform. This results in a requirement for the business support team to manually enter information.</p> <p>Consideration has been given to the use of SMARTpoint; however, discussions appear to have been ceased.</p>		<p>alternatively</p> <ul style="list-style-type: none">- undertaking an exercise with the view of introducing a system that could be utilised across the two authorities to aid efficiencies in service.	

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
3	M	<p><u>Tracking devices</u></p> <p>In discussion with the Operations Manager it was advised that vehicles do not have currently tracking devices on them.</p> <p>It is acknowledged that the priorities of the service are in relation route optimisation; however, without tracking devices there is a risk of fraudulent activity from staff.</p> <p>Additional benefits of tracking systems include assistance with customer queries and monitoring of fuel efficiency of vehicles.</p>	<p>Potential of fraudulent activity of staff</p>	<p>We recommend that following the implementation of route planning software, a cost benefit analysis is undertaken in relation to the introduction of tracking devices to all vehicles.</p> <p>If it is agreed that following this analysis no benefits can be realised then no further action is required.</p>	<p>Response: Agreed</p> <p>Responsible Manager: Operations Manager</p> <p>Implementation date: 31st December 2012</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
4	M	<p><u>Stock system</u></p> <p>In discussion with the Business Support Manager it was advised that due to the age of the stock system, ICT can not 'support' it; additionally there are issues with the integrity of the information. For example:</p> <ul style="list-style-type: none"> - items can be 'booked in' and the system could detail that there is either no stock available, or double the amount that has been booked; alternatively, - stock can be 'booked out' and the records will advise that there is still stock available. <p>With a lack on integrity in the system there is the potential for fraudulent activity and added costs to the Council, for example:</p>	<p>Potential mis-appropriation, fraud and reputation damage.</p>	<p>We recommend that as part of the transformation and shared service agenda with Redditch Borough Council (RBC), consideration is given to:</p> <ul style="list-style-type: none"> - assessing the capabilities of the system in operation at RBC and whether it has the functionality and/or capacity to be utilised across both Councils; or, alternatively, - undertaking an exercise with the view of introducing a system that could be utilized across the two authorities to aid the management of stock. 	<p>Implemented during the course of the review.</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<ul style="list-style-type: none"> - additional stock may be purchased resulting in a potentially over stocked warehouse; and - customer complaints could be received due to unavailability of stock, whereas the system advises stock is available. 			
2011/12 Garden Waste					
1	M	<p><u>Approval of Charges</u></p> <p>Through Internal Audit discussion it has been advised that there is no delegated authority in relation to the approval of charges for the service.</p> <p>Accordingly, Members may not have sufficient information in relation to the cost of service to the Council in order to make an</p>	<p>Potentially insufficient information available for Members to make an informed decision.</p>	<p>We recommend that ongoing analysis of charges specific to the Garden Waste Service is undertaken and that as part of the charge setting process, a key summary of findings is provided to Members in order for them to make an informed decision for charges in relation to the forthcoming season.</p>	<p>Response: Agreed.</p> <p>Responsible Manager:</p> <p>Environmental Business Development Manager</p> <p>Implementation</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>informed decision.</p> <p>Internal Audit have been advised that charges specific to the Garden Waste Service are now being separated.</p>			<p>date:</p> <p>31st August 2012</p>
2	M	<p><u>Extended contracts</u></p> <p>In discussion with the Environmental Business Manager it was advised that at present customers commit to the service for 1 season; however, there is a push to get customers on to a direct debit scheme whereby an annual payment is taken resulting in minimal action by the customer.</p> <p>The aim is to increase the likelihood of potential income in addition to minimising impact on</p>	<p>Failure to maximise ongoing service provision.</p>	<p>We recommend that an analysis of the available contract options should be considered as part of business transformation and shared service.</p> <p>At a minimum, options should include:</p> <ul style="list-style-type: none"> - payment methods, for example, annual or upfront costs, bearing in mind potential increase in charges; - cost options, that is, do customers benefit from signing 	<p>Response: Agreed.</p> <p>Responsible Manager:</p> <p>Environmental Business Development Manager</p> <p>Implementation date:</p> <p>31st August 2012</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		resources.		long term contracts; - changes of circumstances, for example, changes of address as resident, should not be 'financially punished' for signing up for a long term contract; and - Potential implications of having different options.	
3	M	<p><u>Allocation of bins</u></p> <p>In discussion with the Business Support Manager it was advised that no communication is held between departments in relation to customer notifications such as change of address.</p> <p>It is acknowledged that with the current procedure of bins being allocated to properties rather than residents this is not a service issue; however, it could potentially increase customer</p>	Failure to maximise customer service.	We recommend that as part of business transformation, consideration should be given to how the bins are allocated, that is, to remain as property or allocate to the resident so should they move within the district, service can resume at the new property.	<p>Response: Agreed.</p> <p>Responsible Manager:</p> <p>Business Support Manager</p> <p>Implementation date:</p> <p>31st January 2013</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		service and Council records.			
4	M	<p><u>Customer feedback</u></p> <p>Through Internal Audit discussions it has been advised that a survey was issued to existing customers in relation to how they rate key elements of the service; however, at the time of testing the feedback received has not been analysed.</p>	Reputational damage to the Council due to inefficient service provision and adverse public perception.	We recommend that the feedback received should be analysed and where appropriate, mitigating actions taken to enhance service provision and the customer experience.	<p>Response: Agreed.</p> <p>Responsible Manager:</p> <p>Waste Policy & Promotions Manager</p> <p>Implementation date:</p> <p>31st August 2012</p>
2011/12 Debtors					
1	M	<p><u>Suppressed Reminders</u></p> <p>Through Internal Audit discussion it was advised that</p>	Inadequate audit trail.	We recommend that in order to provide an adequate audit trail in	<p>Response:</p> <p>We are happy to</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>no record of suppressed reminders is maintained.</p> <p>Accordingly, in the event of a customer query and/or recovery action being progressed, for example, to Legal or Bristow and Sutor, there would be no supporting evidence that the reminder had been suppressed.</p>		<p>the event of a customer query, evidence is retained of all suppressed reminders. This to include detailed reasoning for suppression.</p>	<p>accept and implement the recommendation.</p> <p>Responsible Manager:</p> <p>Accountancy Services Manager and Exchequer Manager.</p> <p>Implementation date:</p> <p>The timetable for implementation is reliant on the outcome of the transformation. Also Debtors may not remain part of Exchequer it may become part of Revenues and Benefits, and again</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					the implementation timetable will be subject to this. Date: 1 st December 2011

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Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively. No high or medium priority recommendations have been identified.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk. No high priority recommendations have been identified. Isolated medium priority recommendations have been identified however the majority of recommendations made are low priority.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet it's objectives. Assurance can only be given over the effectiveness of controls within some areas of the system. Isolated high priority recommendations have been identified and / or the number of medium priority recommendations is significant in aggregate.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

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Opinion	Definition
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively. Some high and many medium priority recommendations have been identified.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed. A significant number of high priority recommendations have been identified.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

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Definition of Priority of Recommendations

Priority	Definition
H	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.
M	Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation within 3 to 6 months is important in order to provide satisfactory control of the risk(s) the system is exposed to.
L	Control weakness that has a low impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation is desirable as it will improve overall control within the system.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

15th December 2011

TREASURY MANAGEMENT 2010/11

Relevant Portfolio Holder	Cllr Roger Hollingworth
Relevant Head of Service	Jayne Pickering Executive Director of Finance and Resources
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To report to Members on the Council's Treasury Management performance for the financial year 2010/11.

2. RECOMMENDATIONS

- (a) That the Audit Board note the performance of the Treasury Management Function during 2010/11 as detailed in Appendix 1.
- (b) That the Audit Board recommend to Full Council the approval of the maximum level of investment to be held within each organisation (ie bank or building society) as detailed at £3m subject to market conditions.

3. KEY ISSUES

- 3.1 In accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management Code of Practice adopted by the Council, the Audit Board annually considers a report on the activities, strategy and performance of the Council's Treasury Management function.
- 3.2 Treasury Management is about managing the Council's cash flow and investments to support Bromsgrove's finances for the benefit of the Council Tax payers and the services that the Council provides. These activities are structured to manage risk foremost, and then optimise performance.
- 3.3 The Treasury Management function strives to ensure the stability of the Council's financial position by sound debt, cash and risk management techniques. The need to minimise risk and volatility is constantly addressed whilst aiming to achieve the treasury management objectives.
- 3.4 The challenging economic environment of the previous year continued during the financial year 2010/11, interest rates remained low although during the year money market rates increased marginally.

- 3.5 During the year an internal audit review of the Treasury Management function was completed. The audit opinion was of Full Assurance in all of the nine areas covered within the scope of this audit, concluding that there are sound arrangements and controls in place.
- 3.6 The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Governance Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits.
- 3.7 The bank base rate has remained at 0.5% since 5th March 2009.
- 3.8 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, Bromsgrove District Council has adopted the Treasury Management Framework and Policy recommended by CIPFA.

Financial Implications

- 3.9 The financial implications are contained within the body of the Annual Treasury Report at Appendix 1.

Legal Implications

- 3.10 This is a statutory report under the Local Government Act 2003.

Service/Operational Implications

- 3.11 The Strategy Statement ensures that the Council invests its resources within a robust and effective framework to deliver a maximum return on investments within a secure environment. This Annual Treasury Report compares the outcome of the Treasury Management Service against its annual targets.

Customer/Equalities and Diversity Implications

- 3.12 No direct implications.

4. RISK MANAGEMENT

- 4.1 No direct implications

5. APPENDICES

Appendix 1 Annual Treasury Outturn Report

6. BACKGROUND PAPERS

Treasury Management Strategy Report

AUTHOR OF REPORT

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Annual Treasury Report 2010/11 - England

1. Background

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 quarterly to the Cabinet and scrutiny of treasury policy, strategy and activity is delegated to the Audit Board.

Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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.

2. Economic Background

At the time of determining the strategy for 2010/11, interest rates were expected to remain low in response to the fragile state of the UK economy. Spending cuts and tax increases seemed inevitable post the General Election if the government had a clear majority. The markets had, at the time, viewed a hung parliament as potentially disruptive particularly if combined with a failure to articulate a credible plan to bring down government borrowing. The outlook for growth was uncertain due to consumers and corporates trimming their spending and financial institutions exercising restraint in new lending.

The economy's two headline indicators moved in opposite directions – growth was lacklustre whilst inflation spiked sharply higher. The economy grew by just 1.3% in calendar year 2010; the forecast for 2011 was revised down to 1.7% by the Office of Budget Responsibility in March. Higher commodity, energy and food prices and the increase in VAT to 20% pushed the February 2011 annual inflation figure to 4.4%. The Bank Rate was held at 0.5% as the economy grappled with uneven growth and the austerity measures set out in the coalition government's Comprehensive Spending Review. Significant cuts were made to public expenditure, in particular local government funding.

The US Federal Reserve (the Fed) kept rates on hold at 0.25% following a slowdown in American growth. The European Central Bank maintained rates at 1%, with the markets expecting a rate rise in early Spring.

The credit crisis migrated from banks to European sovereigns. The ratings of Ireland and Portugal were downgraded to the 'triple-B' category whilst the rating of Greece was downgraded to sub-investment (or 'junk') grade. The sovereign rating of Spain was also downgraded but remained in the 'double-A' category. The results

Annual Treasury Report 2010/11 - England

from the EU Bank Stress Tests, co-ordinated by the Committee of European Banking Supervisors, highlighted that only 7 out of the 91 institutions failed the 'adverse scenario' tests. The tests were a helpful step forward, but there were doubts if they were far-reaching or demanding enough. The main UK banks' (Barclays, HSBC, Lloyds and RBS) Tier 1 ratios all remained above 9% under both the 'benchmark scenario' and the 'adverse scenario' stress tests. The tests will be repeated in the Spring of 2011.

Gilts benefitted from the decisive Comprehensive Spending Review (CSR) plans as well as from their relative 'safe haven' status in the face of European sovereign weakness. 5-year and 10-year gilt yields fell to lows of 1.44% and 2.83% respectively. However yields rose in the final quarter across all gilt maturities on concern that higher inflation would become embedded and greatly diminish the real rate of return for fixed income investors.

During the year money market rates increased marginally at the shorter end (overnight to 3 months). 6 - 12 month rates increased between 0.25% to 0.30% over the 12 month period reflecting the expectation that the Bank Rate would be raised later in 2011.

3. Investment Activity

The CLG's revised Investment Guidance came into effect on 1st April 2010 and reiterated the need to focus on security and liquidity, rather than yield. It also recommended that strategies include details of assessing credit risk, reasons for borrowing in advance of need and the use of treasury advisers.

Investments	Balance on 31/3/2010 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2011 £m	Avg Rate % / Avg Life (yrs)
Short Term Investments	8.6	69.9	65.9	12.6	0.65% 32 days
TOTAL INVESTMENTS	8.6	69.9	65.9	12.6	0.65% 32 days

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2010/11. Investments during the year included

- Investments in AAA-rated Stable Net Asset Value Money Market Funds
- Call accounts and deposits with Banks and Building Societies systemically important to that country's banking system (UK, Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US).

Credit Risk: Counterparty credit quality was assessed and monitored with reference to credit ratings (Council's minimum long-term counterparty rating of A+ across all three rating agencies, Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

Annual Treasury Report 2010/11 - England

Counterparty credit quality has progressively strengthened/been maintained as demonstrated by the Credit Score Analysis summarised below¹. The table in Appendix 2 explains the credit score.

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/2010	3.93	AA-	4.29	AA-	0.80%
30/06/2010	4.23	AA-	4.34	AA-	0.81%
30/09/2010	4.28	AA-	4.35	AA-	0.78%
31/12/2010	3.80	AA-	3.85	AA-	0.67%
31/03/2011	4.23	AA-	4.33	AA-	0.74%

Liquidity: In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds / overnight deposits/ the use of call accounts.

Yield: The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates remained at very low levels which had a significant impact on investment income.

The Council's budgeted investment income for the year had been estimated at £87k, and interest earned during the period was £122k.

4. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2010/11, which were set in March 2010 as part of the Council's Treasury Management Strategy Statement details are included at Appendix A

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2010/11. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Annual Treasury Report 2010/11 - England**Appendix A****Capital Financing Requirement**

Estimates of the Council's cumulative maximum external borrowing requirement for 2010/11 to 2012/13 are shown in the table below:

	31/3/2011 Estimate £000s	31/3/2011 Actual £000s	31/3/2012 Estimate £000s	31/3/2013 Estimate £000s
Capital Financing Requirement	0	0	0	0

Balances and Reserves

Estimates of the Council's level of Balances and Reserves for 2010/11 to 2012/13 are as follows:

	31/3/2011 Estimate £000s	31/3/2011 Actual £000s	31/3/2012 Estimate £000s	31/3/2013 Estimate £000s
Balances and Reserves	3.751	3,701	2.617	2.118

Prudential Indicator Compliance**(a) Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Affordable Borrowing Limit was set at £6.5m for 2010/11.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2010/11 was set at £5.5m.
- The Executive Director for Finance and Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year.

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

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	Limits for 2010/11 £/%	Maximum during 2010/11 £/%
Upper Limit for Fixed Rate Exposure		
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure		
Compliance with Limits:	Yes	Yes

(c) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/2011	% Fixed Rate Borrowing as at 31/03/2011	Compliance with Set Limits?
under 12 months	100	0	0	0	Yes
12 months and within 24 months	100	0	0	0	Yes
24 months and within 5 years	100	0	0	0	Yes

(d) Total principal sums invested for periods longer than 364 days

- This indicator allows the Council to manage the risk inherent in investments longer than 364 days.
- The limit for 2010/11 was set at £2.0m.
- The Council's policy response since the onset of the credit crunch in 2007 was to keep investment maturities to a maximum of 364 days. Only one investment was made for a period of 365 days totalling £1m, this matured in March 2011.

Annual Treasury Report 2010/11 - England**Appendix B**

The average, low and high rates correspond to the rates during the financial year and rather than those in the tables below

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2010	0.50	0.35	0.35	0.42	0.51	0.81	1.26	1.54	2.07	2.82
30/04/2010	0.50	0.30	0.30	0.43	0.53	0.83	1.29	1.70	2.23	2.95
31/05/2010	0.50	0.45	0.50	0.61	0.60	0.85	1.35	1.46	1.89	2.58
30/06/2010	0.50	0.35	0.35	0.45	0.61	0.94	1.38	1.40	1.79	2.42
31/07/2010	0.50	0.40	0.40	0.50	0.71	1.01	1.46	1.36	1.75	2.39
31/08/2010	0.50	0.40	0.55	0.50	0.71	1.00	1.45	1.20	1.47	2.02
30/09/2010	0.50	0.30	0.25	0.51	0.72	1.01	1.46	1.24	1.51	2.05
31/10/2010	0.50	0.48	0.40	0.51	0.72	1.01	1.46	1.26	1.53	2.08
30/11/2010	0.50	0.40	0.51	0.51	0.72	0.88	1.46	1.32	1.66	2.30
31/12/2010	0.50	0.40	0.40	0.51	0.72	1.01	1.47	1.49	1.94	2.61
31/01/2011	0.50	0.40	0.55	0.52	0.64	1.04	1.52	1.74	2.21	2.90
28/02/2011	0.50	0.40	0.54	0.53	0.68	1.09	1.56	1.85	2.29	2.95
31/03/2011	0.50	0.30	0.50	0.54	0.80	1.11	1.58	1.85	2.31	2.96
Minimum	0.50	0.30	0.25	0.42	0.51	0.75	1.00	1.13	1.37	1.92
Average	0.50	0.39	0.43	0.50	0.67	0.98	1.44	1.50	1.90	2.54
Maximum	0.50	0.55	0.55	0.80	0.80	1.11	1.58	1.97	2.49	3.19
Spread		0.25	0.30	0.38	0.29	0.36	0.58	0.84	1.12	1.26

Table 2 : PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	0.81	2.84	4.14	4.21	4.60	4.61	4.63
30/04/2010	089/10	0.85	2.86	4.13	4.20	4.61	4.61	4.60
28/05/2010	127/10	0.73	2.46	3.76	3.83	4.36	4.38	4.38
30/06/2010	171/10	0.67	2.27	3.54	3.62	4.22	4.28	4.27
30/07/2010	217/10	0.70	2.29	3.55	3.62	4.32	4.41	4.40
31/08/2010	259/10	0.63	1.84	3.05	3.13	3.82	3.93	3.93
30/09/2010	303/10	0.64	1.88	3.14	3.86	4.00	4.03	4.02
29/10/2010	346/10	1.58	2.90	4.23	5.06	5.2	5.22	5.2
30/11/2010	390/10	1.56	3.05	4.40	5.18	5.26	5.25	5.23
31/12/2010	430/10	1.65	3.33	4.58	5.18	5.23	5.20	5.16
31/01/2011	040/11	1.79	3.57	4.80	5.40	5.46	5.44	5.40
28/02/2011	080/11	1.87	3.61	4.75	5.33	5.38	5.35	5.31
31/03/2011	126/11	1.89	3.57	4.71	5.27	5.30	5.27	5.24
Low		0.60	1.81	3.05	3.82	3.93	3.93	3.92
Average		1.19	2.79	4.05	4.72	4.79	4.78	4.76
High		1.99	3.84	5.00	5.50	5.55	5.53	5.48

Annual Treasury Report 2010/11 - England**Table 3: PWLB Repayment Rates - Fixed Rate, Maturity Loans**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	0.56	2.38	3.82	4.35	4.36	4.26	4.19
30/04/2010	089/10	0.62	2.43	3.83	4.37	4.38	4.33	4.30
28/05/2010	127/10	0.50	2.04	3.44	4.12	4.15	4.11	4.10
30/06/2010	171/10	0.44	1.86	3.23	3.98	4.05	4.00	3.97
30/07/2010	217/10	0.47	1.88	3.23	4.08	4.18	4.13	4.10
31/08/2010	259/10	0.40	1.45	2.73	3.57	3.70	3.66	3.62
30/09/2010	303/10	0.41	1.48	2.82	3.62	3.77	3.76	3.73
29/10/2010	346/10	0.47	1.61	3.03	3.93	4.09	4.07	4.03
30/11/2010	390/10	0.45	1.75	3.20	4.06	4.15	4.10	4.06
31/12/2010	430/10	0.54	2.04	3.39	4.07	4.12	4.05	3.99
31/01/2011	040/11	0.68	2.27	3.62	4.28	4.35	4.29	4.22
28/02/2011	080/11	0.76	2.32	3.57	4.21	4.26	4.20	4.13
31/03/2011	126/11	0.78	2.29	3.53	4.15	4.19	4.12	4.07
	Low	0.37	1.40	2.73	3.57	3.70	3.66	3.62
	Average	0.55	1.97	3.33	4.07	4.15	4.10	4.06
	High	0.88	2.54	3.94	4.47	4.46	4.38	4.35

Table 4: PWLB Borrowing Rates - Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	--	1.78	2.94	4.18	4.53	4.60	4.62
30/04/2010	089/10	--	1.82	2.96	4.16	4.53	4.61	4.62
28/05/2010	127/10	--	1.52	2.55	3.79	4.24	4.36	4.39
30/06/2010	171/10	--	1.38	2.36	3.58	4.06	4.23	4.27
30/07/2010	217/10	--	1.42	2.38	3.58	4.11	4.33	4.40
31/08/2010	259/10	--	1.12	1.92	3.09	3.61	3.82	3.91
30/09/2010	303/10	--	1.14	1.96	3.18	3.67	3.87	3.96
29/10/2010	346/10	--	2.11	2.98	4.27	4.84	5.07	5.16
30/11/2010	390/10	--	2.19	3.14	4.44	4.99	5.19	5.25
31/12/2010	430/10	--	2.43	3.42	4.62	5.05	5.19	5.23
31/01/2011	040/11	--	2.62	3.66	4.84	5.25	5.40	5.45
28/02/2011	080/11	--	2.71	3.69	4.79	5.18	5.33	5.38
31/03/2011	126/11	--	2.69	3.65	4.74	5.14	5.28	5.31
	Low		1.10	1.89	3.09	3.61	3.82	3.91
	Average		1.91	2.87	4.08	4.55	4.72	4.77
	High		2.88	3.93	5.03	5.38	5.51	5.55

Annual Treasury Report 2010/11 - England**Table 5: PWLB Repayment Rates - Fixed Rate, EIP Loans**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	--	1.40	2.59	3.89	4.27	4.35	4.37
30/04/2010	089/10	--	1.46	2.63	3.90	4.29	4.38	4.39
28/05/2010	127/10	--	1.18	2.23	3.53	4.00	4.13	4.16
30/06/2010	171/10	--	1.05	2.04	3.31	3.82	3.99	4.04
30/07/2010	217/10	--	1.08	2.06	3.32	3.87	4.09	4.17
31/08/2010	259/10	--	0.82	1.61	2.82	3.36	3.59	3.68
30/09/2010	303/10	--	0.83	1.65	2.91	3.43	3.63	3.73
29/10/2010	346/10	--	0.92	1.79	3.12	3.71	3.95	4.05
30/11/2010	390/10	--	0.99	1.94	3.29	3.86	4.07	4.14
31/12/2010	430/10	--	1.21	2.22	3.47	3.93	4.07	4.12
31/01/2011	040/11	--	1.40	2.46	3.69	4.13	4.29	4.34
28/02/2011	080/11	--	1.49	2.50	3.64	4.06	4.22	4.27
31/03/2011	126/11	--	1.47	2.46	3.60	4.02	4.16	4.20
	Low		0.75	1.57	2.82	3.36	3.59	3.68
	Average		1.17	2.15	3.41	3.90	4.08	4.14
	High		1.65	2.74	4.02	4.40	4.47	4.47

Table 6: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2010	0.65	0.65	0.70			
30/06/2010	0.65	0.70	0.70			
30/09/2010	0.65	0.70	0.70			
31/12/2010	0.70	0.70	0.75	1.60	1.60	1.65
31/03/2011	0.67	0.76	0.88	1.57	1.66	1.78
Low	0.65	0.65	0.68	1.55	1.56	1.58
Average	0.66	0.68	0.73	1.57	1.61	1.68
High	0.70	0.79	0.90	1.60	1.69	1.80

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Table 7: Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10
Not rated	11
BB	12
CCC	13
C	14
D	15

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Council aims to achieve a score of 5 or lower, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating of threshold of A+ for investment counterparties.

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