AUDIT COMMITTEE

Venue:	**Town Hall, Moorgate Street, Rotherham. S60 2TH**	**Date:**	**Wednesday, 13 February 2013**
		Time:	**4.00 p.m.**

A G E N D A

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.

2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.

3. Minutes of the previous meeting held on 19th December, 2012 (herewith) (Pages 1 - 5)

4. Review of Progress Against the Internal Audit Plan for Nine Months ending 31st December 2012 (report herewith) (Pages 6 - 16)

5. Corporate Risk Register (report herewith) (Pages 17 - 26)

6. Prudential Indicators and Treasury Management and Investment Strategy 2013/14 to 2015/16 (report herewith) (Pages 27 - 54)

7. KPMG Grants Report 2011/12 (report herewith) (Pages 55 - 64)

8. KPMG External Audit Plan 2012/13 (report herewith) (Pages 65 - 93)

9. Date and time of the next meeting - Wednesday, 20th March, 2013 at 4.00 p.m.

AUDIT COMMITTEE
19th December, 2012

Present:- Councillor Sangster (in the Chair); Councillors Gilding, Kaye and Sims.

An apology for absence was received from Councillor License.

P31. MINUTES OF THE PREVIOUS MEETING HELD ON 21ST NOVEMBER, 2012

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 21st November, 2012.

Resolved:- That the minutes of the previous meeting be agreed as a correct record for signature by the Chairman.

P32. WELFARE REFORM - IMPACT ON ROTHERHAM

Karl Battersby, Strategic Director of Environment and Development Services, gave the following powerpoint presentation on the key changes and impact on Rotherham of the Welfare Reform:-

National Context
– Welfare Reform Act 2012
– Savings of £18 billion by 2015
– Improve work incentives by 'making work pay'
– Reduce welfare dependency
– Universal Credit aims to reduce the complexity of the benefits system and move to an online system
– Further savings of £3.7 billion announced in Autumn statement (by reducing rate at which benefits increase)

Benefit Changes
– January 2012: Local Housing Allowance – sharing assumed up to age 35, Housing Benefit cuts for 25-34 year olds
– April 2012 – Couples need to work 24 hours per week to receive Working Tax Credit (up from 16 hours)
– May 2012 – Lone parents with child 5+ to seek work/ESA
– May 2012 – Contributory ESA limited to 1 year, tougher tests expected to reduce long term sick claimants
– January 2013 – Localised Council Tax Benefit – 10% cut but pensioners protected = 17% cut for working age
– April 2013 – Weekly benefit cap of £500 per family
– April, 2013 – Housing Benefit size criteria applied to social housing – "bedroom tax"
– April 2013 – Crisis Loans and Community Care Grant replaced by local authority support schemes
– June 2013 – Disability Living Allowance (DLA) to transfer to Personal Independence Payment (PIP) by 2016
– October 2013 – Universal Credit to phase in by 2017

Financial Impact
- Calculable (estimated) direct loss to Rotherham economy in low DWP benefit income of approximately £27.5m by 2015 (£13.5M in 2014/15)
- Move from DLA to PIP could cost around £15M
- Incapacity Benefit and SDA claimants transferring to ESA and means tests could see a loss of approximately £10.5M
- Headline figure does not include cuts to Housing Benefit or the Council Tax Benefit reduction of £2M+

Social Challenges
- Struggling economy – not enough jobs for all workless to be "incentivised" back to work
- 643 children affected by benefits cap
- Disproportionate impact in most deprived areas – widening inequalities
- Vulnerable people likely to be hardest hit
- Community and social cohesion: potential increase in crime, domestic violence, relationship breakdown, ethnic tensions etc.
- Health – more people with stress/anxiety/depression

Economic and Housing Impacts
- Reduced spending power
- Increases in:-
  Personal debt
  Use of high cost credit – doorstep lending
  Rent arrears and evictions
  Multi-occupied accommodation
  Cost of rent and Council Tax collection
  Potential for migration from higher rent areas

Key Risks
- Need to implement local support schemes quickly, but with reduced funding available
- Benefit cap and other reductions – will hit struggling families and vulnerable people; possible rise in homelessness, child poverty
- Indirect budget pressures from reduced collection rates (Council Tax and rents) and increased demand for services
- Public perceptions and awareness – unprepared for changes; Council to blame!
- Wider social impact – need a co-ordinated, partnership approach, aligned to other initiative

Current Activity
- Consultation completed on Local Council Tax Support Scheme and outline Model agreed for local Welfare provision
- Extensive awareness raising campaign including leaflet distribution and staff roadshows
- Support routes identified for families likely to be affected by the benefit cap
- Housing Income Team working with tenants to help them avoid rent difficulties

The Council had established a multi-agency task group in 2012 to help devise and implement the local partnership response to Welfare Reform with the initial focus on awareness raising amongst local people and front line workers. In September, a strategic steering group was formed, chaired by the Leader, to develop an action plan identifying the main issues and set out mitigating action.

The risks and related mitigating actions were summarised in the report submitted. A task and finish approach, with clear lead officer responsibility, was being taken to deliver the actions identified. An overarching action plan would be overseen by the strategic steering group with further reporting to Cabinet on a periodic basis.

Discussion ensued on the presentation and report with the following issues raised/highlighted:-

- It was estimated 8,000 Rotherham residents had received Crisis Loans (£80-90 each application) and Community Care Grant (£500)
- Universal Credit would be paid monthly in arrears which would be an issue for some recipients to manage
- There would be a big impact on Housing Benefit and Council Tax collection rates
- Extensive awareness raising had taken place but the general feeling was that members of the public did not really know about the forthcoming changes
- The perception was that it would only affect those who did not work and in receipt of benefits when in fact it would affect some who did work
- Research had shown that a substantial proportion of income would be lost to the local economy due to the benefit changes
- The benefit gap had to be applied through Housing Benefit so it would be perceived as the work of the Council

Resolved:- (1) That the report be noted.

(2) That the approach taken so far be supported.

(3) That a further report be submitted in March, 2013, on the work of the Welfare Reform Working Group and the take up of the Festive Food Scheme.

P33. AUDIT COMMISSION - NATIONAL FRAUD INITIATIVE REVIEW AND DEVELOPMENTS

The Director of Audit and Asset Management submitted an update on the Audit Commission's National Fraud Initiative (NFI) following the publication of a briefing note by the Commission.

The briefing note for Elected Members outlined the benefits from participating in the NFI and the Audit Commission's data matching exercise. It explained how the Initiative helped councils fight fraud and set out how the Commission planned to improve the NFI.

The briefing showed some of the outcomes and benefits of the NFI but that its full potential was only realised if the bodies that took part supplied all the required data on time and undertook appropriate follow-up investigations of the matches promptly and thoroughly.

The Audit Commission had found that councils with the most successful counter-fraud strategies were generally those where there was strong support at a senior level, led by Elected Members, Chief Executives and Directors of Finance. Rotherham had strong arrangements for managing the risk of fraud with a robust Anti-Fraud and Corruption Policy and Strategy that was kept up-to-date to reflect current developments and best practice.

The Council had also participated in every NFI exercise and investigated matches provided by the service dependent upon the risk assessment for each match.

Resolved:- (1) That the Audit Commission briefing paper be noted.

(2) That the actions taken by the Council to support the National Fraud Initiative be endorsed.

P34. ANNUAL REVIEW - INSURANCE AND RISK MANAGEMENT PERFORMANCE

The Insurance and Risk Manager submitted a report on the performance of the Council in managing its insurance risks and cost of insurance claims made against the Council.

The Council continued to have a very good and improving record in most areas. Proactive risk management measures were helping to reduce the number of claims made against the Council and effective monitoring/inspection systems were enabling the Council to successfully defend many claims that were received.

On average, the Council had paid £1.48M per year on insurance claims over the last 10 years. The need to continue to invest in reducing the costs of accidents via improved management systems, work environment and training could not be understated.

The following areas were highlighted:-

– School Fires - Risk surveys had been carried out at all schools in 2001 and 2007 which highlighted the needs of each school and subsequent risk management work; Rotherham now substantially outperformed other authorities and spent £97,328 less per year than the average figure on school fires

– Highways Trips and Sips – Rotherham continued to manage highways risk very successfully – current repudiation rate 89% - best performing Council

– Recovery of Uninsured Motor Vehicle Accident Losses – Since 2005 when MAPS Legal Assistance had been appointed, over £148,000 had been recouped in lieu of repair costs

– Employer's Liability Claims – the Health and Safety Team had carried out a wide range of risk management activities to minimise the risk of injuries. The number of claims was reducing year on year with an increase in the proportion of claims successfully repudiated and a significant reduction in the overall estimated total of claims (£327.5k 2009/10 compared to £639.8k 2007/08)

- Motor Vehicle Claims – Reduction year on year – 455 in 2007/08 and 208 in 2011/12

- Trips and Slips on Housing-owned Footpaths and Walkways – Remained an area for possible improvement. Since the termination of 2010 Rotherham Ltd., a further 28 claims had been received relating to incidents occurring on Housing-owned footpaths. 24 remained outstanding with claim reserves totalling £160,000, 3 settled without payment and 1 settled at a cost of £6,900

- Level of Insurance Fund – Provision required to meet outstanding claims had reduced from £7.5M in 2004 to £4.6M

Resolved:- (1) That the high performing areas of school fires, highways trips and slips and the recovery of uninsured motor vehicle accident losses be noted.

(2) That better performance in employer's liability claims and mother vehicle claims, which were areas previously with below average performance, be noted.

(3) That consideration be given where opportunities may exist for further improvement in trips and slips on Housing-owned footpaths and walkways.

P35. BUDGET SETTLEMENT

The Chairman recorded his concern with regard to the savings that Internal Audit needed to make as a result of the budget settlement and the potential risks that the Authority would be exposed to in the future as a result of the savings.

P36. DATE AND TIME OF THE NEXT MEETING

Resolved:- That the next meeting of the Audit Committee be held on Wednesday, 23rd January, 2013 at 4.00 p.m. in the Rotherham Town Hall.

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1. Meeting:	**Audit Committee**
2. Date:	**13 February 2013**
3. Title:	**Review of Progress Against the Internal Audit Plan for Nine Months ending 31st December 2012**
4. Directorate:	**Resources**

5. Summary.

This report contains a summary of Internal Audit work and performance for the nine months ending 31st December 2012. It shows that the service continues to perform at a high level across all indicators.

Based upon the work undertaken in the period, we are able to confirm that the Council's control environment was adequate and was operating satisfactorily.

6. Recommendations.

The Audit Committee is asked to:

- **note the performance of the Internal Audit Service during the period**
- **note the key issues arising from the work done in the period.**

7. Proposals and Details.

7.1 Background

This report summarises the main activities of the Internal Audit service for the first nine months of 2012/13. The report is presented to the Audit Committee to enable the Committee to fulfil its responsibility to oversee the work of Internal Audit. The report summarises:

- performance against key service benchmarks
- planned audit reports issued during the period, highlighting the overall conclusion for each audit
- the number of high priority recommendations made
- the proportion of recommendations agreed / not agreed
- a summary of responsive work undertaken
- an analysis of the use of audit resources
- a summary of key service developments during the period.

7.2 Performance Indicators.

7.2.1 Our performance against a number of indicators is summarised in the table below:

Performance Indicator	2010/11	2011/12	2012/13 Target	April to December 2012
Draft reports issued within 15 days of field work being completed.	90%	94%	95%	96%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	100%
Chargeable Time/Gross Time.	62%	62%	63%	63%
Audits completed within planned time.	93%	94%	95%	96%
Percentage of Audit Plan completed. **	84%	84%	85%	79%
Cost per Chargeable Day. **	£291	£271	£265	£274
Client Satisfaction Survey.	89%	100%	100%	100%

*** extrapolated from performance to date*

7.2.2 Our performance against the targets agreed with Audit Committee is very good. Client satisfaction continues to be excellent and our performance in completing audits within planned time is very good. Our performance on chargeable time percentage is now on target and should increase with a reduction in annual leave and completion of the Council's fundamental financial systems audits over the final three months of the year.

7.2.3 We will not meet our target in relation to the percentage of the audit plan completed due to the departure of two Senior Auditors earlier in the year. However, we will prioritise our time towards the activities that will ensure we can give an opinion on the Council's control environment

7.3 Planned Audit Reports and Recommendations.

7.3.1 **Appendix A** shows the audit reports issued during the first nine months of the year. Audit findings in virtually all areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. Notwithstanding this, our work shows that there are opportunities to strengthen arrangements in some areas. Implementation of Internal Audit's recommendations for improvement will reduce the Council's exposure to risks.

7.3.2 We have previously reported an overall inadequate opinion relating to the Community Care Direct Payments system where our audit highlighted insufficient checks were being undertaken leading to an increased risk that the Council could fail to detect instances where monies were not being used on their intended purpose. An action plan was subsequently agreed with management and this is being closely monitored to ensure improved procedures are implemented. We have not had to issue any further inadequate opinions since our last progress report to the Audit Committee.

7.4 Responsive Audits.

Appendix B summarises responsive work carried out in the period, which can be categorised into two main areas:

- investigative work
- requests for advice and assistance.

A total of 310 auditor days has been spent on responsive work to date representing approximately 25% of available resources. This has increased since the last report (19%) due to a number of complex investigations being conducted over the last three months. Examples of the more significant areas examined include:-

a) Fraud investigations.
During the period Internal Audit successfully investigated two suspected frauds. In one case a sum of money has been recovered for the Council. In both cases Internal Audit produced reports setting out how controls could be strengthened. The recommendations were accepted by management and are now being implemented.

b) Community Learning: Funding to a voluntary sector organisation.
Following a whistleblowing complaint we reviewed the management of a contract with a voluntary sector organisation for the delivery of social care services which had been ongoing for several years. The review highlighted various weaknesses which have been reported to management and an action plan has been agreed to improve controls and minimise any risk of

losses.

c) Aids and Adaptations.
Management in NAS received an anonymous letter alleging that favouritism was being applied in the awarding of Aids and Adaptations contracts. Our audit found no evidence to support the allegations. However, procedural weaknesses have been identified that could lead to failure to comply with Contract Standing Orders and Financial Regulations. An action plan to address these weaknesses has been agreed with management and is now being implemented.

d) Receipt of a large amount of cash.
Internal Audit was informed by the Cashiers' service that a cash payment in excess of £10,000 had been received. In accordance with the Council's Anti Money Laundering procedures, Internal Audit reviewed the circumstances of this payment and completed an official report to the Money Laundering Reporting Officer, who at Rotherham is the Director of Audit and Asset Management. Following careful consideration, the circumstances of the payment were accepted as being reasonable and the cashier was thanked for her diligence in highlighting this transaction and referring the matter to us.

e) Allegation of manipulation of performance data by a contractor.
We carried out an investigation into an allegation that performance data had been manipulated by a contractor. We found that whilst there was some truth to the allegation, the contractor had not gained any financial advantage. As a separate matter, our investigation also identified a number of system failures within the Council that had resulted in an overpayment being made to the contractor. Discussions are now being held between the Council and the contractor to agree the exact amount of the overpayment and to arrange repayment of it.

f) Employee working elsewhere whilst on sick leave.
An allegation was received stating that an employee was working elsewhere in the town centre for a different employer whilst receiving full pay. Following our investigation and the subsequent disciplinary hearing the employee in question was dismissed.

g) Assistance to Serious Organised Crime Agency investigation.
Following a formal request by the Serious Organised Crime Agency, Internal Audit provided assistance with an investigation into money laundering.

7.5 Analysis of Use of Audit Resources.

The Audit Plan presented to the Audit Committee on 25th April 2012 identified the time available for internal audit during the year, the expected number of chargeable audit days and planned usage of available time. An analysis of the actual use of audit resources compared to the profiled budget at the end of December 2012 has been undertaken and is shown at **Appendix C**.

The number of days available has reduced due to the departure of two members of staff.

7.6 Summary of Key Service Developments During the Period.

We continue to work closely with our colleagues at Doncaster MBC Internal Audit to share expertise, skills and experience of specific audit work, most recently in assisting with Doncaster's annual managed payroll audit. The current contract for the provision of management of the Doncaster audit service is due to end in March 2013 and it is expected that this will be extended by mutual agreement of both parties.

8. Finance.

There are no direct financial implications arising from this report.

9. Risks and Uncertainties.

Failure to deliver an effective internal audit function would weaken the Council's internal control arrangements and increase the risk of erroneous and / or irregular activities.

10. Policy and Performance Agenda Implications.

The strength of Internal Audit impacts upon the Council's internal control environment. A sound control environment is part of good governance, which is wholly related to the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation.

Detailed audit reports.

Contact Names:

Colin Earl, Director of Internal Audit and Asset Management x22033

Marc Bicknell, Chief Auditor x23297

Appendices:

Appendix A: Summary of Planned Audits Completed: April – December 2012

Appendix B: Summary of Internal Audit Responsive Work: April – December 2012

Appendix C: Analysis of Use of Audit Resources: April – December 2012

Appendix A

Summary of Planned Audits Completed: April – December 2012

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
Resources Directorate.						
Annual Governance Statement	1	1	0	0	N/A	Adequate
Bring Your Own Device	1	1	0	0	N/A	Adequate
Disposal of Council Land and Property	7	7	0	0	N/A	Adequate
Public Buildings Repairs & Maintenance Contract Letting Arrangements	2	2	0	0	N/A	Adequate
YORBuild Framework Agreement Call Off Process	9	9	0	0	N/A	Adequate
Building Cleaning Service	5	5	0	0	N/A	Adequate
Children and Young People's Services Directorate						
Wales Primary School	11	11	0	0	N/A	Adequate
Sitwell Junior School	22	22	0	0	N/A	Adequate
Wath Central Primary School	9	9	0	0	N/A	Adequate
Swinton Fitzwilliam Primary School	8	8	0	0	N/A	Adequate
Aston Hall Junior and Infant School	12	12	0	0	N/A	Adequate
Brinsworth Manor Infant School	13	13	0	0	N/A	Adequate
Ravenfield Primary School	10	10	0	0	N/A	Adequate
Greasbrough Primary School	12	**		0	N/A	Adequate
Whiston Worrygoose Primary School	4	**		0	N/A	Adequate
St. Pius X Catholic High School	7	7	0	0	N/A	Adequate
Hill Top Special School	15	15	0	0	N/A	Adequate
Newman Special School	15	15	0	0	N/A	Adequate
Use of consultants in schools for management of construction contracts	14	14	0	0	N/A	Adequate
Schools Catering Service income collection procedures	8	8	0	0	N/A	Adequate

Appendix A

Summary of Planned Audits Completed: April – December 2012

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
NEETs Service	6	**		0	N/A	Adequate
Woodview Children's Residential Unit	9	9	0	0	N/A	Adequate
Neighbourhoods and Adult Services Directorate						
District Heating Service	6	6	0	0	N/A	Adequate
Court of Protection	2	2	0	0	N/A	Adequate
Rothercare	4	4	0	0	N/A	Adequate
Community Care Direct Payments	6	6	0	0	N/A	Inadequate
Learning Disability Resource Centres	7	7	0	0	N/A	Adequate
Environment and Development Services Directorate						
Car Parking Income	6	6	0	0	N/A	Adequate
Libraries Service	4	4	0	0	N/A	Adequate
Thrybergh Country Park	14	14	0	0	N/A	Adequate
Excess Travel Claims	4	4	0	0	N/A	Adequate

** Awaiting responses to Internal Audit reports recently issued.

Appendix B

Summary of Internal Audit Responsive Work: April – December 2012

Description
Resources Directorate
Checks carried out on the validity of "Change to Bank Detail" requests submitted to Creditors 'en bloc' by the Direct Payments Manager rather than directly from the account holder.
Advice provided regarding measures to prevent and detect fraudulent claiming of Council Tax single person discount.
Review of the arrangements for the physical storage of back-up media in light of impending move to Ancillary Services Building at Bailey House.
CedAr Upgrade – Advice provided on document scanning and encryption relating to the upgrade of the Council's general ledger and purchase ledger systems.
Advice regarding the data security implications of using personal mobile devices for business usage (Bring Your Own Device initiative).
Information Security implications of deleting Active Directory accounts and associated data after an employee has left the Authority.
Advice provided on use by the Council's ICT service of 'thin client' technology.
Advice provided to Asset Management regarding competitive procurement requirements of Financial Regulations relating to quotations for the removal of asbestos from a Council building.
Advice provided regarding Windows 7 upgrade and software compatibility.
Advice regarding tablet computers including security issues and hardware options.
Advice provided regarding theft of takings from a catering establishment.
Advice provided regarding use of paying in slips.
Children and Young People Services Directorate
Advice provided regarding requirements for retention of data to support grant claim.
Advice provided regarding security procedures following the theft of laptops.
Advice provided to a secondary school regarding the competitive procurement Requirements of Financial Regulations for Schools.
Advice provided to schools regarding the use of debit cards.
Advice provided to schools regarding the use of cheque imprest accounts and petty cash accounts.
Advice provided to Schools Catering Service regarding the collection of meals monies and the administration of free school meals entitlements.
On-going work following allegations that work had been issued to a former employee who had set up their own business, without following the competitive procurement requirements of Contract Standing Orders.
Advice provided regarding the administration arrangements for the Troubled Families Grant.
Investigation of unaccounted for monies from a cheque book / pass book account.
Ongoing investigation into allegations of improper use of the budget at a children's centre.
Advice provided following the loss of a small amount of petty cash at a children's home.
Advice provided regarding the use of tablet computers in schools.

Appendix B

Summary of Internal Audit Responsive Work: April – December 2012

Description
Environment and Development Services Directorate
Investigation into apparent shortfalls on car parking machines. The cause of the apparent shortfalls was the jamming of the machine and all income due was fully accounted for.
Advice provided regarding the competitive procurement requirements of Financial Regulations and Contract Standing Orders regarding work to be done on land owned by the Canals and Rivers Trust.
Advice provided to Cashiers' Services regarding the use of the secure deposit box for members of public to leave cheques rather than queuing at the Cashiers' counter.
Advice provided regarding procedures for the collection of income at Urban Parks.
Advice provided to the Country Parks Service regarding the use of car parking machines.
Investigation of an employee alleged to be working elsewhere whilst receiving sick pay from the Council.
Certification of Bus Service Operators Grant.
Investigation of missing income from a community library.
Advice provided regarding the disposal of a portacabin by Green Spaces department.
Neighbourhoods and Adult Services Directorate
Advice provided to Housing regarding the YORbuild framework agreements for construction contracts.
Advice provided to Rothercare service regarding VAT regulations and the procedures for the implementation of imprest accounts.
Review of procedures for the administration of loans through credit unions.
Information provided for NFI personalised budget pilot scheme.
Advice provided regarding VAT issues surrounding independent sector residential care for the elderly.
Investigation into allegations of favouritism in awarding contracts for aids and adaptations.

Appendix C

Analysis of use of Audit Resources April – December 2012

Analysis of use of Audit Resources

	Budget	Profiled Budget (Periods 1- 9)	Actual	Variance
Gross Days Available	**3344**	**2508**	**2454**	**-54**
Less				
Vacancy	0	0	117	+117
Leave (Annual / Statutory / Other)	551	413	507	+94
Elections	10	8	16	+8
Sickness	51	38	120	+82
Service Development	20	15	0	-15
Professional Training and CPD	100	75	19	-56
Management and Supervision	300	225	199	-26
Admin and Clerical	120	90	102	+12
Professional Meetings	42	32	16	-16
Less	**1194**	**896**	**1096**	**+200**
Gross Audit Days Available	**2150**	**1612**	**1358**	**-254**
Less				
2011/12 Work Brought Forward / Follow Up Work	119	89	103	+14
Less	**119**	**89**	**103**	**+14**
Net Audit Days Available for 2012 / 2013	**2031**	**1523**	**1255**	**-268**
Responsive Audits	397	298	310	+12
Planned Audits	1634	1225	945	-280

There are a number of variances between budget and actual in relation to the number of audit days available. The most significant of which are:

- The gross days available reduced by 54 days due to a member of staff moving to a term-time only contract.
- A full time member of staff left in August and a part time member in October; neither post is being filled. This has resulted in 117 lost days for the first nine months of the year, and will result in a further 93 days being lost up to the year end.
- Annual Leave is higher than the profiled budget at the end of period 9 because many members of staff use their leave entitlement during the summer months.
- We have experienced a higher than normal level of sickness absence.

Appendix C

Analysis of use of Audit Resources April – December 2012

- Time spent on professional training remains below budget. This is because a decision was made early in the financial year to place increased emphasis on low-cost “on the job” training due to the high costs associated with external professional training at a time when the Council is facing severe budget pressures.
- Time spent on the completion of 2011/12 work was slightly higher than expectation. This was largely spent on completion of the audit of fundamental financial systems on behalf of the Council’s external auditor, KPMG.
- Time spent on responsive work is now slightly over budget due to a number of complex investigations being conducted over the last three months.
- Time spent on planned work is below budget, however, work is now being carried out on the Council’s fundamental financial systems, as per KPMG’s year end requirements, and as such it is expected that planned work should move back towards the budgeted total.

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	Audit Committee
2.	**Date:**	13 February 2013
3.	**Title:**	Corporate Risk Register
4.	**Directorate:**	Resources

5. Summary

Attached to this report is the current corporate risk register summary. The summary shows the risks associated with the Council's most significant priorities and projects, and actions being taken to mitigate these risks.

The Council's key current risks continue to relate to the financial pressures faced by the Council and the implications of the Welfare Reforms. The report summarises the management actions that are being taken to mitigate these and other risks in the register.

Risks relating to funding the capital programme, personalisation of adults care services, commissioning and highways have been removed from the corporate risk register. This does not mean these risks will no longer be monitored; rather they will now be reviewed at directorate level. They can be re-instated at corporate level at any point in time in the future if/as appropriate.

New risks relating to economic growth and public health and well-being have been added to the register and an entry has been included recognising opportunities to promote the Council's achievements and enhance its reputation.

6. Recommendations

The Audit Committee is asked to:

- **note the corporate risk register summary attached at Appendix A**
- **confirm the current assessment of the Council's top corporate risks**
- **indicate any further risks or opportunities that it feels should be added to the risk register.**

7 Proposals and Details

7.1 Format

This report contains the latest position on the Corporate Risk Register. The corporate risk register summary is attached at **Appendix A**. The corporate risk register summary reflects the current risk assessments for each corporate priority or project in the corporate risk register.

This covering report highlights the top inherent risks.

There are 3 overall categories of risk (RED, AMBER, GREEN) representing varying degrees of exposure. Each category contains a range of risk scores, so there are varying degrees of risk within each category. Appendix A shows the risk category and score for each priority or project included in the register before and after risk mitigation actions.

7.2 Highest inherent risks

The risk register summary shows risks in descending inherent risk order, to emphasize the most significant risks faced by the Authority. The top risks are:

- Managing Government budget reductions - unable to maintain key services due to budgetary limits.

Budget proposals for 2013/14 have been finalised. Cabinet and Strategic Leadership Team (SLT) continue to meet on a regular basis and plan to begin early to consider the landscape for 2014/15 onwards. Ultimately, Cabinet will make decisions that ensure the Council can provide priority services within available resources.

Government announcements indicate austerity measures will continue for several years yet, including further cuts for local government.

- Welfare Reforms

Various Government reforms, including proposals relating to Council Tax and Benefits, could have major implications for residents and services. Corporate and partnership working groups are considering the implications and identifying actions required, and key reports are being presented to Members as appropriate.

- Unable to deliver effective Children's Services within budget.

Ongoing action is being taken by management to provide services within the budget available. Cabinet is being kept informed of the relevant financial challenges as part of the budget monitoring and budget setting processes and makes decisions accordingly.

- Digital Region

The Council is continuing to work with other shareholders to secure the future of the project and minimise financial risks associated with ongoing trading performance.

The summary at **Appendix A** provides more details of the actions being taken to mitigate these and other risks recorded in the corporate risk register.

7.3 Key developments / changes during the period

The risk associated with the Localism Act has been reduced from Red to Amber as a result of a lowering of the inherent risk of provisions in the Act having a significant detrimental impact on Council services, and the arrangements put in place to manage the implications (risks) of the Act.

The financial position of the Municipal Mutual Insurance company is still under review by the administrators. It is expected that the Council is likely to have to provide for some losses in its 2012/13 accounts, although the precise amount will not be known until information is received from the administrators about the Council's potential liability.

Risks relating to funding the capital programme, personalisation of adults care services, commissioning and highways have been removed from the corporate risk register, although they can be re-instated at any point in time in the future if/as appropriate.

New risks relating to economic growth and public health and well-being have been added to the register. Local economic growth is a key Council priority and becomes increasingly important to the borough from 2013/14 when business rates are localised. This is both in terms of income to the Council through business rates and the creation of wealth and better opportunities for businesses and residents.

Public health responsibilities transfer to the Council formally from April 2013. There are many health challenges that our communities face, and we will aim to quickly put in place joined up, early intervention and prevention policies and strategies to assist our residents.

An entry has been included recognising opportunities to promote the Council's achievements. High level performance in adult care, improving school attainment, the successful delivery of major projects and an increasing recognition of Rotherham as a leader in delivering services to others, all provide opportunities to enhance the Council's reputation and secure further potential benefits.

8. Finance

The risks contained in the register require ongoing management action. In some cases additional resources may be necessary to implement the relevant actions or mitigate risks. Any additional costs associated with the risks should be reported to the SLT and Members for consideration on a case by case basis.

9. Risks and Uncertainties

It is important to review corporate risks on an ongoing basis, to ensure risks relating to the Council's key projects and priorities are effectively monitored and managed by the Strategic Leadership Team and Members.

10. Policy and Performance Agenda Implications

Risk Management is part of good corporate governance and is wholly related to the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation

This report reflects the latest updates provided by the respective ‘lead officers’.

The register was agreed by SLT on 4 February 2013

Contact Names:

Colin Earl, Director of Audit and Asset Management, x22033
Andrew Shaw, Insurance and Risk Manager, x22088

Appendices

Appendix A Corporate Risk Register Summary

APPENDIX A: SUMMARY CORPORATE RISK REGISTER

No	Risk	Pre Controls 1-25	Lead officer Key Actions/Updates	Post Controls 1 -25	Links to Corporate Priorities
0027	Managing Government budget reductions - unable to maintain key services due to budgetary limits	**25**	**Martin Kimber** • High priority, driven through Strategic Leadership Team and Cabinet • Further actions to mitigate budget reductions are being identified	**20**	**All Priorities**
0037	Welfare Reform: • Significant pressures arising from the localisation of various resources (such as local Council Tax and Social Fund), including a reduction in overall funding available, limited administration capacity and reduced collection of Council Tax • Potential major impact of reduced housing benefits, leading to higher debts, increasing demand for shrinking services, and increasing poverty and vulnerability. Potential to increase gap in communities' needs • Negative overall impact on the local economy, with spiralling consequences. • Potential increase in crime.	**25**	**Karl Battersby** • Corporate and partnership working groups considering implications of welfare reform and actions required • Effective communications especially in relation to discretionary benefits administered by the Council and arrangements for assisting those in need to access benefits • Corporate Policy on the top 11 deprived areas.	**16**	**All Priorities**

No	Risk	Pre Controls 1-25	Lead officer Key Actions/Updates	Post Controls 1 -25	Links to Corporate Priorities
0022	Unable to deliver effective Children's Services within budget	**25**	**Joyce Thacker** • Review of all service provision and structures continues • Continuous monitoring of budget and reporting to SLT / Cabinet • Council committed additional £875k for 12/13. • Work continues in relation to reviews of service provision and structures in line with more restrictive financial parameters.	**16**	**Priority 2 -** Providing quality education **Priority 3** - Care and protection for those people who need it most
0033	Funding of the Digital Region Project to provide comprehensive broadband facilities across South Yorkshire	**20**	**Martin Kimber** • South Yorkshire Councils are adopting a proactive approach to the project, including support • A critical review report has been agreed by the DRL Company and procurement is now underway for a new operator to take over the running of the network, including operating costs and revenue generation.	**16**	**Priority 1:** No community left behind
0036	Localism Act 2011 (Part 2): Implementation requires substantial preparation, management and subsequent maintenance, relating to: • Community "right to challenge" • Neighbourhood planning requirements • Tenure reform and the Council's Tenancy Strategy • Assets of community value.	**20**	**Martin Kimber** • All strands are being reviewed and progressed by relevant policy, service and support officers. • Working groups are established for specific projects (eg assets of community value) • Council Tax implications are being factored into budget planning.	**12**	**All Priorities**

No	Risk	Pre Controls 1-25	<u>Lead officer</u> Key Actions/Updates	Post Controls 1 -25	Links to Corporate Priorities
0021	Failure to sustain improvement in Children's Services	**20**	<u>**Joyce Thacker**</u> • Ofsted profile improved from 62.6% (inspected settings good or better) in March 2011 to 69.9% in April 2012 • Progress is being made on OFSTED inspection recommendations • Positive GCSE attainment results achieved for the 11/12 Academic year. • Key Stage 2 –Pupils on Free School Meals are performing well below the national average. Overall attainment in English and Maths continues to improve, but lag behind average. • Key Stage 4 - In 2012, attainment at 5+A*-C increased by 3.6% to 32.9% but remains 3.4% below average. Action is being led by the School Effectiveness Service. Attainment for non-Free School Meals pupils increased by 3.2% and is 2% above the national average. • Child Sexual Exploitation (CSE) – significant improvement in practice since 2010. Continued work to identify and tackle CSE. • Foster Care – review being completed following recent case. Recruitment of in house Foster Carers continues to meet stretching targets.	**12**	**Priority 2 -** Providing quality education **Priority 3** - Care and protection for those people who need it most

No	Risk	Pre Controls 1-25	Lead officer Key Actions/Updates	Post Controls 1-25	Links to Corporate Priorities
0040	Developing economic growth, increase business rates income and increase opportunities for residents	**20**	**Karl Battersby** • Significant and previously successful inward investment activity • Detailed support programme for local businesses • High quality start up facilities • Maximising location and transport advantages.	**12**	**All Priorities**
0041	Improving health and well-being	**20**	**John Radford** • Health and Well-being strategy in place • Strong focus on prevention, advice and support • Good partnership working • Formal transfer of responsibilities from the NHS to RMBC is on track for April 2013.	**12**	**Priority 1:** No community left behind
0030	Schools Collaboration- impact of schools commissioning on LA services	**16**	**Joyce Thacker** • Monitoring of schools' appetite for change is ongoing • Positive discussions have been held with the Rotherham School Improvement Partnership and Teaching School Alliance re schools' appetite • Arrangements are being improved in relation to income generation • Portfolio of services review completed. • Work continues in relation to the new schools funding arrangements effective from 2013 onwards.	**12**	**Priority 2 -** Providing quality education

No	Risk	Pre Controls 1-25	<u>Lead officer</u> Key Actions/Updates	Post Controls 1-25	Links to Corporate Priorities
0031	Academies, Free Schools and other school settings - Potential impact on LA schools and the Council e.g. loss of revenue, falling pupil numbers, reduced attainment, breakdown in relationships etc	**16**	**<u>Joyce Thacker</u>** • There are currently no free school applications active within the Borough. • Maximise potential for income generation with Academies through the provision of quality services via competitive SLA agreements. • Continue to enhance current strong working relationships with converted Academy Trusts and proposed future Academy Trusts. • Continue to work with Academies to gain commitment to the Rotherham School Improvement Partnership. • School Governing Bodies continue to meet in whole Learning Community meetings, exploring the implications of Academy conversion, collaborative / partnership working and other models.	**12**	**Priority 2 -** Providing quality education
0039	Municipal Mutual Insurance (MMI): Insurance Liabilities MMI has gone into administration following a landmark ruling by the Supreme Court ruling on Employer's Liability relating to asbestos claims. As a stakeholder, the Council will have to contribute to any company deficits resulting from the ruling.	**16**	**<u>Martin Kimber</u>** • Administrators have been appointed. • The situation continues to be monitored and any implications will be reported to members when clarity emerges. • Consideration will be given to the need to create a provision in the 2012/13 accounts based on information available at the end of the financial year.	**9**	**All Priorities**

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No	Risk	Pre Controls 1-25	<u>Lead officer</u> Key Actions/Updates	Post Controls 1-25	Links to Corporate Priorities
0042	Maximising reputation opportunities; enhancing reputation as a leading authority, delivering services to others, attracting businesses, positive Public recognition.	**12**	**<u>Martin Kimber</u>** • Highlighting good performing service delivery • Emphasizing major achievements including successful business development • Successful delivery of services to others • Regional and national awards • Responding to Public consultation • Strong communications	**9**	**All priorities**
0035	Failure to minimise property ownership and maximise the use of retained properties. Failure to maximise savings and benefits from the roll out of WorkSmart arrangements to all relevant staff.	**12**	**<u>Martin Kimber</u>** • Asset management strategy being finalised • Future options for extending Worksmart to staff in non-central buildings, to facilitate further property rationalisation	**6**	**Priority 5** Improving the Environment

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**13th February 2013**
3.	**Title:**	**Prudential Indicators and Treasury Management and Investment Strategy 2013/14 to 2015/16**
4.	**Directorate:**	**Resources**

5. Summary

In accordance with the Prudential Code for Capital Finance, the Secretary of State's Guidance on Local Government Investments, the CIPFA Code of Practice for Treasury Management in Local Authorities and with Council policy, the Director of Financial Services is required, prior to the commencement of each financial year to seek the approval of the Council to the following:

i. The Prudential Indicators and Limits for 2013/14 to 2015/16 (Appendix A)
ii. A Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP (Appendix A)
iii. An Annual Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management including the Authorised Limit (Appendix B)
iv. An Investment Strategy in accordance with the CLG investment guidance (Appendix B)

6. Recommendations

Audit Committee is asked to consider the proposed Cabinet recommendations to Council:

1. **Approve the prudential indicators and limits for 2013/14 to 2015/16 contained in Appendix A to the report**

2. **Approve the Minimum Revenue Provision Statement contained in Appendix A which sets out the Council's policy on MRP**

3. **Approve the Treasury Management Strategy for 2013/14 to 2015/16 and the Authorised Limit Prudential Indicator (Appendix B)**

4. **Approve the Investment Strategy for 2013/14 to 2015/16 (Appendix B – Section (e) and Annex B1)**

7. Proposals and Details

The Director of Financial Services has delegated authority to carry out treasury management activities on behalf of the Council. This report is produced in order to comply with the CIPFA Code of Practice for Treasury Management in Local Authorities, the CIPFA Prudential Code for Capital Finance in Local Authorities and the CLG Investment Guidance.

The Council's 2012/13 Treasury Management Strategy was approved by Council on 7 March 2012, whilst a Mid Year report which updated the 2012/13 approved indicators was approved by Council on 30 January 2013. This report updates the currently approved indicators for the period 2012/13 to 2014/15 and introduces new indicators for 2015/16.

The Strategy was drawn up in association with the Council's treasury management advisors, Sector Treasury Services Ltd, part of The Capita Group plc.

7.1 Background

During 2009 three key documents were published, the first two of which resulted in the main from the impact of the Icelandic banking issues:

- the Audit Commission report 'Risk and Return',
- the CLG Select Committee report on local authority investments; and,
- CIPFA's revised Prudential Code.

In addition CIPFA fully revised its guidance on Treasury Management and published the following two documents towards the end of 2009:

- Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes; and,
- Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities

In March 2010 CLG confirmed changes to the Capital Finance system which included revisions to CLG's Investment Guidance. These were in line with the outcomes from the publications & reports issued (and referred to above) and take account of the changes to CIPFA's Code of Practice and Guidance Notes.

During 2011 CIPFA published updates to the Treasury Management Code of Practice, the Treasury Management Guidance Notes and the Prudential Code. These incorporated minor revisions to the previous guidance.

This report is fully reflective of the changes to guidance issued by CIPFA and the CLG.

7.2. Review of the Currently Approved Investment Strategy

Following the events of October 2008 and in light of the current and on-going economic & financial climate, the Director of Financial Services took a series of actions to evaluate the Council's Investment Strategy and manage the treasury management function.

The Council's investment policy's continuing primary governing principle is the **security** of its investments, although yield or return on investments is also a consideration.

The revised operational guidelines enhanced the weighting towards 'security' even further at the expense of yield or return. Although seeking to minimise investment default risk, it does not eliminate it. Eliminating risk altogether is only possible if the Council only invested any surplus funds with the Bank of England's Debt Management Office (DMO).

These actions were reinforced within the currently approved strategy whereby the criteria for choosing counterparties were tightened. We continue to operate the treasury management guidelines well within the boundaries set by the approved selection criteria so as to minimise the risks inherent in operating a treasury management function during volatile and adverse economic and financial conditions. To this end, the Council has continued to invest any surplus funds primarily with the Bank of England's Debt Management Office.

In addition, investment levels over the last 12 months remain low as market conditions still dictate that it continues to be prudent to defer borrowing plans and to fund on-going capital commitments through the use of the Council's internal cash-backed resources.

Actual returns on investment opportunities remain subdued when compared to previous years but have been effectively and prudently managed by significantly reducing expected capital financing costs by delaying borrowing plans. This has enabled the Council to stay within its capital financing budget cash limit and for budget savings to be put forward in support of both the Council's 2012/13 and 2013/14 revenue budget. This is a significant achievement given the difficult economic and financial conditions prevailing throughout the current financial year.

Counterparty List

At the present time the Council's counterparty list for investments uses the following criteria:

	Fitch	Moody's	Standard & Poor's	Money Limit	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£20m	5years
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£10m	364 days
Lower Limit Category *	All Building Soc's ranked 1 to 10 All Building Soc's ranked 11 to 20			£5m £1m	6 months 3 months
Debt Management Office	-	-	-	Unlimited **	6 months
Money Market Funds ***	-	-	-	£20m	n/a
UK Single Tier & County Councils	-	-	-	£20m	5 years
Council's Bank (Co-op)	-	-	-	£10m	364 days

The above money limits are exclusive of bank balances held by schools

* Based on maximum of 20% of the investment portfolio

** Provides maximum flexibility

*** Based on maximum of 20% of the investment portfolio

Taking into account the current market conditions and future economic and financial outlook, whilst retaining sufficient flexibility to react to changing market conditions, it is proposed to retain the currently approved criteria.

In essence, the counterparty list provides the Council with the opportunity to maximise security of any invested funds by allowing all funds to be placed with the DMO and UK Single Tier and County Councils and reducing the maximum level and time of investments that can be placed with financial institutions that do not meet all the upper limit credit rating criteria

7.3 Prudential Indicators

7.3.1 Capital Expenditure, Capital Financing Requirement & Affordability

The Prudential Indicators submitted for approval are summarised as:

	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
Capital Expenditure	£77.173m	£61.177m	£40.976m	£31.331m
Capital financing requirement	£762.679m	£759.101m	£748.509m	£736.987m
Authorised limit for external debt (RMBC)	£773.336m	£761.002m	£748.559m	£736.987m
Operational boundary for external debt (RMBC)	£608.696m	£602.844m	£589.972m	£576.166m
Authorised limit for external debt (Former SYCC)	£100.000m	£100.000m	£100.000m	£100.000m
Operational boundary for external debt (Former SYCC)	£96.412m	£96.121m	£96.121m	£96.121m
Ratio of financing costs to net revenue stream – Non HRA	8.83	7.94	8.69	8.70
Ratio of financing costs to net revenue stream – HRA	19.45	18.36	17.20	15.77
Incremental impact of capital investment decisions on the Band D Council Tax	23.30	2.70	2.07	-1.82
Incremental impact of capital investment decisions on housing rents levels	0.00	0.10	0.00	0.00

It should be noted that only schemes in the Council's approved capital programme are included in the indicators as listed and that there may be further schemes pending approval. Any additional approvals will normally have to be funded from unsupported borrowing as all identified available resources have been allocated. This would impact on the prudential indicators above.

It should further be noted that the impact on Band D Council Tax, as shown in the table above, indicates the impact of the Council's capital investment plans as already budgeted for within the proposed Budget for 2013/14 and the Council's Medium Term Financial Strategy, **and does not indicate additional requirements of Rotherham council tax payers**.

7.3.2 Treasury Management Prudential Indicators and Limits on Activity

There are four treasury prudential indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The indicators submitted for approval are shown below.

The limits for interest rate exposures are consistent with those approved within the Mid Year report on the 2012/13 Strategy; in line with the requirements of the new Code the maturity structure detail has been updated and extended; and the investment limits beyond 364 days have been maintained to reflect the continued investment strategy.

RMBC	2013/14	2014/15	2015/16
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rate debt based on fixed net debt	100%	100%	100%
Limits on variable interest rate debt based on variable net debt	30%	30%	30%

RMBC Maturity Structure of fixed interest rate borrowing 2013/14		
	Lower	**Upper**
Under 12 months	0%	35%
12 months to 2 years	0%	35%
2 years to 5 years	0%	40%
5 years to 10 years	0%	40%
10 years to 20 years	0%	45%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	55%
50 years and above	0%	60%

RMBC Maximum Funds invested > 364 days			
	1 to 2 years	2 to 3 years	3 to 5 years
Funds invested > 364 days	£m 10	£m 8	£m 6

Former SYCC	2013/14	2014/15	2015/16
Interest Rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%

Maturity Structure of fixed interest rate borrowing 2013/14		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	70%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%

7.4 Minimum Revenue Provision Policy

Communities & Local Government Regulations require Full Council to approve a Minimum Revenue Provision Statement in advance of each financial year. The policy put forward for approval is set out in section 12 of Appendix A.

8. Finance

Treasury Management forms an integral part of the Council's overall financial arrangements.

The assumptions supporting the capital financing budget for 2013/14 and for the future years covered by the MTFS of the Council have been reviewed in light of the current economic and financial conditions and the revised future years' capital programme.

The proposed Treasury Management and Investment Strategy is not forecasted to have any further revenue consequences than those identified and planned for in both the Council's 2013/14 Revenue Budget and approved MTFS.

9. Risks and Uncertainties

The proposed Treasury Management and Investment Strategy seeks to minimise the risks inherent in operating a Treasury Management function during these difficult economic and financial conditions.

Operational Treasury Management guidelines will continue to be kept in place and reviewed to ensure they are appropriate given the circumstances faced, supported by regular monitoring to ensure that any risks and uncertainties are addressed at an early stage and hence kept to a minimum.

10. Policy and Performance Agenda Implications

Effective Treasury Management will assist in delivering the Councils' policy and performance agenda.

11. Background Papers and Consultation

Audit Committee – 15 February & 21 November 2012
Cabinet – 22 February 2012
Council – 7 March 2012 & 30 January 2013
CIPFA – The Prudential Code for Capital Finance in Local Authorities
CIPFA – Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes
CIPFA – Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities
CLG Investment Guidance – March 2010
The Local Government Act 2003

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Appendix A

PRUDENTIAL INDICATORS 2013/14 TO 2015/16

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and prepare and publish prudential indicators. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the underlying capital programme. This report updates currently approved indicators and introduces new indicators for 2015/16.

2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the Treasury Management Strategy for 2013/14 to 2015/16 is included as Appendix B to complement these indicators. Some of the prudential indicators are shown in the Treasury Management Strategy to aid understanding.

The Capital Expenditure Plans

3. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

   - Service objectives (e.g. strategic planning);
   - Stewardship of assets (e.g. asset management planning);
   - Value for money (e.g. option appraisal)
   - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
   - Affordability (e.g. implications for the council tax and rents)
   - Practicality (e.g. the achievability of the forward plan).

4. The revenue consequences of capital expenditure, particularly the unsupported expenditure, will need to be paid for from the Council's own revenue resources.

5. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual expenditure will add to the Council's borrowing need.

6. The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For example, anticipated asset sales resulting from the Council's on-going asset rationalisation programme may be deferred due to the on-going impact of the current economic & financial conditions on the property market.

7. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
Children & Young People's Services	21.088	9.906	3.453	1.850
Env & Dev Services	20.292	16.954	6.962	0.000
Neighbourhoods & Adult Services – Non HRA	3.256	2.829	1.869	1.311
Resources	10.714	1.260	1.273	0.000
Total Non-HRA	**55.350**	**30.949**	**13.557**	**3.161**
HRA	21.823	30.228	27.419	28.170
Total HRA	**21.823**	**30.228**	**27.419**	**28.170**
Total expenditure	**77.173**	**61.177**	**40.976**	**31.331**
Capital receipts	1.604	1.412	0.782	0.332
Capital grants, capital contributions & sources other capital funding	59.968	51.009	38.343	30.949
Total financing	**61.572**	**52.421**	**39.125**	**31.281**
Net financing need for the year	**15.601**	**8.756**	**1.851**	**0.050**

8. Other long term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

<u>The Capital Financing Requirement (the Council's Borrowing Need)</u>

9. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

10. Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a "borrowing facility" and so the Council is not required to separately

borrow for this scheme. The Council currently has £129.338m within the CFR in respect of such schemes.

11. The Council is asked to approve the CFR projections below:

	2012/13 Revised £m	**2013/14 Estimated £m**	**2014/15 Estimated £m**	**2015/16 Estimated £m**
CFR – General Fund	457.886	452.142	441.550	430.028
CFR – HRA	304.793	306.959	306.959	306.959
Total CFR	**762.679**	**759.101**	**748.509**	**736.987**
Movement in CFR	**3.916**	**-3.578**	**-10.592**	**-11.522**
Movement in CFR represented by:				
Net financing need for the year (above)	15.601	8.756	1.851	0.050
Less General Fund MRP/VRP and other financing movements	11.685	12.334	12.443	11.572
Movement in CFR	**3.916**	**-3.578**	**-10.592**	**-11.522**

<u>MRP Policy Statement</u>

12. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP). In addition, it is also allowed to make additional voluntary payments (VRP) where it is prudent to do so.

13. CLG Regulations require Full Council to approve an MRP Statement in advance of each year. Detailed rules have been replaced by a single duty to charge an amount of MRP which the Council considers 'prudent'. The Director of Financial Services will, where it is prudent to do so, use discretion to review the overall financing of the capital programme and the opportunities afforded by the regulations to maximise the benefit to the Council whilst ensuring it meets its duty to charge a 'prudent' provision. To provide maximum flexibility into the future the recommended MRP policy has been amended to include the use of the annuity method in addition equal instalments method.

    The Council is recommended to approve the following MRP policy in relation to the charge for the 2013/14 financial year:

    (a) The MRP charge in relation to borrowing for capital expenditure incurred prior to 2007/08 will be unaffected by the regulations;

    (b) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by both supported and unsupported borrowing will be calculated using the expected useful life of the asset at the point the asset is brought into use. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate; and

(c) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by a ‘capitalisation directive’ (e.g. equal pay) will be calculated on the basis of the specified period(s) set down within the regulations. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate.

14. No MRP charge is currently required for the HRA. With the move to self-financing, the HRA will be required to charge depreciation on its assets, which will be a revenue charge. To alleviate the impact of this charge falling on the tenants, new HRA regulations will allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years.

15. Repayments included in annual PFI or finance leases are applied as MRP.

Affordability Prudential Indicators

16. The previous sections cover those prudential indicators that are used to monitor the impact the capital programme has on the Council’s borrowing position.

17. Within this framework prudential indicators are used to assess the affordability of the capital investment plans. Further indicators are used to provide an indication of the impact the capital programme has on the overall Council’s finances. The Council is asked to approve the following indicators.

18. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream of the Council. The trend reflects the Council’s prioritisation of its capital investment plans.

19. The estimates of financing costs include all current commitments, the proposals contained in the proposed 2013/14 Revenue Budget and updated future years’ Capital Programme. The “non HRA” figures from 2013/14 onwards also reflect the changes to Council funding brought about by Local Government Reform which increases the level of general grant funding included within the Net Revenue Stream.

Ratio of financing costs to Net Revenue Stream				
	2012/13 Revised %	2013/14 Estimated %	2014/15 Estimated %	2015/16 Estimated %
Non-HRA	8.83	7.94	8.69	8.70
HRA	19.45	18.36	17.20	15.77

20. **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing commitments and current plans.

Only schemes in the Council's approved capital programme are included in the indicators and there may be further schemes pending approval. Any additional approvals will normally have to be funded from unsupported borrowing as all identified available resources have been allocated. This would impact on the prudential indicators above.

The impact on Band D Council Tax, as shown in the table below, indicates the impact of the Council's capital investment plans as already budgeted for within the proposed Budget for 2013/14 and the Council's Medium Term Financial Strategy, **and does not indicate additional requirements of Rotherham council tax payers**. The figures from 2013/14 onwards reflect the lower number of Band D properties in the Council's council tax base as a result of the introduction of the Council Tax Reduction Scheme.

Incremental impact of capital investment decisions on the Band D Council Tax				
	Revised 2012/13 £	**Proposed Budget 2013/14 £**	**Projection 2014/15 £**	**Projection 2015/16 £**
Council Tax – Band D	23.30	2.70	2.07	-1.82

For each financial year the impact at Band A is £15.53, £1.80, £1.38 and -£1.21 respectively.

21. **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council tax calculation, this indicator identifies the revenue cost of proposed changes in the housing capital programme compared to the Council's existing approved commitments and current plans expressed in terms of the impact on weekly rent levels.

Incremental impact of capital investment decisions on the Housing Rent levels				
	Revised 2012/13 £	**Proposed Budget 2013/14 £**	**Projection 2014/15 £**	**Projection 2015/16 £**
Weekly Housing Rent levels	0.00	0.10	0.00	0.00

Appendix B

TREASURY MANAGEMENT STRATEGY 2013/14 – 2015/16

1. Treasury Management is an important part of the overall financial management of the Council's affairs. The prudential indicators in Appendix A consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management Strategy considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this Strategy which require Member approval.

2. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). The Council adopted the Code of Practice on Treasury Management (Cabinet, March 2004) and adopted the revisions to the Code in March 2010.

3. The Council's constitution (via Financial Regulations) requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code is that there is a mid-year monitoring report.

4. This Strategy covers:

   (a) The Council's debt and investment projections;
   (b) The Council's estimates and limits to borrowing activity;
   (c) The expected movement in interest rates;
   (d) The Council's borrowing and debt strategy
   (e) The Council's investment strategy;
   (f) Treasury Management prudential indicators and limits on activity;
   (g) Treasury performance indicators
   (h) Policy on the use of external service advisers

(a) Debt and Investment Projections 2013/14 – 2015/16

5. The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years for both the Council and the ex-SYCC debt that the Council administers on behalf of the other South Yorkshire local authorities. The table also highlights the expected level of investment balances.

RMBC	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
External Debt				
Borrowing at 1 April	471.540	479.358	475.439	464.355
Expected change in debt	7.818	-3.919	-11.084	-12.172
Other long-term liabilities (OLTL) at 1 April	131.343	129.338	127.405	125.617
Expected change in OLTL	-2.005	-1.933	-1.788	-1.634
Borrowing at 31 March	608.696	602.844	589.972	576.166
CFR – the borrowing need	762.679	759.101	748.509	736.987
Under/(over) borrowing	153.983	156.257	158.537	160.821
Investments				
Total Investments at 1 April	0.000	20.000	10.000	10.000
Investment change	20.000	-10.000	0.000	0.000
Total Investments 31 March	20.000	10.000	10.000	10.000
Net borrowing	588.696	592.844	579.972	566.166

Ex SYCC	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
External Debt				
Borrowing at 1 April	96.412	96.121	96.121	96.121
Expected change in debt	-0.291	0.000	0.000	-9.412
Borrowing at 31 March	96.121	96.121	96.121	86.709
Investments				
Total Investments at 31 March	0.000	0.000	0.000	0.000
Investment change	0.000	0.000	0.000	0.000
Total Investments 1 April	0.000	0.000	0.000	0.000
Net borrowing	96.121	96.121	96.121	86.709

(b) <u>Limits to Borrowing Activity</u>

6. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits

7. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years.

RMBC	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
Gross Borrowing	608.696	602.844	589.972	576.166
Investments	20.000	10.000	10.000	10.000
Net Borrowing	588.696	592.844	579.972	566.166
CFR	762.679	759.101	748.509	736.987
CFR less Net Borrowing	**173.983**	**166.257**	**168.537**	**170.821**

8. The Director of Financial Services reports that the Council has complied with this indicator in the current year and does not envisage difficulties for the future. This view takes into account approved commitments and existing plans.

9. A further two prudential indicators control or anticipate the overall level of borrowing. These are:

10. **The Authorised Limit for External Debt** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although no control has yet been exercised.

    The Council is asked to approve the following Authorised Limit for RMBC:

Authorised Limit for External Debt (RMBC)	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
Borrowing	643.998	633.597	622.942	613.004
Other long term liabilities	129.338	127.405	125.617	123.983
Total	773.336	761.002	748.559	736.987

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
Total	336.623	336.623	336.623	336.623

The Council is also asked to approve the following Authorised Limit for the former SYCC:

Authorised Limit for External Debt (Former SYCC)	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
Borrowing	100.000	100.000	100.000	100.000
Other long term liabilities	0.000	0.000	0.000	0.000
Total	100.000	100.000	100.000	100.000

11. **The Operational Boundary for External Debt** –This is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

    The Council is asked to approve the following Operational Boundary for RMBC:

Operational Boundary for External Debt (RMBC)	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
Borrowing	479.358	475.439	464.355	452.183
Other long term liabilities	129.338	127.405	125.617	123.983
Total	608.696	602.844	589.972	576.166

The Council is also asked to approve the following Operational Boundary for the former SYCC:

Operational Boundary for External Debt (Former SYCC)	2012/13 Revised £m	2013/14 Estimated £m	2014/15 Estimated £m	2015/16 Estimated £m
Borrowing	96.412	96.121	96.121	96.121
Other long term liabilities	0.000	0.000	0.000	0.000
Total	96.412	96.121	96.121	96.121

12. Borrowing in Advance of Need - The Council has some flexibility to borrow funds in advance for use in future years. The Director of Financial Services may do this under delegated powers where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or help meet budgetary constraints. Whilst the Director of Financial Services will adopt a prudent approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund debt maturities.

13. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year and annual reporting mechanism.

14. Debt Rescheduling - As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. These savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

15. The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfill the treasury strategy; and,
- Enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility.

(c) <u>Expected Movement in Interest Rates</u>

16. The Bank Rate, currently 0.50%, underpins investment returns and is not expected to start increasing until the first quarter of 2015 despite inflation currently being above the Monetary Policy Committee inflation target. The outlook for borrowing rates is also uncertain and difficult to predict. Short-term rates to one-year are expected to remain at current levels for some time. The outlook for long-term interest rates is favourable in the near future but is expected to become less so.

17. This challenging outlook has several key treasury management implications:

- Investment returns are likely to remain relatively low during 2013/14
- Borrowing interest rates are currently attractive but may remain low for some time. The timing of any borrowing will therefore be monitored carefully.
- There will remain a cost of carrying capital – any borrowing undertaken that results in an increase in investments will incur an incremental cost as the cost of borrowing is greater than the likely investment return.

(d) Borrowing and Debt Strategy 2013/14 – 2015/16

18. The Council is currently maintaining an under-borrowed position. This means that the CFR has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing excluding the HRA reform settlement.

19. The uncertainty over future interest rates increases the inherent risks associated with treasury activity. As a result the Council will continue to take a prudent approach to its treasury strategy.

20. The Director of Financial Services, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely shorter term fixed rates may provide lower cost opportunities in the short to medium term.

(e) Investment Strategy 2013/14 – 2015/16

21. The primary objectives of the Council's investment strategy are:

    - Firstly to safeguard the timely repayment of principal and interest (security);
    - Secondly to ensure adequate liquidity; and,
    - Thirdly to produce an investment return (yield)

22. As part of this Strategy Members need to consider and approve security and liquidity benchmarks in addition to yield benchmarks which are currently widely used to assess investment performance and have previously been reported to Members. The proposed benchmarks are set down in Annex B2.

23. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections of Annex B1.

    - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested as set out in Annex B1.

24. The Director of Financial Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council

for approval as necessary. These criteria are different to those which are used to select Specified and Non-Specified investments.

25. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

26. Credit rating information is supplied by our treasury advisors on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change) and rating outlooks (notification of a possible long term change) are provided to officers almost immediately after they occur and this information is considered before any dealing.

27. The criteria for providing a portfolio of high quality investment counterparties (both Specified and Non-Specified investments) is:

- **Banks –** the Council will use banks which are rated by at least two rating agencies and have at least the following Fitch, Moody's and Standard and Poors' ratings (where rated):

	Fitch	Moody's	Standards & Poor's
Short-term	F1	P-1	A-1
Long-term	A-	A3	A-
Viability	bb+	n/a	n/a
Support	3	n/a	n/a
Financial Strength	n/a	C	n/a

To allow for the day to day management of the Council's cash flow the Council's own bank, **the Co-operative Bank plc** will also be retained on the list of counterparties if ratings fall below the above minimum criteria.

- **Building Societies** – the Council will use the top 20 Building Societies ranked by asset size but restricted to a maximum of 20% of the investment portfolio

- **Money Market Funds** – AAA – restricted to a maximum of 20% of the investment portfolio

- **UK Government –** Debt Management Office

- **UK Single Tier & County Councils** – (i.e. Metropolitan Districts, London Boroughs, County Councils, Unitary Authorities)

A limit of 35% will be applied to the use of Non-Specified investments within the investment portfolio, excluding day to day cash management through the Council's own bank, the Co-operative Bank plc.

28. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market and sovereign information will continue to be applied before making any specific investment decision from the agreed portfolio of counterparties.

29. The time and monetary limits for institutions on the Council's Counterparty List are as follows and represent no change from those currently approved (these will cover both Specified and Non-Specified Investments):

	Fitch	Moody's	Standard & Poor's	Money Limit	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£20m	5years
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£10m	364 days
Lower Limit Category *	All Building Soc's ranked 1 to 10 All Building Soc's ranked 11 to 20			£5m £1m	6 mths 3 mths
Debt Management Office	-	-	-	Unlimited **	6 months
Money Market Funds ***	-	-	-	£20m	n/a
UK Single Tier & County Councils	-	-	-	£20m	5 years
Council's Bank (Co-op)	-	-	-	£10m	364 days

The above money limits are exclusive of bank balances held by schools

*	Based on maximum of 20% of the investment portfolio

**	Provides maximum flexibility

***	Based on maximum of 20% of the investment portfolio

30. The proposed criteria for Specified and Non-Specified investments and monitoring of counterparties are shown in Annex B1 for Member approval.

31. In the normal course of the Council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

32. The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the long term investment limits.

(f) Treasury Management Prudential Indicators and Limits on Activity

33. There are four further treasury activity limits the purpose of which are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The limits are:

- Upper limits on fixed interest rate exposure – This identifies a maximum limit for fixed interest rates based upon the fixed debt position net of fixed interest rate investments.

- Upper limits on variable interest rate exposure – as above this limit covers a maximum limit on variable interest rates based upon the variable debt position net of variable interest rate investments.

- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

- Total funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

For the purposes of these indicators the Council's market debt is treated as fixed. Whilst a percentage of the debt may be subject to variation on specific call dates each year, over the Strategy period any such variations are thought unlikely and the debt can be regarded as fixed.

34. The activity limits (prudential indicators) for Member approval are as follows:

RMBC	**2013/14**	**2014/15**	**2015/16**
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rate debt based on fixed net debt	100%	100%	100%
Limits on variable interest rate debt based on variable net debt	30%	30%	30%

RMBC Maturity Structure of fixed interest rate borrowing 2013/14		
	Lower	**Upper**
Under 12 months	0%	35%
12 months to 2 years	0%	35%
2 years to 5 years	0%	40%
5 years to 10 years	0%	40%
10 years to 20 years	0%	45%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	55%
50 years and above	0%	60%

RMBC Maximum Funds invested > 364 days			
	1 to 2 years	2 to 3 years	3 to 5 years
Funds invested > 364 days	£m 10	£m 8	£m 6

Former SYCC	2013/14	2014/15	2015/16
Interest Rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on total debt	100%	100%	100%
Limits on variable interest rates based on total debt	30%	30%	30%

Former SYCC Maturity Structure of fixed interest rate borrowing 2013/14		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	70%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%

(g) <u>Treasury Performance Indicators</u>

35. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The results of the following two indicators will be reported in the Treasury Annual Report for 2013/14:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Investments – Internal returns above the 7 day London Interbank Bid rate (LIBID) which is the rate at which a bank is willing to borrow from other banks

(h) Policy on the use of external service advisors

36. The Council uses Sector Treasury Services Ltd as its treasury management advisors. Sector Treasury Services Ltd is a subsidiary of The Capita Group plc.

37. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and,
- Credit rating/market information service comprising the three main credit rating agencies.

38. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the Council recognises that responsibility for treasury management decisions remains with the Council at all times. The service is provided to the Council under a contractual agreement which is subject to regular review.

Annex B1

Treasury Management Practice (TMP) 1 (5) – Credit and Counterparty Risk Management

1. Overview

The Office of the Deputy Prime Minister (now CLG) issued Revised Investment Guidance in March 2010, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield.

In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code will apply its principles to all investment activity.

In accordance with the Code, the Director of Financial Services has reviewed and prepared its treasury management practices. This part, TMP 1(5), covering investment counterparty policy requires approval each year.

2. Annual Investment Strategy

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The guidelines for investment decision making, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which investments can be made.
- The specified investments the Council may use.
- The non-specified investments the Council may use.

This strategy is to be approved by full Council.

The investment policy proposed for the Council is detailed in the paragraphs below.

2.1 Strategy Guidelines

The main strategy guidelines are contained in the body of the treasury strategy statement.

2.2 Specified Investments

These investments are sterling investments of not more than one-year maturity. If they are for a longer period then the Council must have the right to be repaid within 12 months if it wishes.

These are low risk assets where the possibility of loss of principal or investment income is small.

These would include the following investment categories:

1. The UK Government Debt Management Office.

2. UK Single Tier & County Councils – (i.e. Metropolitans District, London Boroughs, County Councils, Unitary Authorities)

3. Money Market Funds that have been awarded AAA credit ratings by Standard and Poor's, Moody's or Fitch rating agencies and restricted to 20% of the overall investment portfolio

4. A bank or a building society that has been awarded a minimum short-term rating of F1 by Fitch, P-1 by Moody's and A-1 by Standard and Poor's rating agencies. For Building Societies investments will be restricted to 20% of the overall investment portfolio and:

   - a maximum of £5m for a period not exceeding 6 months if the society is ranked in the top 10 by asset size; or
   - a maximum of £1m and a period not exceeding 3 months if the society is ranked 11 to 20 by asset size.

2.3 Non-Specified Investments

Non-specified investments are any other type of investment not defined as specified above.

The criteria supporting the selection of these investments and the maximum limits to be applied are set out below.

Non specified investments would include any sterling investments with:

1. A bank that has been awarded a minimum long term credit rating of AA- by Fitch, Aa3 by Moody's and AA- by Standard & Poor's for deposits with a maturity of greater than 1 year.

2. The Council's own bank, the Co-operative Bank plc, if ratings fall below the above minimum criteria.

3. A Building Society which is ranked in the top 20 by asset size. Investments will be restricted to 20% of the overall investment portfolio and:

   - a maximum of £5m for a period not exceeding 6 months if the Society is ranked in the top 10 by asset size; or
   - a maximum of £1m and a period not exceeding 3 months if the Society is ranked 11 to 20 by asset size.

3 The Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information from the Council Treasury Management advisors on a daily basis, as and when ratings change, and counterparties are checked promptly.

On occasions ratings may be downgraded after the date on which an investment has been made. It would be expected that a minor downgrading would not affect the full receipt of the principal and interest.

Any counterparty failing to meet the minimum criteria will be removed from the list immediately by the Director of Financial Services, and new counterparties will be added to the list if and when they meet the minimum criteria.

Annex B2

Security, Liquidity and Yield Benchmarking

These benchmarks are targets and so may be exceeded from time to time with any variation reported, with supporting reasons in Mid-Year & Annual Treasury Reports.

1. **Security and liquidity** – these benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators, e.g. the maximum funds which may be invested for more than 364 days, the limit on the use of Non-specified investments, etc.

1.1 Security – Security is currently evidenced by the application of minimum criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies. Whilst this approach embodies security considerations, benchmarking the levels of risk is more subjective and therefore problematic.

One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy.

Credit Rating	*1 year*	*2 years*	*3 years*	*4 years*	*5 years*
AAA	*0.00%*	*0.02%*	*0.06%*	*0.09%*	*0.13%*
AA	*0.02%*	*0.04%*	*0.14%*	*0.28%*	*0.36%*
A	*0.09%*	*0.25%*	*0.43%*	*0.60%*	*0.79%*
BBB	*0.23%*	*0.65%*	*1.13%*	*1.70%*	*2.22%*

The Council's minimum long term rating criteria (over one year) is "AAA" meaning the average expectation of default for a three year investment in a counterparty with a "AAA" long term rating would be 0.06% of the total investment (e.g. for a £1m investment the average potential loss would be £600).

The Council's minimum long term rating criteria (up to one year) is "BBB" and the average expectation of default for such an investment would be 0.23% (e.g. for a £1m investment the average loss would be £2,300).

These are only averages but do act as a benchmark for risk across the investment portfolio.

The Council's maximum security risk benchmark for the estimated maximum portfolio during 2013/14 is 0.09% which means that for every £1m invested the average potential loss would be £900.

1.2 Liquidity – This is defined as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable the Council at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). The Council seeks to maintain:

- Bank overdraft - £10m
- Liquid, short term deposits of at least £3m available with a week's notice.

The availability of liquidity and the inherent risks arising from the investment periods within the portfolio is monitored using the Weighted Average Life (WAL) of the portfolio. This measures the time period over which half the investment portfolio would have matured and become liquid

A shorter WAL generally represents less risk and in this respect the benchmark to be used for 2013/14 is:

- 0.08 years which means that at any point in time half the investment portfolio would be available within 28 days.

2. **Yield** – These benchmarks are currently widely used to assess investment performance and the Council's local measure of yield is:

- Internal returns above the 7 day London Interbank Bid rate (LIBID) which is the rate at which a bank is willing to borrow from other banks

Agenda Item 7

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**13 February 2013**
3.	**Title:**	**KPMG Grants Report 2011/12**
4.	**Directorate:**	**Resources**

5. Summary

The report advises Audit Committee of the matters arising from the external audit of the Council's 2011/12 government grants and returns (KPMG report attached as Appendix 1).

6. Recommendations

That Audit Committee notes:

- **the external auditor's report**
- **the good performance of the Council in preparing and submitting its 2011/12 grant claims and returns and reduced fees for carrying out grant certification work**

7. Proposals and Details

In agreement with our external auditor, KPMG annually provides feedback on the effectiveness of the Council's arrangements for preparing and submitting government grant claims and returns (see KPMG's report attached).

This report summarises KPMG's key findings from the certification work they have carried out in 2011/12.

The main findings are:

- KPMG were required to audit 6 claims and returns in 2011/12 with an aggregate value of £195m. None of the claims were qualified. One minor adjustment was made to one claim, a £16k adjustment in respect of the £104m housing benefit claim. KPMG have commented that such a small scale adjustment on such a large and complex claim is not significant and compares favourably with the number of errors / issues identified at other authorities.

- The Council has good arrangements in place to ensure the efficient and effective preparation and submission of claims and returns and which supports the audit process. In particular, working papers are of a good standard and officers responded promptly to audit queries.

These positive findings demonstrate that the Council continues to maintain the high standard achieved in recent years.

Fees for grant certification work have reduced from £70k in 2010/11 to £47k in 2011/12. The indicative fee for 2012/13 shows a further reduction to £25k. This is mainly a reflection of the Government's drive to reduce the number of grant funding streams and other changes to Council financing which has resulted in the number of grants and claims requiring certification reducing from 18 in 2010/11 to 6 in 2011/12 to an anticipated 3 in 2012/13.

However, this has also been achieved because the Council continues to prepare substantially accurate and complete claims within agreed timeframes and with good supporting working papers. This enables KPMG to place assurance on the Council's arrangements and therefore keep the audit fees for carrying out their grant certification work relatively low.

8. Finance

The reduction in fees for carrying out grant certification work is a welcome contribution to the budget savings the Council is being required to make.

9. Risks and Uncertainties

There are no outstanding risks or uncertainties as all the 2011/12 claims and returns have been certified and submitted.

10. Policy and Performance Agenda Implications

Sustaining the good performance identified by the external auditor in the way in which the Council prepares and submits government claims and returns should maintain their accuracy and quality thereby helping to secure the anticipated fee savings in 2012/13.

11. Background Papers and Consultation

External Auditor's Grants Report 2011/12
Indicative Audit Fee Letter 2012/13

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Certification of grants and returns 2011/12

Rotherham Metropolitan Borough Council

13 December 2012

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Stephen Clark, who is the engagement leader to the Authority (telephone 0113 231 3148, e-mail Stephen.Clark@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Headlines

Introduction and background	**This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns.** ■ For 2011/12 we certified: – Three returns with a total value of £109.3m and – Three grants with a total value of £86.1m	**-**
Certification results	**We issued 6 unqualified certificates for the grants and returns. There was also no qualifications in 2010/11 as well.**	**Pages 3**
Audit adjustments	**One adjustment was necessary to one of the Council's grants as a result of our certification work this year. This compares to seven out of 18 grants/returns requiring adjustments in 2010/11. Therefore an improvement in the relative and absolute number that require amendment.** ■ The value of the adjustment was £16,197, which was a minor reduction in comparison to the claim value of £104m. ■ Total adjustments in 2010/11 were £26,458.	**Pages 3**
The Council's arrangements	**The Council has good arrangements for preparing its grants and returns and supporting our certification work** ■ Working papers are generally clear and easy to follow, and very few errors have been found. ■ Officers respond efficiently and effectively to any queries we raise on grant and returns. ■ The Authority's arrangements to prepare its grants and return contribute to an efficient certification process.	
Fees	**Our overall fee for the certification of grants and returns is £47,020 which is lower than last year (£70,203) and has been contained within the original estimate (£60,000).** ■ Analysis of the fees compared to prior year shows that fees have fallen against all grants and returns, with the exception of the Housing Benefits return. This is because this required additional work in comparison to previous years due to the nature of the errors identified.	**Page 5**

Summary of certification work outcomes

Overall, we certified 6 grants and returns:

- **5 were unqualified with no amendment;**
- **1 was unqualified but required some amendment to the final figures; and**
- **0 required a qualification to our audit certificate.**

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2011/12 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing Benefits	1			●	●
Pooling of Housing Capital Receipts					●
Housing Subsidy Claim					●
					●
Teachers Pension Return					●
Brookfield Park					●
		0	0	1	6

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Summary of certification work outcomes

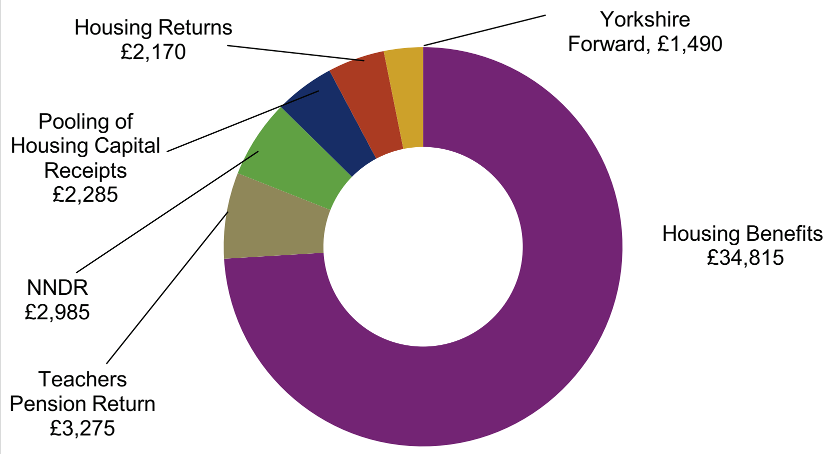
This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	**Housing Benefits** Four errors were identified in this claim. The reasons for the errors are identified below: ■ Cases which were classified as non-HRA but which should have been classified as private tenancies. ■ Overpayments due to a claimant's earnings being entered into the subsidy system incorrectly. ■ Expenditure being recorded incorrectly for a claim which the system included as having had no Rent Officer Referral made, however a Rent Officer Referral had been made. This is a very complex and high value grant (£104m) and the relatively low number and value of amendments and a lack of a qualification represents good performance at preparing this grant.	**-£16,197**

Fees

Our overall fee for the certification of grants and returns has been contained within the original estimate.

Breakdown of certification fees 2011/12



Breakdown of fee by grant/return

	2011/12 (£)	2010/11 (£)
Housing Benefits	34,815	30,500
Teachers Pensions Return	3,360	3,581
NNDR	2,985	4,600
Pooling of Housing Capital Receipts	2,285	2,358
Housing returns (Base Data, Subsidy & Disabled Facilities)	2,255	13,805
Yorkshire Forward Single Programme	1,490	13,283
Surestart	0	2,076
Total fee	**47,190**	**70,203**

Our initial estimated fees for certifying 2011/12 grants and returns was £60,000. The main reason for the actual fee being lower than the original estimate and prior year was the reduction of claims and returns requiring certification. There has been an increase in the certification cost of Housing Benefits due to the additional work required by the certification instruction and the errors identified on page 4.

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Agenda Item 8

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**13 February 2013**
3.	**Title:**	**KPMG External Audit Plan 2012/13**
4.	**Directorate:**	**Resources**

5. Summary

The Council's external auditor, KPMG, in their External Audit Plan (attached as Appendix 1) sets out the proposed external audit work to be undertaken to form an opinion on the Council's financial statements and to conclude on whether the Council has arrangements in place to secure value for money in the use of its resources.

6. Recommendations

That Audit Committee approves KPMG's External Audit Plan 2012/13, noting the proposed areas for audit identified.

7. Proposals and Details

KPMG's External Audit Plan sets out the proposed audit work to be undertaken in relation to the 2012/13 financial year. The Plan has been drawn up using a risk-based approach to enable KPMG to audit and report on:

- **Financial Statements**
  form an opinion on whether the Council's financial statements give a true and fair view of the Council's financial performance and financial position.

- **Use of Resources (Value for Money conclusion)**
  conclude on whether the Council has arrangements in place to secure value for money from the use of its resources.

Financial Statements

Section 3 of KPMG's External Audit Plan (page 4 of the Plan) summarises the key stages KPMG will carry out in their audit of the financial statements.

Section 2 (page 3 of the Plan) sets out the specific risks that KPMG will focus on during the audit in forming their opinion on the Financial Statements. The 3 areas to be reviewed are:

- How the Council is planning and managing its savings plans and ability to sustain its sound financial standing
- The future arrangements for Digital Region Limited
- The financial implications of MMI going into administration

Section 4 (pages 10 and 11 of the Plan) provides further detail on each of these risks.

KPMG will provide an update on how the Council is managing these risks in their Interim Audit Report which is due to be presented to Audit Committee in April 2013.

Value for Money Conclusion

KPMG's approach to reaching their Value For Money conclusion is set out in Section 5 (pages 12 to 15 of the Plan). The two key themes are:

- The Council's financial resilience to manage its financial risks effectively and sustain a stable financial position, and
- How effectively the Council challenges its arrangements to secure Value For Money and prioritise resources by, for example, improving productivity and efficiency and achieving cost reductions

At this stage, no specific audit work is planned to reach their Value For Money conclusion. Should this prove necessary, KPMG will highlight the risk to the Council together with the audit approach they intend to take in response.

Reporting

Section 6 (on pages 17 and 18) sets out the timing and nature of the audit reports KPMG will issue over the course of the 2012/13 audit.

Section 6 also identifies the key members of the audit team (page 16 of the Plan) and audit fee (page 19 of the Plan).

8. Finance

The 2012/13 audit fee of £186,300 is based on KPMG's assessment of the level of risk. The fee is the same as that included in the 2012/13 Audit Fee Letter reported to Committee in November 2012 and in line with expectations based on the Audit Commission's published work programme and scales of fees for 2012/13.

It represents a 40% reduction on the 2011/12 audit fee of £310,500.

9. Risks and Uncertainties

The External Audit Plan and audit fee is based on a number of assumptions set out on page 19 of the Plan. Changes to the Plan and the fee may be necessary if significant new audit risks emerge or KPMG's expectations are not met. Should this be the case, KPMG will first discuss the reason for any change in fee with the Director of Financial Services. They will then be brought to the attention of the Audit Committee outlining the reasons for any change to the fee.

The fee for 2012/13 will be the indicative fee for the remainder of KPMG's five year appointment to 2016/17. It will therefore continue to be important that KPMG's expectations are met so that KPMG do not have to undertake additional work which could affect their underlying risk assessment and hence fee levels in future years.

10. Policy and Performance Agenda Implications

Sustaining in 2012/13, the very positive Annual Audit Reports of recent years, will maintain the Council's excellent reputation for good financial management, governance and reporting.

11. Background Papers and Consultation

External Audit Plan 2012/13
Indicative Audit Fee Letter 2012/13
Audit Committee – 21 November 2012

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External Audit Plan 2012/13

Rotherham Metropolitan Borough Council

24 January 2013

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Introduction

This document describes how we will deliver our audit work for Rotherham Metropolitan Borough Council.

Scope of this report

This document supplements our *Audit Fee Letter 2012/13* presented to you in August 2012. It describes how we will deliver our financial statements audit work for Rotherham Metropolitan Borough Council ('the Authority'). It and sets out our approach to value for money (VFM) work for 2012/13.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

We have identified a number of key risks that we will focus on during the audit of the 2012/13 financial statements.

These are described in more detail on pages 10 and 11.

The remainder of this document provides information on our:

- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
Savings plans	The Authority currently estimates that it will need to deliver £20.2 million in savings during 2013/14 to address further reductions to local authority funding and continued cost pressures. The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.	In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure sound financial standing and review how the Authority is planning and managing its savings plans. We will also review the Authority's assessment of potential liabilities and any provisions in its 2012/13 financial statements.
Digital Region Ltd	The Authority's Joint Venture Company, Digital Region Ltd, has significant liabilities that the Authority (and other members of the joint venture agreement) will need to fund following the decision in March 2012 to re-procure the services. The Authority accounted for this as a provision in the 2011/2012 financial statements. The Authority expects the re-procurement process to have further developed and therefore there will be further information to consider in forming the accounting treatment.	We will review the accounting treatment in the 2012/2013 financial statements and ensure it is in line with the required accounting standards and guidance.
Municipal Mutual Insurance	Municipal Mutual Insurance (MMI) has been identified in the accounts as a contingent liability, for a number of years, as there was uncertainty as to whether or not it would result in a financial impact. In November 2012, administrators took over the management of MMI, therefore these changes may result in greater certainty on the financial impact on the Authority.	We will review the accounting treatment in the 2012/2013 financial statements and ensure it is in line with the required accounting standards and guidance.

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Our audit approach

We undertake our work on your financial statements in four key stages during 2013:

- **Planning (January).**
- **Control Evaluation (March to April).**
- **Substantive Procedures (July to August).**
- **Completion (September).**

We have summarised the four key stages of our financial statements audit process for you below:

	Stage	Activity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	Planning	Update our business understanding and risk assessment.	○								
		Assess the organisational control environment.	○								
		Determine our audit strategy and plan the audit approach.	○								
		Issue our *Accounts Audit Protocol*.		○							
2	Control evaluation	Evaluate and test selected controls over key financial systems.			○						
		Review the internal audit function.			○						
		Review the accounts production process.			○	○					
		Review progress on critical accounting matters.				○					
3	Substantive procedures	Plan and perform substantive audit procedures.							○	○	
		Conclude on critical accounting matters.							○	○	
		Identify audit adjustments.							○	○	
		Review the Annual Governance Statement.							○	○	
4	Completion	Declare our independence and objectivity.									○
		Obtain management representations.									○
		Report matters of governance interest.					○				○
		Form our audit opinion.									○

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Our audit approach - planning

During January 2013 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January 2013. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of their work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

Our audit approach – control evaluation

During March 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will present our *Interim Report* to the Audit Committee in April.

Our interim visit on site will be completed during week commencing 11th March. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have met with Marc Bicknell to discuss the principles and timetables our interim audit.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to Marc Bicknell at the end of our interim visit.

Accounts production process

We did not raise any recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2011/12* relating to the accounts production process.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Audit Committee meeting in April.

Our audit approach – substantive procedures

During July and August 2013 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit Committee in September 2013.

Our final accounts visit on site has been provisionally scheduled for the period 29 July to 23 August. During this time, we will complete the following work:

Substantive Procedures	
	■ Plan and perform substantive audit procedures. ■ Conclude on critical accounting matters. ■ Identify and assess any audit adjustments. ■ Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the Authority's approach to address the key risk areas with the finance team prior to reporting to the Audit Committee in September 2013.

Audit adjustments

During our on site work, we will meet with the finance team on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to Audit Committee in September 2013.

Our audit approach - other

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 17.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

Our audit approach - other

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of January 2013 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Key financial statements audit risks

For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report* (where required).

Key audit risks	Impact on audit
 **Audit areas affected** ■ Reserves and balances ■ Provisions	**Risk** The latest forecast shows Authority is forecasting that it will overspend against it's budget by £1.9 million. The Authority currently estimates that another £20.2 million in savings will need to be achieved during 2013/14 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Social Care Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. If there are any related liabilities at year end, these will need to be accounted for in the 2012/13 financial statements as appropriate. **Our audit work** In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans. As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the *Code*. If applicable, we will review the Authority's provisions, including the methodology, assumptions and calculations.

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Key financial statements audit risks (continued)

For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report* (where required).

Key audit risks	Impact on audit
Digital Region Ltd **Audit areas affected** - Provisions - Expenditure	**Risk** The Authority's Joint Venture Company, Digital Region Ltd has significant liabilities that the Authority (and other members of the joint venture agreement) will need to fund following the decision in March 2012 to re-procure the services. The Authority accounted for this as a provision in the 2011/2012 financial statements. The Authority expects the re-procurement process to have further developed and therefore there will be further information to consider in forming the accounting treatment in the financial statements. **Our audit work** We will review the accounting treatment in the 2012/2013 financial statements and ensure it is in line with the required accounting standards and guidance.
Municipal Mutual Insurance **Audit areas affected** - Provisions - Expenditure	**Risk** Municipal Mutual Insurance (MMI) has been in the accounts as a contingent liability for a number of years. It relates to the ceasing of trading by Municipal Mutual Insurance Limited in 1992. It was not clear who was responsible for any liabilities arising, but it was thought some of it would pass to local authorities. However, given that the amount and likelihood was not known, it could not be provided for . In November 2012, administrators took over the management of MMI Limited. As such, there is now an increased chance that local authorities may have to take responsibility for some of the liabilities incurred by MMI. **Our audit work** We will review the accounting treatment in the 2012/2013 financial statements and ensure it is in line with the required accounting standards and guidance.

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

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VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of the Audit Commission, other inspectorates and review agencies.

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VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance.*

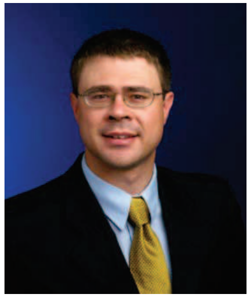
VFM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Section five

Audit team

Our audit team were all part of Rotherham Metropolitan Borough Council's audit last year. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Stephen Clark

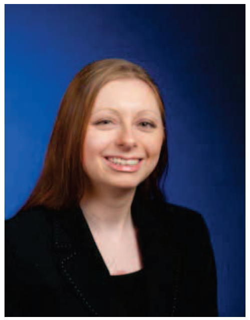
Director

"My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and Executive Directors."

Rashpal Khangura

Senior Manager

"I am responsible for the management, review and delivery of the audit and providing quality assurance for any technical accounting areas. I will work closely with Stephen Clark to ensure we add value. I will liaise with key contacts in Finance and Internal Audit."



Amy Warner

Assistant Manager

"I will be responsible for the on-site delivery of our work. I will liaise with the finance team and internal audit. I will also supervise the work of our audit assistants."

Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outline audit approach. ■ Identify areas of audit focus and planned procedures.	**March 2013**
Control evaluation		
Interim Report	■ Details and resolution of control and process issues. ■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit.	**April 2013**
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Authority's value for money arrangements.	**September 2013**
Completion		
Auditor's report	■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2013**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2013**

Audit timeline

We will be in continuous dialogue with you throughout the audit.

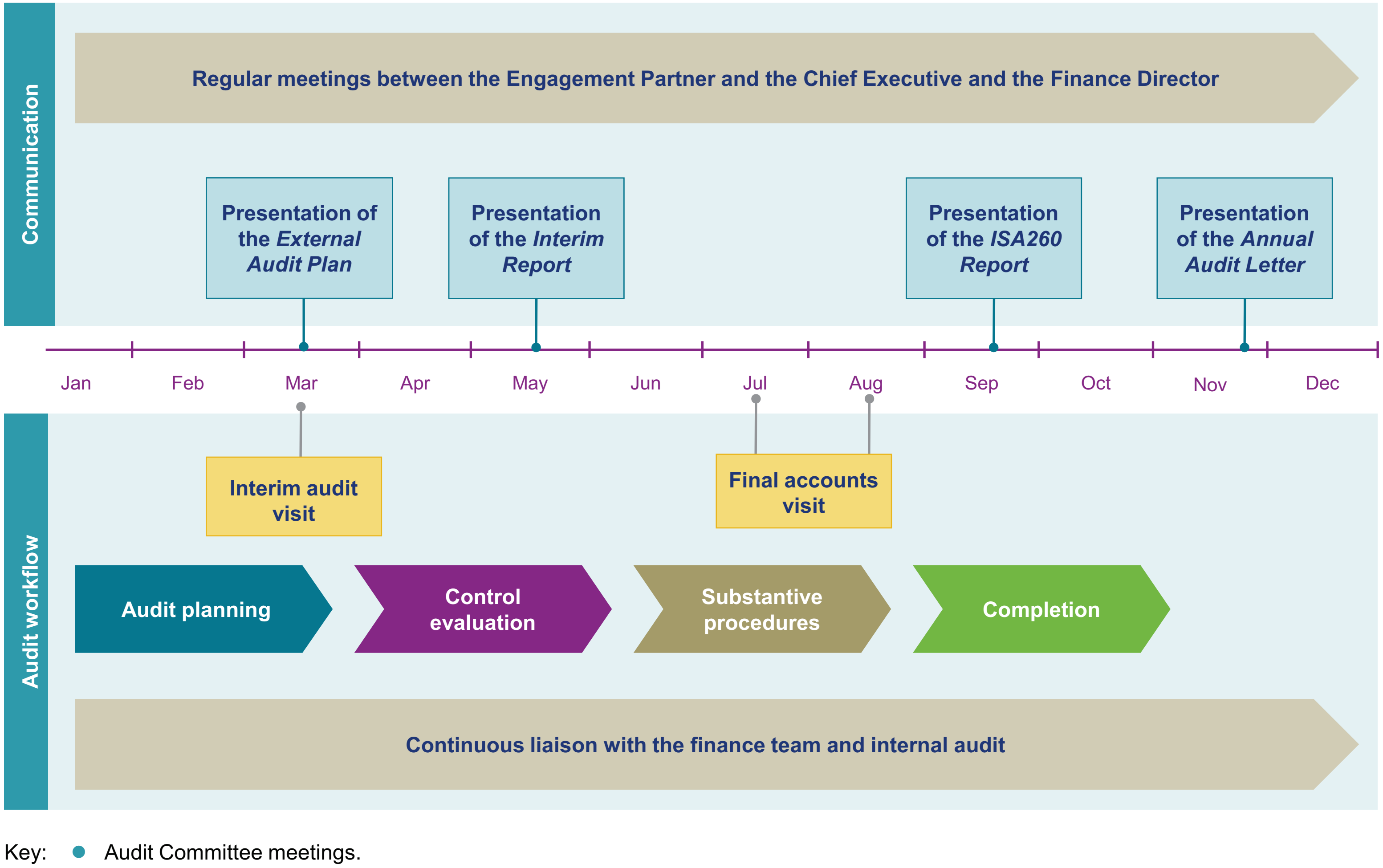
Key formal interactions with the Audit Committee are:

- March – Financial Statements Audit Plan;
- April – Interim Report;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March.
- Final accounts audit during July and August.



The main fee for 2012/13 audit of the Authority is £186,300. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2012/13* presented to you in August 2012 first set out our fees for the 2012/13 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Audit fee	186,300	310,500

The fee for 2012/13 is £186,300 . This is a reduction of 40 percent compared to the 2011/12 fee. Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. Our risk assessment continues for both these elements of the audit. Where we need to undertake additional work, we will discuss this and the fee impact with you.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2012/13* within your 2012/13 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  – the financial statements are made available for audit in line with the agreed timescales;
  – good quality working papers and records will be provided at the start of the final accounts audit;
  – requested information will be provided within the agreed timescales;
  – prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Financial Services.

Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Emphasis of testing

What we do	Accounts/transactions suited to this testing	For example KPMG's approach to:
Extensive controls testing; Reduced substantive testing	Low value transactions High volume Homogenous transactions Little judgement	Income and debtors Purchases and payables Payroll
Moderate controls testing; Moderate substantive testing	Low/medium value High/medium volume Some areas requiring judgement	Valuation of fixed assets Treasury
Limited controls testing; Extensive substantive testing	High value/ low volume Unusual non-recurring Accounting estimates Significant judgements	Investments and borrowings Provisions

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Appendix 2: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Stephen Clark as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment , development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

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Appendix 3: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up to the minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx) . The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.

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