AUDIT COMMITTEE

Venue:	**Town Hall, Moorgate Street, Rotherham. S60 2TH**	**Date:**	**Wednesday, 18 February 2015**
		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 November 2014 (herewith) (Pages 1 - 6)

4. Prudential Indicators and Treasury Management and Investment Strategy 2015/16 to 2017/18 (report herewith) (Pages 7 - 35)

5. External Audit Plan 2014/15 (report herewith) (Pages 36 - 68)

6. External Audit 2013/14 Grants Letter (report herewith) (Pages 69 - 74)

7. Review of Progress Against the Internal Audit Plan for the nine months ending 31st December 2014 (report herewith) (Pages 75 - 88)

8. Date and time of next meeting - Wednesday, 11th March, 2015 at 4.00 p.m.

AUDIT COMMITTEE
19th November, 2014

Present:- Councillor Sangster (in the Chair); Councillors Cowles, Kaye, Rushforth and Sharman.

N19. MINUTES OF THE PREVIOUS MEETING HELD ON 17TH SEPTEMBER, 2014

The minutes of the previous meeting of the Audit Committee held on 17th September, 2014, were discussed.

A matters arising update was provided in relation to Minute No. N13 (Banking Services).

Resolved: - That the minutes of the previous meeting be accepted as a correct record.

N20. TREASURY MANAGEMENT TRAINING BY CAPITA

Richard Dunlop, Capita Treasury Management, delivered a training presentation that outlined the following matters: -

- Simple principles of the treasury management of public money;
- CIPFA Code of Practice;
  - The economy;
  - GDP Growth;
  - CPI inflation and UK wage growth;
  - National debt;
  - UK interest rate forecast;
- Investment rules and regulations – treasury/capital;
- Governance and decision making / delegated powers;
- Anticipation of Treasury Management;
- Capital Finance requirement – prudential indicators;
  - Borrowing starting position;
  - Future borrowing needs;
  - Cash/investment position;
- Current treasury position;
- Expected treasury position;
- Legal requirements of investments;
  - Activity constraints and where Member decisions were required;
  - Security vs Liquidity vs Yield.

Councillor Sangster thanked Richard for the informative presentation that he gave and his contribution to the discussion.

Resolved: - That the training information be noted.

N21. MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING REPORT 2014/15

Consideration was given to the report presented by the Chief Accountant (Financial Services, Resources Directorate) that outlined a mid-year treasury review, in addition to the forward looking annual treasury strategy and a backward looking annual treasury report.

The report showed that the Council was currently under-borrowed. The delay in borrowing reduces the cost of carrying the borrowed monies when yields on investments are low relative to borrowing rates. A 'call' account with the top-rated bank Handlesbanken had been opened. This bank met the Council's highest investment criteria and any deposits in the short-term would be limited to a maximum period of one-month and a maximum amount of £1m.

The Council was on target to meet Capital finance responsibilities.

The Chief Accountant would present this report to the Cabinet and full Council.

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

(2) That the report be referred to Cabinet to consider recommending that Council approve the changes to the 2014/2015 prudential indicators.

N22. EXTERNAL AUDITOR'S INTERIM ANNUAL AUDIT LETTER 2013/14

Consideration was given to the External Auditor's Interim Annual Audit Letter relating to 2013/2014. The letter gave a view on the Audit of 2013/2014 accounts, a Value For money Conclusion 2013/14 and any Other Matters the external auditor was required to communicate.

Investigation was continuing into the Value for Money element as the External Auditor was required to consider the outcomes/s of inspection work commissioned following the independent inquiry into child sexual exploitation.

The main headlines from the Interim Annual Audit Letter in relation to the accounts and other audit responsibilities included: -

- The Council's financial statements were produced to a good standard without the need for audit adjustment and were given an unqualified audit opinion before the statutory deadline of 30th September. KPMG LLP complemented officers on the strong financial reporting process and in providing working papers to the expected standard and timely responses to audit queries;
- The Annual Governance Statement as amended at September's Audit Committee, was compliant with the CIPFA/SOLACE framework for delivering good governance in local government;

- There were no high priority recommendations or other matters that needed to be brought to the attention of the Audit Committee;
- In relation to the Value for Money Conclusion, KPMG were still to reach a conclusion on whether the Council had in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources;
- KPMG were satisfied that the Council's medium term financial planning was sufficiently robust to enable it manage its financial risks and to continue to provide services effectively in the face of continuing funding reductions. However, they needed to take into consideration the scope and outcomes from the inspection work commissioned following the publication of the independent inquiry into child sexual exploitation before coming to their view.

Discussion followed and the following points were raised: -

- The annual audit fee for 2013/2014 could increase if External Audit found it necessary to carry out further work to address the additional risks arising from the Jay report and inspection outcomes to arrive at their Value for Money conclusion;
- Councillor Sharman discussed the role of Audit, and External Audit, in ensuring that the Council could meet its functions and had an appropriate financial strategy in place to meet its requirements; including consideration of the long-term impact of services that were cut. External Audit replied that it was not their role to comment on policy matters only to consider whether resources were allocated in a manner consistent with the achievement of the Council's objectives

Resolved: - That the Interim Annual Audit Letter presented to the Council by its external auditors, KPMG LLP, be noted.

N23. NATIONAL FRAUD INITIATIVE

Consideration was given to the report presented by the Chief Auditor (Audit and Asset Management, Environment and Development Services Directorate) that outlined the results of the 2012/2013 exercise of the National Fraud Initiative (NFI) that Rotherham had participated in.

Overall, Rotherham's recovery rate through the NFI was lowering. This was due to: -

- The strong control environment in place that reduced the Local Authority's vulnerability to fraud;
- Further to this the Council also took part in a separate data matching exercise with regards to Council Tax and was performed externally by a company called 'Datatank'. The total debit applied to Council Tax accounts following this exercise in 2012/13 was £563k, with an overall recovery rate of 97.5%;

- As the NFI exercise lasted for two-years, the longer the time since the fraud had taken place to when it was detected, the harder recovery of funds was;
- Rotherham had implemented a range of preventative measures over time and, as a result, lower levels of fraud were identified going forward as more robust control processes were applied to prevent fraud in the first place.

The Director for Financial Services outlined future developments planned by the Department for Work and Pensions in setting up a single fraud investigatory service in December, 2015. This would cause the Audit Commission to cease.

The Local Authority was evaluating tenders relating to a project to assess whether the Authority was maximising business rates. Discussion followed on this matter. It was noted that Rotherham was in the top quartile performance for collection of Business Rates.

Resolved: - (1) That "The National Fraud Initiative 2012/13" report be noted.

(2) That the Council's participation in NFI exercises as part of its arrangements for managing the risk of fraud be continued.

N24. REVIEW OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN FOR THE SIX MONTHS ENDING 30TH SEPTEMBER 2014

The report presented by the Chief Auditor that outlined progress against the Internal Audit Plan for the six-months ending 30th September, 2014, was noted.

Progress against the Audit Plan remained slightly below target at the end of September, 2014, due to a reduced headcount in the Service and the extended scope on some pieces of work. Additionally, following the publication of the Jay Report in August, the Service had examined the issues highlighted by it, including carrying out a specific piece of work looking at the Council's Home to School Transport contracts and assertions relating to the removal of files from the Risky Business project.

Appendix A showed the audit reports that had been issued during the first six- months of the financial year. Audit findings in most areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. Audit reports demonstrated opportunities to strengthen arrangements in some areas.

To September, 2014, Internal Audit work identified three areas that necessitated an 'inadequate' opinion: -

- CYPS: Contract for School Improvement Activity;
- EDS: Highways Final Accounts Arrangements;
- EDS: Blue Badge Scheme.

Discussion followed and Councillor Kaye asked about the implementation of the recommendations in relation to Rotherham's Blue Badge Scheme. Certain recommendations had not been implemented. The Chief Auditor explained that the recommendation had arisen out of auditing the process applicants followed to be awarded a blue badge. The Audit Committee requested that the Service Director be called to a future meeting to account for the implementation of recommendations.

Resolved: - (1) That the report be received and the performance of the Internal Audit Service during the period be noted.

(2) That the key issues arising from the work done in the period be noted.

(3) That the Service Director for the Blue Badge Scheme be called to a future meeting of the Audit Committee to account for the implementation of recommendations.

N25. RISKS AND ISSUES ARISING FROM THE JAY REPORT INTO CHILD SEXUAL EXPLOITATION IN ROTHERHAM 1997 - 2013

Consideration was given to the report presented by the Chief Auditor that outlined the background and provided an update arising from the Jay Report into Child Sexual Exploitation.

The report outlined the Audit Committee's responsibilities to receive regular updates on progress against the fifteen inspection recommendations. This would enable the Committee to fulfil its terms of reference with regard to the Council's response to the risks and issues raised. It would also enable the Committee to ask for further information in any particular areas, particularly where progress might not be as required.

Different layers of the organisation were looking at the recommendations and response to the Jay Report by both Officers and the Executive.

The Audit Committee would receive twice yearly updates on the progress against inspection recommendations and the management of risk. Specific issues requiring more immediate attention would be presented as they arose.

Internal Audit would focus on a range of issues highlighted in the Jay Report: -

- Taxi licensing arrangements;
- Home to school transport;
- Data protection and security;

- Review of the whistle blowing process - adequacy and effectiveness of arrangements for, and the management of the policy and procedures for the whistle blowing process;
- Adequacy of performance management arrangements including monitoring, supervision and the provision of sound information systems.

Resolved: - (1) That the implications of the Jay Report, recent Ofsted inspections and other related reviews on the work of Internal Audit and the Audit Committee be noted.

(2) That further regular reports on progress in relation to the work identified be presented to the Audit Committee on a twice yearly basis, or more regularly if matters arose.

N26. ANY OTHER BUSINESS

It was noted that Audit Commission Institute invitations was shortly be issued and members of the Audit Committee were urged to attend.

N27. DATE AND TIME OF THE NEXT MEETING: -

Resolved: - That the next meeting of the Audit Committee take place on Wednesday 21st January, 2015, to start at 4.00 p.m. in the Rotherham Town Hall.

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**18 February 2015**
3.	**Title:**	**Prudential Indicators and Treasury Management and Investment Strategy 2015/16 to 2017/18**
4.	**Directorate:**	**Resources**

5. Summary

In accordance with the Prudential Code for Capital Finance, the Secretary of State's Guidance on Local Government Investments, CIPFA's 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 2015/16 to 2017/18 (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 Department for Communities and Local Government (CLG) investment guidance (Appendix B)

Albeit a technical and complex report the key messages for Audit Committee are:

a. Investments – the primary governing principle will remain **security** over return and the criteria for selecting counterparties reflect this. Cash available for investment will remain low, resulting in low returns.
b. Borrowing – overall, this will remain fairly constant over the period covered by this report and the Council will remain under-borrowed against its borrowing requirement due to the higher cost of carrying debt. New borrowing will only be taken up as debt matures.
c. Governance – strategies are reviewed by the Audit Committee with continuous monitoring which includes Mid-Year and Year End reporting.

6. Recommendations

Audit Committee is asked to recommend to Cabinet that they recommend Council:

1. **Approve the prudential indicators and limits for 2015/16 to 2017/18 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 2015/16 to 2017/18 and the Authorised Limit Prudential Indicator (Appendix B)**
4. **Approve the Investment Strategy for 2015/16 to 2017/18 (Appendix B – Section (e) and Annex B1)**

7. Proposals and Details

7.1 Background

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are prepared in order to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities, the CIPFA Code of Practice for Treasury Management in Local Authorities, and CLG Investment Guidance.

Prior to the commencement of each financial year the Director of Financial Services, who has delegated authority to carry out treasury management activities on behalf of the Council, is required to seek the approval of the Council to the **Prudential and treasury indicators and treasury strategy.** This report, the first, and most important report covers:

- the capital expenditure plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how capital expenditure funded by borrowing is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

The other reports submitted to Members are:

- **A mid year treasury management report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- **An annual treasury report** – This will provide details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
Reports on Treasury matters are required to be adequately scrutinised before being recommended to the Council and this role is undertaken by Audit Committee.

The Council's 2014/15 Prudential Indicators & Treasury Management and Investment Strategy was approved by Council on 5 March 2014, whilst a Mid-Year report which updated the 2014/15 approved indicators was approved by Council on 28 January 2015. This report provides an update for the period 2014/15 to 2016/17 and introduces new indicators and forecasts for 2017/18.

Sections 7.2 to 7.4 of the report summarise the key elements of the Council's Capital Expenditure Plans & Prudential Indicators and the Treasury Strategy (including the Investment Strategy) which require Council approval. Supporting detail is provided in the Appendices.

Appendix A sets the background to the prudential indicators relating to the Council's capital expenditure plans, the capital financing requirement and affordability generally. In addition the proposed MRP Statement is also included in this Appendix.

Appendix B sets out the Treasury Management Strategy (including the Investment Strategy). Within the overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. Some prudential indicators are therefore shown in the Treasury Management Strategy to aid understanding together with the limits on Treasury activity.

The Strategy has been drawn up in association with the Council's treasury management advisors, Capita Asset Services, part of The Capita Group plc.

This is a technical and complex report however the key messages are:

a. Investments – the primary governing principle will remain **security** over return and the criteria for selecting counterparties reflect this. Cash available for investment will remain low, resulting in low returns.
b. Borrowing – overall, this will remain fairly constant over the period covered by this report and the Council will remain under-borrowed against the borrowing requirement due to the higher cost of carrying debt. New borrowing will only be taken up as debt matures.
c. Governance – strategies are reviewed by the Audit Committee with continuous monitoring which includes the Mid-Year and Year End reporting.

7.2 Prudential Indicators

7.2.1 Indicators for Capital Expenditure, the Capital Financing Requirement & Affordability

The Prudential Indicators included in the Prudential Code and submitted for approval are summarised as:

RMBC	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
Capital Expenditure	£78.894m	£70.024m	£46.410m	£37.453m
Capital financing requirement	£747.671m	£769.543m	£762.782m	£752.041m
Authorised limit for external debt (RMBC)	£774.798m	£787.924m	£776.462m	£764.208m
Operational boundary for external debt (RMBC)	£601.489m	£620.923m	£619.258m	£629.892m
Ratio of financing costs to net revenue stream – Non HRA	8.67%	8.24%	8.54%	8.14%
Ratio of financing costs to net revenue stream – HRA	17.28%	16.07%	15.74%	15.51%
Incremental impact of capital expenditure plans on the Band D Council Tax	£7.10	£7.55	£12.54	£0.64
Incremental impact of capital expenditure plans on housing rents levels	£0.06	£0.04	£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 expenditure plans as already budgeted for within the proposed Revenue Budget for 2015/16 and the Council's Medium Term Financial Strategy, **and does not indicate additional requirements of Rotherham council tax payers**.

For the Former South Yorkshire County Council the Prudential Indicators included in the Prudential Code and submitted for approval are summarised as:

Former SYCC	**2014/15 Revised**	**2015/16 Estimated**	**2016/17 Estimated**	**2017/18 Estimated**
Authorised limit for external debt (Former SYCC)	£96.121m	£96.121m	£86.709m	£76.709m
Operational boundary for external debt (Former SYCC)	£96.121m	£96.121m	£86.709m	£76.709m

7.2.2 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 2014/15 Strategy; in line with the requirements of the new Code the maturity profile has been updated and extended; and the investment limits beyond 364 days have been maintained to reflect the continued investment strategy.

RMBC	**2015/16**	**2016/17**	**2017/18**
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 2015/16		
	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	2015/16	2016/17	2017/18
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 2015/16		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	70%
2 years to 5 years	0%	100%
5 years to 6 years	0%	100%

7.3 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 as follows:-

(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 either supported or 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.

7.4 Review of the Currently Approved Investment Strategy

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.

Current operational guidelines have enhanced the weighting towards 'security' 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).

The above was also reinforced within the currently approved strategy by tightening the criteria for choosing counterparties. 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 challenging global 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 have remained low as market conditions still dictate that it continues to be prudent to defer borrowing plans and to fund on-going capital expenditure commitments through the use of the Council's internal cash-backed resources.

Actual returns on investment opportunities remain subdued when compared to the years prior to 2008 but the revenue impact has been effectively and prudently managed by also 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 2014/15 and 2015/16 revenue budget. This is a significant achievement given the prevailing economic and financial conditions.

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	5 years
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
The Council's Bankers	-	-	-	£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.

8. Finance

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

The assumptions supporting the capital financing budget for 2015/16 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 other than those identified and planned for in both the Council's 2015/16 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 – 5 February & 19 November 2014
Cabinet – 26 February & 17 December 2014
Council – 5 March 2013 & 28 January 2015
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

CAPITAL EXPENDITURE PLANS & PRUDENTIAL INDICATORS 2015/16 TO 2017/18

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 2017/18.

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 2015/16 to 2017/18 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:

	2014/15 Revised £m	**2015/16 Estimated £m**	**2016/17 Estimated £m**	**2017/18 Estimated £m**
Children & Young People's Services	11.419	9.736	2.694	0.000
Env & Dev Services	27.484	21.863	5.929	0.000
Neighbourhoods & Adult Services – Non HRA	5.230	4.908	3.650	2.820
Resources	2.753	0.671	1.283	0.706
Total Non-HRA	**46.886**	**37.178**	**13.556**	**3.526**
HRA	32.008	32.846	32.854	33.927
Total HRA	**32.008**	**32.846**	**32.854**	**33.927**
Total expenditure	**78.894**	**70.024**	**46.410**	**37.453**
Capital receipts	6.236	1.649	1.100	1.100
Capital grants, capital contributions & sources other capital funding	62.396	48.559	39.817	34.927
Total financing	**68.632**	**50.208**	**40.917**	**36.027**
Net financing need for the year	**10.262**	**19.816**	**5.493**	**1.426**

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. It is estimated the Council will have £137.602m within the CFR at 1 April 2015 in respect of such schemes.

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

	2014/15 Revised £m	**2015/16 Estimated £m**	**2016/17 Estimated £m**	**2017/18 Estimated £m**
CFR – General Fund	442.088	463.098	456.337	445.596
CFR – HRA	305.583	306.445	306.445	306.445
Total CFR	**747.671**	**769.543**	**762.782**	**752.041**
Movement in CFR	**-1.779**	**21.872**	**-6.761**	**-10.741**
Movement in CFR represented by:				
Net financing need for the year (above)	10.262	19.816	5.493	1.426
Net financing need for the year (OLTL - Waste PFI)	0.000	13.518	0.000	0.000
Less General Fund MRP/VRP and other financing movements	-12.041	-11.462	-12.254	-12.167
Movement in CFR	**-1.779**	**21.872**	**-6.761**	**-10.741**

MRP Policy Statement

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 to the equal instalments method.

The Council is recommended to approve the following MRP policy in relation to the charge for the 2015/16 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 either supported or 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. The HRA charges depreciation on its assets, which is a revenue charge. To alleviate the impact of this charge falling on the tenants, HRA regulations allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years under self-financing (up until 2017/18).

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 expenditure plans has on the Council's borrowing position.

17. Within this framework prudential indicators are used to assess the affordability of the capital expenditure plans. Further indicators are used to provide an indication of the impact the capital expenditure plans 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.

19. The estimates of financing costs include all current commitments, the proposals contained in the proposed 2015/16 Revenue Budget and updated future years' capital expenditure plans.

Ratio of financing costs to Net Revenue Stream				
	2014/15 Revised %	2015/16 Estimated %	2016/17 Estimated %	2017/18 Estimated %
Non-HRA	8.67	8.24	8.54	8.14
HRA	17.28	16.07	15.74	15.51

20. **Estimates of the incremental impact of capital expenditure plans 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 expenditure plans as already budgeted for within the proposed Revenue Budget for 2015/16 and the Council's Medium Term Financial Strategy, **and does not indicate additional requirements of Rotherham council tax payers**.

Incremental impact of capital expenditure plans on the Band D Council Tax				
	Revised 2014/15 £	Proposed Budget 2015/16 £	Projection 2016/17 £	Projection 2017/18 £
Council Tax – Band D	7.10	7.55	12.54	0.64

21. **Estimates of the incremental impact of capital expenditure plans 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 expenditure plans on the Housing Rent levels				
	Revised 2014/15 £	Proposed Budget 2015/16 £	Projection 2016/17 £	Projection 2017/18 £
Weekly Housing Rent levels	£0.06	£0.04	£0.00	£0.00

Appendix B

TREASURY MANAGEMENT STRATEGY 2015/16 – 2017/18

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 plans, 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. As a minimum a mid-year monitoring report is produced with a further report produced after the year-end to report on actual activity for the year.

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; and
   (h) Policy on the use of external service advisers.

(a) Debt and Investment Projections 2015/16 – 2017/18

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	2014/15 Revised £m	2015/16 Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m
External Debt				
Borrowing at 1 April	476.164	473.922	481.656	474.761
Expected change in debt	-2.242	7.734	-6.895	19.688
Borrowing at 31 March	473.922	481.656	474.761	494.449
Other long-term liabilities (OLTL) at 1 April	127.567	125.749	137.602	135.443
Expected change in OLTL	-1.818	11.853	-2.159	-2.727
Other long-term liabilities (OLTL) at 31 March	125.749	137.602	135.443	132.716
Total Borrowing & OLTL at 31 March	599.671	619.258	610.204	627.165
CFR – the borrowing need	747.671	769.543	762.782	752.041
Under/(over) borrowing	148.000	150.285	152.578	124.876
Investments				
Total Investments at 1 April	19.749	25.000	25.000	25.000
Investment change	5.251	0.000	0.000	0.000
Total Investments at 31 March	25.000	25.000	25.000	25.000
Net borrowing at 31 March	123.000	125.285	127.578	99.876

Ex SYCC	2014/15 Revised £m	2015/16 Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m
External Debt				
Borrowing at 1 April	96.121	96.121	86.709	76.709
Expected change in debt	0.000	9.412	-10.000	-39,709
Borrowing at 31 March	96.121	86.709	76.709	37.000
Investments				
Total Investments at 1 April	0.000	0.000	0.000	0.000
Investment change	0.000	0.000	0.000	0.000
Total Investments 31 March	0.000	0.000	0.000	0.000
Net borrowing at 31 March	96.121	86.709	76.709	37.000

(b) Limits to Borrowing Activity

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 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years.

RMBC	2014/15 Revised £m	2015/16 Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m
Borrowing	599.671	619.258	610.204	627.165
Investments	25.000	25.000	25.000	25.000
Net Borrowing	574.671	594.258	585.204	602.165
CFR	747.671	769.543	762.782	752.041
CFR less Net Borrowing	**173.000**	**175.285**	**177.578**	**149.876**

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)	2014/15 Revised £m	2015/16 Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m
Borrowing	647.231	648.657	638.860	628.765
Other long term liabilities	127.567	139.267	137.602	135.443
Total	774.798	787.924	776.462	764.208

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit remains unchanged until there is any change in Government legislation. Interest calculated with reference to the HRA CFR is charged on a fair & equitable basis.

HRA Debt Limit	2014/15 Revised £m	2015/16 Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m
HRA Debt Cap	336.623	336.623	336.623	336.623
HRA CFR	305.583	306.445	306.445	306.445
HRA Headroom	31.040	30.178	30.178	30.178

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

Authorised Limit for External Debt (Former SYCC)	2014/15 Revised £m	2015/16 Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m
Borrowing	96.121	96.121	86.709	76.709
Other long term liabilities	0.000	0.000	0.000	0.000
Total	96.121	96.121	86.709	76.709

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)	2014/15 Revised £m	2015/16 Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m
Borrowing	473.922	481.656	481.656	494.449
Other long term liabilities	127.567	139.267	137.602	135.443
Total	601.489	620.923	619.258	629.892

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

Operational Boundary for External Debt (Former SYCC)	2014/15 Revised £m	2015/16 Estimated £m	2016/17 Estimated £m	2017/18 Estimated £m
Borrowing	96.121	96.121	86.709	76.709
Other long term liabilities	0.000	0.000	0.000	0.000
Total	96.121	96.121	86.709	76.709

12. **Policy on 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 value 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 fourth quarter of 2015. This is despite inflation being below the Monetary Policy Committee inflation target of 2% and unemployment falling below the 7% at which point the Bank of England had indicated it may consider increasing the rate. Due to on-going issues in areas of the world economy, most notably the Eurozone, there is continuing uncertainty in the financial markets. As a result, the outlook for borrowing rates also continues to be uncertain and difficult to predict. Short-term rates to one-year are expected to remain at current levels. The outlook for long-term interest rates continues to be favourable in the near future, but is expected to become less so towards the end of the next financial year.

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

- Investment returns are likely to remain relatively low during 2015/16;

- Borrowing interest rates are currently attractive but are less likely to remain so going forward. The Council has adopted a policy of delaying new borrowing by utilising spare cash balances over the last few years. This approach needs to be carefully reviewed to avoid incurring higher borrowing costs in future, when the Council will not be able to delay new borrowing to finance new capital expenditure and/or to refinance maturing debt. The timing of any borrowing will therefore be monitored carefully; and

- 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 2015/16 – 2017/18

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 remains relatively high.

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 2015/16 – 2017/18

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 investment decision is taken.

27. **Changes to Credit Rating Methodology**

The main rating agencies have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts" but the actual timing of the changes is still subject to discussion.

Immediate changes to the credit methodology are being introduced by our advisors and as a result, the credit element of their future methodology will focus solely on the Short and Long Term ratings of an institution.

28. 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-

To allow for the day to day management of the Council's cash flow the Council's bankers 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.

29. 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.

30. 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	5 years
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 Bankers	-	-	-	£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

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

32. 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.

33. 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

34. 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 this Strategy period any such variations are thought unlikely and the debt can be regarded as fixed.

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

RMBC	2015/16	2016/17	2017/18
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 2015/16		
	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	2015/16	2016/17	2017/18
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 2015/16		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	70%
2 years to 5 years	0%	100%
5 years to 6 years	0%	100%

(g) Treasury Performance Indicators

36. 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 2015/16:

- 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) Training

37. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Training has recently been undertaken by Members of the Audit Committee and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

(i) Policy on the use of external service advisors

38. The Council uses Capita Asset Services a subsidiary of The Capita Group plc as its treasury management advisors.

39. 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.

40. 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 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%	0.27%	0.38%
A	0.09%	0.24%	0.43%	0.61%	0.86%
BBB	0.20%	0.59%	1.02%	1.52%	2.00%

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 0.20% (e.g. for a £1m investment the average loss would be £2,000).

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 2015/16 is 0.09% which means that for every £1m invested the average potential loss would be £900. This position remains unchanged from 2014/15.

The Council's Treasury advisers maintain a continuous review of the risk position by the inclusion the Council's daily investment position within their online model.

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 – on a day-to-day basis the Council works to an agreed overdraft limit of £100,000 with the Council's bankers. Whilst a short-term increase could be negotiated less expensive short-term borrowing is accessed through the financial markets to remain within the agreed overdraft.
- 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 2015/16 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 5

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**18th February 2015**
3.	**Title:**	**KPMG External Audit Plan 2014/15**
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 2014/15, noting the proposed areas for audit identified.

7. Proposals

KPMG's External Audit Plan sets out the proposed audit work to be undertaken in relation to the 2014/15 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.

<u>Financial Statements</u>

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 4 (pages 11 to 13 of the Plan) sets out the areas that KPMG will focus on during the audit in forming their opinion on the Financial Statements. The 4 areas to be reviewed are:

- Child Sexual Exploitation claims
- Accounting for school assets used by local authority maintained schools
- Digital Region closure costs, and
- The Council's new banking arrangements

In forming their opinion, KPMG will have regard to the materiality levels on page 6 of the Plan, namely, £15m overall materiality for planning purposes and a £750k triviality threshold.

KPMG's findings on the audit of the financial statements (ISA 260 report) will be reported to Audit Committee at its meeting in September prior to giving their opinion.

<u>Value for Money Conclusion</u>

KPMG's approach to reaching their Value For Money conclusion is set out in Section 5 (pages 14 to 17 of the Plan). The two key themes are:

- The Council's financial resilience to manage effectively its financial risks and opportunities 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, KPMG have yet to complete their initial risk assessment, pending the publication of the Corporate Governance Inspection.

Reporting

The table on page 20 of the Plan sets out the timing and nature of the audit reports KPMG will issue over the course of the 2014/15 audit.

Page 19 of the Plan identifies the key members of the audit team.

8. Finance

The 2014/15 audit fee of £186,300 is based on KPMG's assessment of the level of risk. The fee is the same as in 2013/14 and in line with expectations based on the Audit Commission's published work programme and scales of fees.

9. Risks and Uncertainties

The External Audit Plan and audit fee is based on the assumptions set out on page 22 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 Interim Strategic Director of Resources and Transformation. They will then be brought to the attention of the Audit Committee outlining the reasons for any change.

The Audit Commission have confirmed the re-appointment of KPMG for a further two years 2015/16 and 2016/17, which may be extended by a further three years to 2020. DCLG has indicated it will make a decision on whether or not to extend in the summer of 2015.

The Audit Commission have set a proposed fee of £140,828 for 2015/16 representing a 25% reduction on the 2014/15 fee. The fee for 2016/17 and subsequent years will be set by the Public Sector Audit Appointments company set up by the LGA as successor body to the Audit Commission.

To realise these savings, there will be a continuing need to provide the auditor with complete and materially accurate financial statements and supporting working papers which meet external audit requirements, within agreed timeframes.

10. Policy and Performance Agenda Implications

Sustaining in 2014/15, the very positive Audit Reports of recent years, will maintain the Council's excellent reputation for good financial management, governance and reporting and position itself to take advantage of the anticipated fee reductions in 2015/16.

11. Background Papers and Consultation

External Audit Plan 2014/15
Audit Appointment letter 2015/16
Audit Commission work programme and scale of fees

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External Audit Plan 2014/15

Rotherham Metropolitan Borough Council

29 January 2015

Contents

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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 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for Rotherham Metropolitan Borough Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

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* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/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.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- 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 arrangements 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

This section summarises our approach to your financial statements and VFM audit.

Audit approach	Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the finance team. Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risks	We have completed our initial risk assessment for the financial statements audit and have identified the impact of Child Sexual Exploitation claims and the treatment of local authority maintained schools on the financial statements as significant risks. These risks are described in more detail on pages 11 and 12. We will assess these risk areas as part of our interim work and conclude this work at year end.
VFM audit approach	We have not yet completed our initial risk assessment for the VFM conclusion because we have not yet concluded our work on the 2013/14 VFM conclusion. Our VFM audit approach requires us to consider findings from other inspectorates and review bodies. During the course of our work on the 2013/14 VFM conclusion the Independent Inquiry into Child Sexual Exploitation in Rotherham reported. The output of this Independent Inquiry created a significant risk and as a result we have identified some areas of further work we need to consider before we can issue our VFM conclusion for 2013/14. However, the areas we need to consider are included in inspections commissioned by central government. Once the inspections are concluded and reported, we will consider the impact on our VFM conclusion for 2013/14. We will then undertake our initial risk assessment for the 2014/15 VFM conclusion.
Audit team, deliverables, timeline and fees	The core audit team has remained broadly consistent to last year. Rashpal Khangura is now your Engagement Lead and Amy Warner remains as your Assistant Manager. Your new Senior Manager is Debra Chamberlain. Our main year end audit is currently planned to commence in late June. Upon conclusion of our work, we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The planned fee for the 2014/15 audit is £186,300. This is unchanged from the position set out in our *Audit Fee Letter 2014-15*.

Our audit approach

We undertake our work on your financial statements in four key stages during 2015:

- **Planning (January to February).**
- **Control Evaluation (February to April).**
- **Substantive Procedures (June 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 work undertaken by the internal audit on controls relevant to our risk assessment.		○	○						
		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 (continued)

During January and February 2015 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 that would impact on our audit.

Our planning work takes place in January and February 2015. This involves the following aspects:

Planning

- Update our business understanding and risk assessment including fraud risk.
- 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 including risk of fraud 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. Any risks identified to date through our risk assessment process 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 the relevant 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 to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). 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 professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

Our audit approach –planning (continued)

When we determine our audit strategy we set a monetary materiality level for planning purposes.

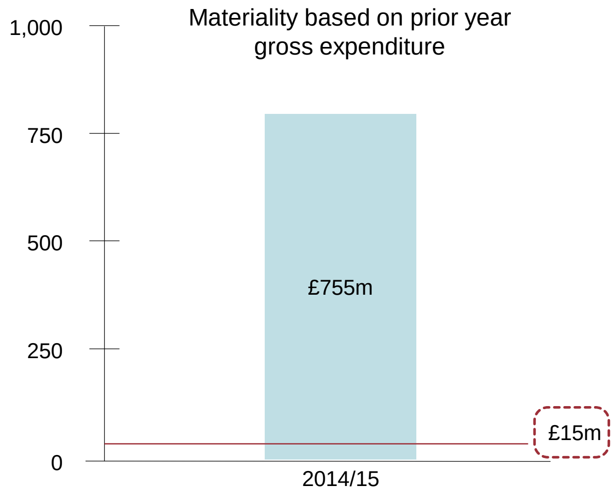
For 2014/15 we have set this at £15 million.

We will report all audit differences over £750k to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.



Materiality for planning purposes has been set at £15m, which equates to 2 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) *'Communication with those charged with governance'*, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), *'Evaluation of misstatements identified during the audit',* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Our audit approach – planning (continued)

We will issue our *Accounts audit protocol* following completion of our planning work.

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.

We met with the core finance team to discuss mutual learning points from the 2013/14 audit. These will be incorporated into our work plan for 2014/15. We revisit progress against areas identified for development as the audit progresses.

Our audit approach – control evaluation

During February to April 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15. We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim visit will be completed during February 2015. 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.

Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment 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.

If there are any significant findings arising from our interim work we will present these to the relevant Audit Committee.

Our audit approach – substantive procedures

During July to August 2015 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 2015.

Our final accounts visit on site has been provisionally scheduled for late June/early July. 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 key risk areas 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 Strategic Director of Resources & Transformation in September 2015, prior to reporting to the Audit Committee in September 2015.

Audit adjustments

During our on site work, we will meet with the core finance team on a regular 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 part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

Our audit approach – other matters

In addition to the financial statements, we also review 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 your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified audit approach for 2014/15 have not yet been confirmed.

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 specific 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 19.

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.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of January 2015 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

In this section we set out our assessment of the significant risks and other key areas of audit focus of the Authority's financial statements for 2014/15.

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

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*. As noted below, we do not consider these risks reflect any specific circumstances identified or expected in relation to the Authority.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

The table below and overleaf sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15. On page 13 we outline our areas of audit focus. These are areas which, based on our risk assessment, do not constitute a significant risk but still require additional audit focus.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
Child Sexual Exploitation Claims **Audit areas affected** - Provisions / Contingent liabilities	**Risk** At the time of undertaking our planning work, there is still uncertainty around the number and value of Child Sexual Exploitation (CSE) claims the Authority will receive. **Our proposed audit work** We will review the treatment of CSE claims within the financial statements and consider this against the criteria in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, which provides guidance for the appropriate accounting treatment when there are uncertainties over claims.

Key financial statements audit risks (continued)

Key audit risks

Local Authority Maintained Schools

Audit areas affected

- Property Plant and Equipment

Impact on audit

Risk

LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.

Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.

Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.

Our proposed audit work

As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include :

- Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools;
- Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary; and
- Determining whether the basis of valuation of assets which are brought on balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers (if applicable).

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Key financial statements audit risks (continued)

For each area of audit focus we have outlined the impact on our audit plan.

Area of other audit focus	Impact on audit
Digital Region Limited → **Audit areas affected** ■ Provisions	During 2013/14 the Authority (and other members of the joint venture agreement) took a decision to close its Joint Venture company, Digital Region Limited (DRL). Significant costs had already been provided for in earlier years, when these costs became accruable under the accounting standard governing provisions (IAS37). We will review the provision value against any updated costs estimate arising from the closure of DRL commenting on its material accuracy and completeness as needed.
Transition to new bank account → **Audit areas affected** ■ Cash	As part of the Co-Op's rationalisation of its portfolio, it is no longer providing banking services to the public sector. As such, the Authority has procured a new banking service provider (NatWest). The transition is planned for February 2015. We will review the process to ensure the associated balances in the financial statements are fairly stated.

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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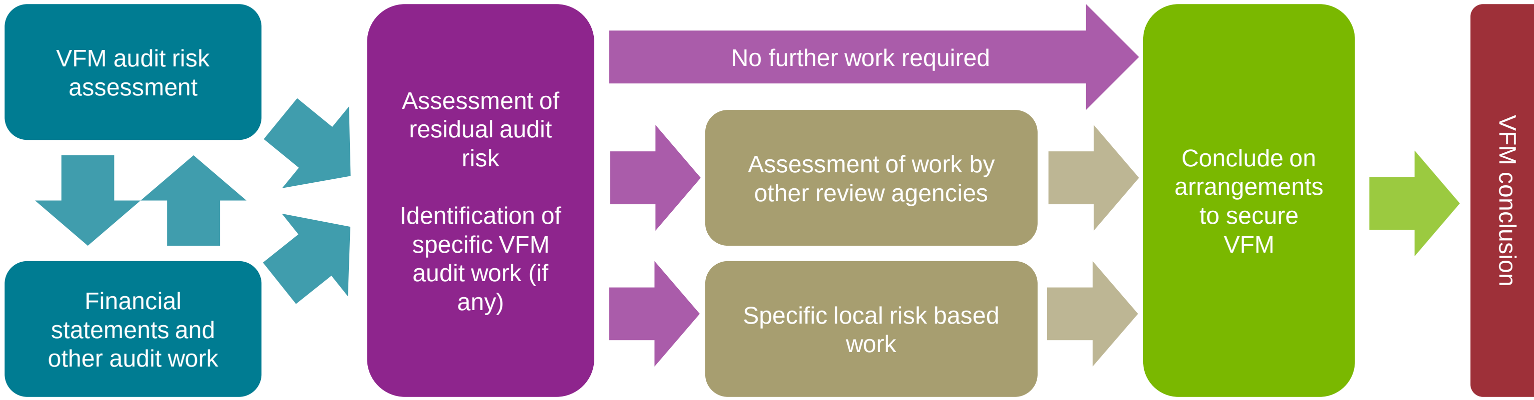
VFM audit approach (continued)

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.



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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; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of other inspectorates and review agencies.

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, inspectorates and other 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 have completed our initial risk assessment and have identified one risk to our VFM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our ISA 260 Report.

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. We are yet to conclude on the 2013/14 audit as we are awaiting the results of the Corporate Governance Inspection.
Reporting	On the following page, we report the results of our initial risk assessment. We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise 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.

VFM audit approach (continued)

We have not yet completed our initial risk assessment for the VFM conclusion because we have not yet concluded our work on the 2013/14 VFM conclusion. Our VFM audit approach requires us to consider findings from other inspectorates and review bodies. During the course of our work on the 2013/14 VFM conclusion the Independent Inquiry into Child Sexual Exploitation in Rotherham reported. The output of this Independent Inquiry created a significant risk and as a result we have identified some areas of further work we need to consider before we can issue our VFM conclusion for 2013/14. However, the areas we need to consider are included in inspections commissioned by central government. Once the inspections are concluded and reported, we will consider the impact on our VFM conclusion for 2013/14. We will then undertake our initial risk assessment for the 2014/15 VFM conclusion.

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Rashpal and Amy have both been part of your audit team for a number of years. Debra is a new addition to the team following Rashpal's promotion to Director.

Contact details are shown on page 1.

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

Rashpal Khangura

Director

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and Chief Executive."

Debra Chamberlain

Senior Manager

"I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I am responsible for the management, delivery and review of the audit.

I will work closely with Rashpal Khangura to ensure we add value.

I will liaise with Interim Strategic Director of Resources and Transformation, senior members of the finance team and Head of Internal Audit."

Amy Warner

Assistant Manager

"I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants."

Audit deliverables

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outlines our audit approach and significant risks. ■ Identifies areas of audit focus and planned procedures.	**February 2015**
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	**September 2015**
Completion		
Auditor's Report	■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2015**
Whole of Government Accounts	■ Provide our assurance statement on the Authority's WGA pack submission.	**September 2015**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2015**

Audit timeline

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

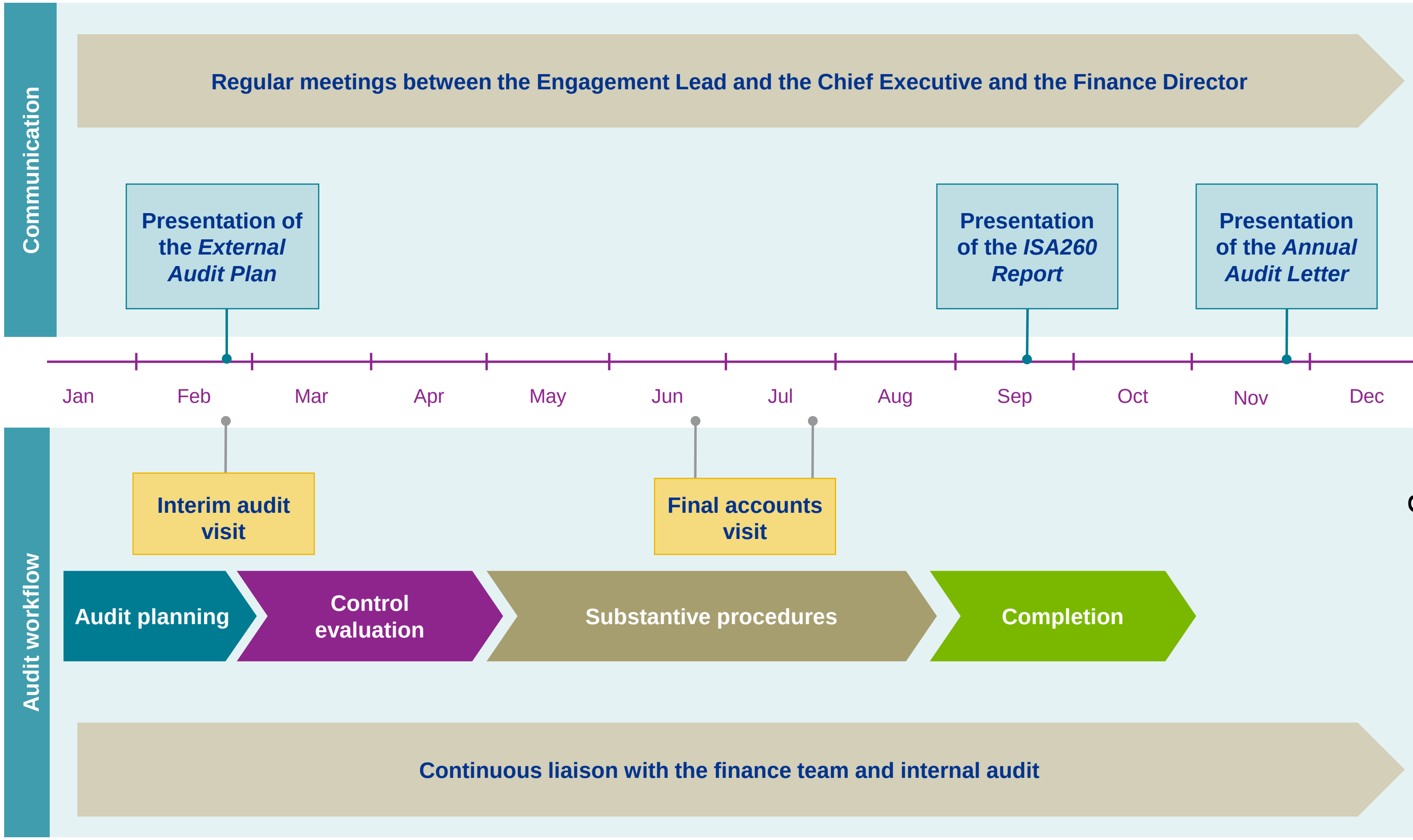
Key formal interactions with the Audit Committee are:

- February – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team throughout the year.

Our main work on site will be our:

- Interim audit visits during February.
- Final accounts audit during June and July.



Key: ● Audit Committee meetings.

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Audit fee

The fee for the 2014/15 audit of the Authority is £186,300. The fee has not changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014.

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 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2014/15 is £186,300. This is the same as the audit fee for 2013/14.

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 2014/15;
- 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 2014/15* within your 2014/15 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;
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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 continues to maintain 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 Interim Strategic Director of Resources and Transformation.

Appendix 1: 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:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- 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 a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

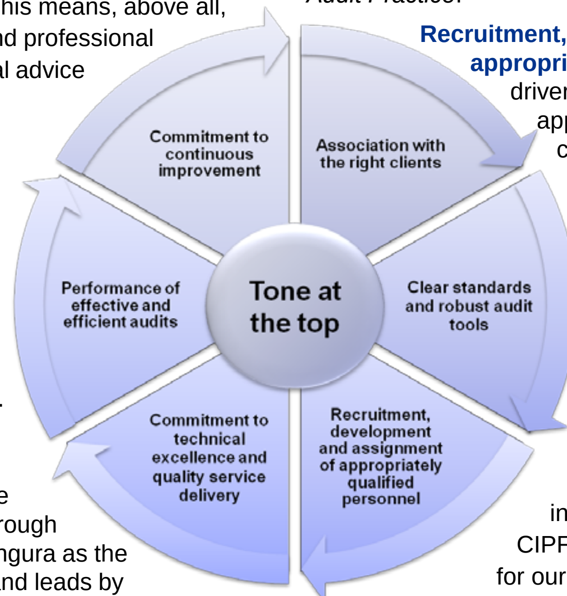
We continually focus on delivering a high quality audit.

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. Rashpal Khangura 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 quarterly technical training.

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Appendix 2: 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- 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 Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

Appendix 3 : Assessment of fraud risk

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management./officers

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.

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Appendix 4: Transfer of Audit Commissions’ functions

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions’ regulatory and other functions.

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission’s audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA’s responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors’ work. The responsibility for making arrangements for publishing the Commission’s value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission’s other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission’s responsibilities for local value for money studies will also transfer to the NAO;
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office; and
- the Commission’s counter-fraud function will transfer to the new public sector Counter Fraud Centre established by the Chartered Institute of Public Finance and Accountancy (CIPFA).

cutting through complexity™

Agenda Item 6

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**18 February 2015**
3.	**Title:**	**KPMG Grants Report 2013/14**
4.	**Directorate:**	**Resources**

5. Summary

The report advises Audit Committee of the matters arising from the external audit of the Council's 2013/14 government grants and returns (KPMG report attached as Appendix 1).

6. Recommendations

That Audit Committee notes:

- **the external auditor's report**
- **whilst the fees increased for carrying out grant certification work due to additional testing requirements, the Council has sustained good performance in both preparing and submitting its 2013/14 grant claims and returns**

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 2013/14.

The main findings are:

- KPMG were required to audit 3 claims and returns in 2013/14 with an aggregate value of £102m and issued a qualification certificate for one return and unqualified certificates for the remaining two grants and returns.

  Several issues lead to qualification and amendment of the Housing Benefit subsidy claim; these were mainly attributable to benefit assessor inputting errors. The impact on the subsidy of the majority of these errors, however, is expected to be minimal. The qualification issue related to the claim including payment runs made on 1, 2 and 4 April 2014 and these payments are for periods linking two financial years, and as such should be claimed in the year in which the payment is made, therefore, they should have been included in the 2014/15 claim, irrespective of the fact the payment made related to 2013/14. **KPMG have previously commented that this grant is a very complex and high value grant (£92m 2013/14).**

- **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.

<u>The Council continues to maintain the high standard achieved in recent years.</u>

The Audit Commission's indicative grant fee for the Council for 2013/14 was set at £20k (£21k 2012/13). The actual fee charged varied from the original indicative amount due to changes in the following requirements and resulted in the following budget pressures:

- The Local Transport plan – Major Projects grant was not included in the original indicative figure resulting in an increase of £1k.
- The Pooling of Housing Capital Receipts has an increase of £0.5k due to the requirement to undertake both Part A and Part B testing, which is required every three years.
- The Housing Benefit subsidy claim includes a fee increase of £2.7k due to the requirement to undertake additional testing.

-

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 to a minimum.

8. Finance

The increase in fees for carrying out grant certification work is as a result of additional testing resulting in a budget pressure of £4.2k.

9. Risks and Uncertainties

There are no outstanding risks or uncertainties as all the 2013/14 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 2014/15.

11. Background Papers and Consultation

External Auditor's Grants Report 2013/14

Contact Name: *Stuart Booth, Strategic Director of Resources and Transformation, extension 22034 stuart.booth@rotherham.gov.uk*
Simon Tompkins, Finance Manager, extension 54513
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Mr Stuart Booth
Strategic Director of Resources &
Transformation
Rotherham Metropolitan Borough Council
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S60 1AE

Our ref RK/JR/Let-30

13 January 2015

Dear Stuart

Certification of claims and returns - annual report 2013/14

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for the certification work we have undertaken for 2013/14.

In 2013/14 we carried out certification work on the following claims/returns:

Claim/return	**Certified value (£)**
BEN01 – Housing Benefit subsidy claim	92,533,752
CFB06 – Pooling of Housing Capital Receipts	3,783,106
TRA11 – Local Transport Plan Major Projects	5,447,820
Total	**101,764,678**

Matters arising

Our certification work did not identify any issues or errors with the Pooling of Housing Capital Receipts and Local Transport Plan Major Projects, and we certified these claims/returns unqualified without amendment.

On the Housing Benefit subsidy claim, there were several issues which led to qualification and amendment of the claim; these were mainly attributable to benefit assessor inputting errors. The impact on subsidy of the majority of these errors, however, is expected to be minimal. The qualification issue related to the claim including entries for payment runs made on 01, 02 and 04 April. Since these payments were made in 2014/15, they should be included in the 2014/15 claim, irrespective of the fact the payments related to 2013/14.

Certification work fees

The Audit Commission set an indicative fee for our certification work in 2013/14 of £19,733. Our actual fee (£24,039) was higher than the indicative fee, and this compares to the 2012/13 fee for these claims of £21,516.
The details are set out in the table below.

Claim	**2013/14 Indicative fee (£)**	**2013/14 Final fee (£)**	**2012/13 Final fee (£)**
BEN01 – Housing Benefit subsidy claim	18,363	21,101	18,320
CFB06 – Pooling of Housing Capital Receipts	1,370	1,900	941
TRA11 – Local Transport Plan Major Projects	-	1,038	2,255
LA01 – National Non-Domestic Rates	-	-	1,737
PEN05 – Teachers Pension Return	-	-	1,646
Total	**19,733**	**24,039**	**24,899**

The final fee for Housing Benefit subsidy claim includes a fee variation of £2,738. The TRA11 grant was not included in the indicative fee set by the Audit Commission. The CFB06 grant had an increase in fee from 2012/13 due to the requirement to undertake both Part A and Part B testing, which is required every three years. There is no fee in 2013/14 for LA01 and PEN05 as these no longer fall within the Audit Commission certification regime.

Yours sincerely

Rashpal Khangura
Director

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 Rashpal Khangura, who is the engagement leader to the Authority (telephone 0113 231 3396, e-mail Rashpal.khangura@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 Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1. Meeting:	**Audit Committee**
2. Date:	**18th February 2015**
3. Title:	**Review of Progress Against the Internal Audit Plan for the nine months ending 31st December 2014**
4. Directorate:	**Resources and Transformation**

5. Summary.

This report contains a summary of Internal Audit work and performance for the nine months ending 31st December 2014.

Progress on our Audit Plan remains slightly below target at this stage, for various reasons which include the loss of one member of staff through voluntary severance, another on maternity leave and the extended scope on some pieces of work. Additionally, following the publication of the Jay Report in August last year, we have devoted some time to examining the issues highlighted by it, including carrying out a specific piece of work looking at the Council's Home to School Transport contracts, assertions relating to the removal of files from the Risky Business project and the 'Key Players' Group.

By prioritisation of our audit activity, careful management of our resources and the utilisation of additional temporary staff resource, we expect to be able to have a sufficient body of audit evidence to form an opinion on the Council's control environment.

The Corporate Governance Inspection (CGI) report has highlighted a number of fundamental weaknesses in the Council's governance arrangements. We are assessing the matters reported from an audit perspective, and at this stage the Audit Committee should note the likelihood of at least some of the matters referred to in the CGI report being referenced in our annual audit opinion.

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**
- **note the likelihood of matters raised in the Corporate Governance Inspection report being referenced in our annual audit opinion on the Council's control environment.**

7. Proposals and Details.

7.1 Background

This report summarises the main activities of the Internal Audit function for the first nine months of 2014/15. 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/opinion 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 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	2012/13 Actual	2013/14 Actual	2014/15 Target	Apr to Dec 2014
Draft reports issued within 15 days of field work being completed.	93%	95%	95%	91%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	50%*
Chargeable Time/Gross Time.	65%	63%	63%	62%
Audits completed within planned time.	93%	95%	95%	78%
Percentage of Audit Plan completed.	78%	85%	85%	**
Cost per Chargeable Day.	£275	£265	£275	£290
Client Satisfaction Survey.	100%	100%	100%	100%

* *Two 3 star recommendations were made during the period and management chose not to agree with one (see 7.3.2 c)*

** *The % of Audit Plan completed is a full year indicator and will be reported in the Annual Internal Audit Report.*

7.2.2 Although progress has improved and some indicators are back on target, others still remain below target. However, we anticipate that these will be largely on target by the year-end.

7.2.3 Those significantly below target at this stage relate to *'Audits completed within planned time'* and *'Percentage of Audit Plan completed'*.

The scopes on a small number of jobs have been extended causing some jobs to take longer than originally planned. The percentage of audit plan completed is a full year indicator, but at this stage we do not expect to achieve the target 85%. This is largely due to a number additional audit assignments being requested following the publication of Jay Report into child sexual exploitation. Other contributing factors include; the extension of the scope on some jobs, the voluntary severance of one member of staff and maternity leave of another.

Since the last report, we have brought in additional temporary audit resource (from Dec 2014) to assist in the delivery of the Audit Plan, which should improve overall performance by the year end. Consequently, we expect to be able to have a sufficient body of audit evidence to form an opinion on the Council's control environment and carry out the work that the Council's external auditor, KPMG, expect to see when carrying out their audit of the statutory Financial Statements.

7.2.4 It is still pleasing to note that client satisfaction with our service continues to be excellent.

7.2.5 Other factors affecting our performance to date are outlined at **Appendix C** – Analysis of Use of Audit Resources.

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 most 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 of those areas and implementation of Internal Audit's recommendations for improvement will reduce the Council's exposure to risks.

7.3.2 During the period we identified three areas that required us to report an 'inadequate' opinion: -

a) <u>CYPS: Contract for School Improvement Activity</u>

The Council, via the Schools Forum, approved funding of £2.1m to commission a school company to deliver school improvement activity, including providing leadership courses to Head Teachers and other teachers in Rotherham's maintained schools. We identified that financial governance arrangements were not effective because there was a lack of clarity as to the outcomes that schools were receiving for the money spent and a lack of evidence that value for money had been secured from the arrangement.

We have made a number of recommendations to improve governance arrangements, which have been agreed with CYPS Management.

b) EDS: Highways Final Accounts Arrangements

We found the current arrangements within EDS Streetpride for verifying non fixed-price contract costs during the currency of a contract and at final account stage to be inadequate which could expose the Council to unnecessary financial risk.

We have brought this to the attention of the Strategic Director EDS and made recommendations to ensure robust 'open book' checks on costs are implemented going forward. These have now been agreed with EDS Management. We are currently undertaking further work in this area, namely; the Pool Green Roundabout Scheme and have agreed to review the final account for the A57 Improvement Scheme.

c) EDS: Blue Badge Scheme

We found that the processes for assessing eligibility for the discretionary award of Blue Badges were weak and suggested the introduction of Independent Mobility Assessments. Management has explored various options and spoken with HR regarding the potential involvement of Occupational Health; however this would generate an un-funded cost to the Authority. Owing to current budgetary constraints, management has chosen not to implement our recommendation at this time.

7.3.3 During the period, we gave an 'adequate' opinion on the majority of audits. However a few of these nevertheless identified a number of significant concerns: -

a) CYPS: Secondary School

We identified weaknesses in the school's budgetary control and governance arrangements which had resulted in the provision of inaccurate financial information to Governors. The school had also failed on a number of occasions to comply with the competitive procurement requirements of Financial Regulations for Schools in the award of contracts. We have made 41 recommendations to address this, all of which have been agreed with the School.

b) NAS: Residential Care Home

We found that the mechanism for care home residents paying for their share of accommodation charges was inefficient and gave rise to a security risk. Large amounts of cash were being withdrawn by staff from the bank accounts of residents and then stored in the care home safe before being taken by the Council's cash collection contractor (Loomis) to be paid into the Council's bank account. Management has agreed to implement our recommendation to collect all accommodation charges by bank standing order, wherever possible.

c) EDS: Country Park (Car Parking Charges)

The Park generates approximately £¼ Million per annum as cash income from car parking charges. We found the control arrangements for income collection and reconciliation to be weak, giving rise to an increased risk that misappropriation would go undetected. We have recommended a series of measures to improve control and management has agreed to implement these.

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.

Examples of the more significant areas examined in the period include: -

a) NAS: Investigation into Suspected Financial Abuse

Following a request from the NAS Safeguarding Team, we carried out a review of the arrangements in place at a commissioned external service provider for administering the financial affairs of two service users with physical and sensory disabilities. We identified several transactions involving the clients' personal monies, which we felt required further investigation by the NAS Safeguarding Team to establish the purpose and validity of the costs. NAS management has since confirmed that the safeguarding issues have been investigated and there is no financial abuse occurring now following the investigation and actions taken. There are further matters relating to the commissioning of the service which are being addressed with the management of the service.

b) EDS: Car Parking Income

We were informed of two recent instances of income shortfalls (totalling £800) from one of the Council's car parking machines. Subsequent checks suggested that theft was the likely cause. A further theft was suspected after a cash box containing £600 went missing following its collection. We conducted a thorough investigation to trace the transit of cash boxes from their collection from pay and display machines to delivery to, storage at and emptying and counting at Riverside House. We were unable to identify the source of these thefts. We have issued a report to management and the majority of recommendations have been implemented. Works orders have been placed (to address the remaining outstanding recommendations) where building alterations are required to improve the physical security of cash within Riverside House.

c) EDS: Cash Security – Parks

We were informed of two separate incidents of thefts of cash (totalling £2,800) from two of the Council's parks. In both cases there was insufficient evidence to identify the thief; however, we have identified weaknesses in systems and procedures for receipting and banking cash. We carried out a review of security arrangements for cash held in safes at each park and made recommendations to improve security to minimise the risk of this occurring in future. All recommendations have now been agreed and implemented by management.

d) EDS: Home to School Transport (Safeguarding)

Following a request from the former Chief Executive, we have now completed a review of the safeguarding arrangements in place around the provision of 'Home to School Transport' (HST). We have identified a number of risks within the current arrangements and have recently issued a draft report to EDS management containing a number of recommendations to address these concerns and are currently awaiting a response.

e) CYPS: Transport (safeguarding)

During our work on the safeguarding aspects of the EDS Home to School Transport (HST) system, we identified a number of safeguarding risks/concerns relating to the wider use of taxis by schools, children's residential units and pupil referral units; which sits outside of the HST contracts. We have concluded that there needs to be a fundamental rethink of this type of transport provision at a corporate level and have issued a draft report to CYPS management, containing a number of recommendations.

f) EDS: Disposal/Sale of Scrap Metal

Following a whistle blowing report, we investigated an allegation that a Council employee had been taking items of obsolete Council equipment/material earmarked for disposal (i.e. scrap metal), using Council vehicles, to a local scrap metal recycling company and 'weighing-in' the metal for cash payments. HR has now completed disciplinary interviews and the Director of Audit & Asset Management has issued a final written warning to the employee concerned. The employee has also since paid back to the Council the sum of money involved.

g) NAS: Maintenance of Former Landfill Sites

Following comparative information provided by a neighbouring local authority, we examined the Council's contractual arrangements for the maintenance of its former landfill sites and found the work had not been subjected to competitive tender for a number of years. We have recommended to management that the contract should be exposed to competition and opportunities for maximising potential savings through a shared framework agreement should be explored. The Corporate Procurement Team has since met with NAS management and initiated the procurement process, with a view to awarding a new contract, to commence in April 2015.

h) NAS: Integrated Housing Management System (IHMS)

We continue to provide advice and assurance on the implementation of the new 'Integrated Housing Management System'. In this period we submitted a draft report to management that raised a number of concerns regarding the imminent implementation of Phase 1 of the Project; including, the need to address emerging problems with the functionality of the existing system (OHMS), e.g. rent payments being received but failing to be posted to tenants rent accounts and discrepancies between closing and opening monthly balances.

i) CYPS: Risky Business

At the request of the Chief Executive, we are currently investigating allegations into the theft / disappearance of files from the Risky Business premises in 2002. We have conducted a series of separate lines of enquiry with the Police, external parties (i.e. Home Office researcher) and Council officers (that worked at Risky Business during the period concerned). Our work is almost complete and will be reported to management soon. The work will also be subject to external review following a commitment by the Council.

j) EDS: Car Parks (Employee working whilst off sick)

Following an allegation that an employee was engaged in other employment whilst off sick, we undertook a series of visits to the employee's alleged other place of work and were able to confirm the allegation. We have issued a report to management and HR has invited the employee to an investigatory interview.

k) NAS – Voluntary Sector Contract

We were requested by the former Director of Audit and Asset Management to review the Council's arrangements for monitoring the funding provided to the voluntary sector to deliver services to the Voluntary and Community Sectors. We identified a number of concerns relating to the procurement and monitoring aspects of the funding and have issued reports to management.

l) CYPS: Key Players

Following the Jay Report we were tasked with determining the existence of minutes of meetings of the Key Players Group. We have located several sets of minutes and continue to investigate why these were not made available to Professor Jay and what records should have been kept by the Key Players Group. This work remains ongoing.

7.5 Analysis of Use of Audit Resources

The Audit Plan presented to the Audit Committee on 23th April 2014 identified the time available for internal audit during the year, the expected number of chargeable audit days and expected usage of available time. An analysis of the actual use of audit resources compared to the profiled budget at the end of December 2014 has been undertaken and is shown at **Appendix C**.

7.6 Summary of Key Service Developments During the Period

We have recently recruited an 'Audit Apprentice' on a temporary appointment for a period of twelve months. This also helps meet a Council priority of providing quality education and ensuring that people have opportunities to improve skills, learn and get a job. The cost of this post will be met from within the existing budget.

We have also recently commissioned temporary additional resource to assist in completing the audit of the Council's fundamental financial systems.

We have been successful in a recent joint bid with Doncaster MBC in securing £98k to help improve fraud detection and prevention through fraud awareness improvements and data matching exercises. The funding will be split 50:50 between the two authorities, to be used by March 2016.

We are also in the process of preparing a business case regarding a proposal to create a Corporate Fraud Team to tackle fraud across the Council.

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:

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Marc Bicknell, Chief Auditor x23297

Appendices:

Appendix A: Summary of Planned Audits Completed: Apr – Dec 2014

Appendix B: Summary of Internal Audit Responsive Work: Apr – Dec 2014

Appendix C: Analysis of Use of Audit Resources: Apr – Dec 2014

Appendix A

Summary of Planned Internal Audit Work: April – Dec 2014

Area Audited	No. of Recs Made	No. of Recs Agreed	Variance	No. of 3* Recs Made	No. of 3* Recs Agreed	Audit Opinion
Children and Young People's Services Directorate						
Learners First Schools Partnership	12	*	*	2	*	Inadequate
Swinton Comprehensive School	41	41	0	0	0	Adequate
West Melton Primary School	10	*	*	0	0	Adequate
Meadows Children's Centre	11	11	0	0	0	Adequate
Rockingham Children's Centre	8	8	0	0	0	Adequate
Neighbourhoods and Adult Services Directorate						
Davies Court Residential Home	11	11	0	0	0	Adequate
Lord Hardy Court Residential Home	20	20	0	0	0	Adequate
Parkhill Lodge Residential Home	16	16	0	0	0	Adequate
Netherfield Court Residential Home	6	6	0	0	0	Adequate
Quarry Hill Residential Home	5	*	*	0	0	Adequate
Environment and Development Services Directorate						
Riverside House Library	4	4	0	0	0	Adequate
Customer Service Centres	3	3	0	0	0	Adequate
Riverside House Café	13	13	0	0	0	Adequate
Cashiers Service	3	3	0	0	0	Adequate
Commercial Property Rental Income	1	1	0	0	0	Adequate
Thrybergh Country Park	5	5	0	0	0	Adequate
Highways Final Accounts Arrangements	2	2	0	0	0	Inadequate
Hire of Plant and Equipment	2	2	0	0	0	Adequate
Clifton Park Museum	11	11	0	0	0	Adequate
Dinnington Business Centre	2	2	0	0	0	Adequate
Rother Valley Country Park	21	21	0	0	0	Adequate
Blue Badge Scheme	5	3	2	1	0	Inadequate
Carbon Reduction Commitment	4	4	0	0	0	Adequate
Markets Income	3	3	0	0	0	Adequate
Waste PFI (BDR)	n/a	n/a	n/a	n/a	n/a	Adequate
Civic Theatre	4	4	0	0	0	Adequate
Fundamental Systems						
Debtors	13	**	**	0	0	Adequate
Payroll	9	**	**	0	0	Adequate
Other						
Risks & issues arising from CSE report	n/a	n/a	n/a	n/a	n/a	n/a
Annual Fraud Report	n/a	n/a	n/a	n/a	n/a	Adequate
UK PSIAS Report	n/a	n/a	n/a	n/a	n/a	Adequate
NFI – Data preparation & submission	n/a	n/a	n/a	n/a	n/a	n/a

Appendix A

Summary of Planned Internal Audit Work: April – Dec 2014

Area Audited	No. of Recs Made	No. of Recs Agreed	Variance	No. of 3* Recs Made	No. of 3* Recs Agreed	Audit Opinion
Grants						
Troubled Families (CYPS)	n/a	n/a	n/a	n/a	n/a	Adequate
Rotherham Active Ability (EDS)	n/a	n/a	n/a	n/a	n/a	Adequate
Flood Recovery Scheme (EDS)	n/a	n/a	n/a	n/a	n/a	Adequate
16-19 Bursary Grant (CYPS)	n/a	n/a	n/a	n/a	n/a	Adequate
CLUJ Project (EDS)	n/a	n/a	n/a	n/a	n/a	Adequate
Fee Earning Work for Outside Bodies						
Wingfield Academy – Inventory	6	6	0	0	0	Adequate
Saint Pius – Private School Fund	n/a	n/a	n/a	n/a	n/a	Adequate
Maltby St. Mary's Academy – Responsible Officer	1	1	0	n/a	n/a	Adequate

* Final report issued – awaiting formal response to recommendations.
** Draft report issued – awaiting feedback/comments.

Appendix B

Summary of Internal Audit Responsive Work: April – Dec 2014

Description
Children and Young People Services
CYPS management informed Internal Audit of a data leakage incident in April 2014. We offered verbal advice in respect of how the data leakage incident might have occurred and what steps could be taken to prevent such a breach occurring again.
Transport (Safeguarding) – See 7.4 e)
Risky Business – See 7.4 i)
Key Players – See 7.4 l)
Neighbourhoods and Adult Services
We have undertaken further work reviewing the shared savings model applied to the two Housing Repairs and Maintenance Contracts. We are currently investigating significant variances in the savings being realised from each contract.
We provided benchmarking information to the Corporate Procurement Team on the current threshold at which contracts are procured by formal tender, by neighbouring South & West Yorkshire authorities.
Investigation into suspected financial abuse - See 7.4 a)
Maintenance of Former Landfill Sites – See 7.4 g)
Integrated Housing Management System (IHMS) – See 7.4 h)
Voluntary Sector Contract - See 7.4 k)
Environment and Development Services
Car Parking Income – See 7.4 b)
Cash Security (Parks) – See 7.4 c)
Home to School Transport (Safeguarding) – See 7.4 d)
Disposal/Sale of Scrap Metal – See 7.4 f)
Car Parks (Employee working whilst off sick) – See 7.4 j)
Following the relocation of a number of Council services to Bailey House, we reviewed the security arrangements for the building. There were no significant concerns and we were satisfied with the current arrangements.
Corporate issues
A routine periodic review of the Vodafone mobile phone contract identified high levels of usage on Directory Enquiries connections. This has resulted in high costs to the Authority, over £500 for one quarter. We have instructed Managers of the correct procedures and recommended a ‘Managers Briefing’ on the subject is issued to staff. We also identified a small number of instances of high personal usage. This has also been reported to the relevant line managers to follow-up.

Appendix B

Summary of Internal Audit Responsive Work: April – Dec 2014

Description
Financial Regulations were revised, presented to and approved by Audit Committee on 30th October 2013. However minor revisions were made in April 2014 for the purpose of simplifying and rationalising, to condense the five main areas of the Regulations into three. Guidance Notes were replaced by hyperlinks to separate documents and the updated version was placed on the Council's Intranet.
We received a request from EDS management to review the proposal to introduce a risk-based verification system for Housing Benefit claims. The process assigns a risk rating to each claim to determine the level of verification required and allows more intense verification activity to be targeted at those claims which are deemed to be at the highest risk of involving fraud and/or error. We identified a number of contractual and data protection risks and have recommended measures to improve control in these areas. Management has agreed to implement these.

Appendix C

Analysis of use of Audit Resources April – Dec 2014

Analysis of use of Audit Resources

	Budget 2014/15	Profiled Budget (Periods 1- 9)	Actual (Periods 1 – 9)	Variance
Internal Audit Establishment	2432	1824	1731	-93
Less – Maternity Leave	178	138	133	-5
Gross Days Available	**2254**	**1686**	**1598**	**-88**
Less				
Leave (Annual / Statutory / Other)	335	251	283	+32
Elections	4	4	7	+3
Sickness	63	47	68	+21
Service Development	50	37	11	-26
Professional Training and CPD	100	75	27	-48
Management and Supervision	180	135	161	+26
Industrial Action	0	0	7	+7
Admin and Clerical	65	49	44	-5
Less	**797**	**598**	**608**	**+10**
Gross Audit Days Available	**1457**	**1088**	**990**	**-98**
Less				
2013/14 Work Carried Forward / Follow Up Work	92	92	175	+83
Less	**92**	**92**	**175**	**+83**
Net Audit Days Available for 2014/15	**1365**	**996**	**815**	**-181**
Responsive Audits	221	166	121	-45
Planned Audits	1144	830	694	-136

Summary

There have been a number of variances between budgeted and actual days, the most significant of which is a reduction against the net audit days that were expected to be available during the period (i.e. by 181 days). The impact of this has been a reduction in the percentage of the audit plan completed and led to an increase in our ‘cost per chargeable day’ (see table at 7.2.1).

Appendix C

Analysis of use of Audit Resources April – Dec 2014

This is mainly attributable to: -

- A member of staff taking voluntary severance.
- A significant increase in the time spent on work carried forward from 2013/14 (+83 days), due to the addition of two extra pieces of work (one that was particularly complex and protracted) at the end of last year that were not foreseen at the time of preparing the Audit Plan.
- Sickness absence has been higher than expected (+21 days) mainly as a result of one member of staff having a protracted illness prior to commencing maternity leave.
- Annual leave has also been higher than profiled (+32) owing to many staff taking extended breaks over the Christmas period.
- Unforeseen Industrial Action has also contributed to this position.

As mentioned at 7.2.2, we do expect see the position improve by the end of the financial year.