

# Public Document Pack



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## **Democratic Support**

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Published 3 December 2013

## **AUDIT COMMITTEE**

Thursday 12 December 2013  
2.00 pm  
Warspite Room, Council House

### **Members:**

Councillor Wheeler, Chair  
Councillor Dr. Mahony, Vice Chair  
Councillors Murphy, Stark and Stevens.

### **Independent Members:**

Mrs Badger, Mr Clarke and Mr Stewart.

Members are invited to attend the above meeting to consider the items of business overleaf.

### **Tracey Lee**

Chief Executive

# AUDIT COMMITTEE

## AGENDA

### PART I – PUBLIC MEETING

#### 1. APOLOGIES

To receive apologies for non-attendance submitted by Committee Members.

#### 2. DECLARATIONS OF INTEREST

Members will be asked to make any declarations of interest in respect of items on this Agenda.

#### 3. MINUTES

(Pages 1 - 10)

To confirm the minutes of the meeting held on 19 September 2013.

#### 4. CHAIR'S URGENT BUSINESS

To receive reports on business which, in the opinion of the Chair, should be brought forward for urgent consideration.

#### 5. INTERNAL AUDIT ANNUAL REPORT (SIX MONTH PROGRESS REPORT)

(Pages 11 - 38)

The Council's internal auditor will submit the Internal Audit Annual Report (six month progress report).

#### 6. TREASURY MANAGEMENT MID YEAR REVIEW 2013/14

(Pages 39 - 62)

The Committee will be provided with the Treasury Management and Mid-Year Review 2013/14.

#### 7. OPERATIONAL RISK AND OPPORTUNITY MANAGEMENT - UPDATE REPORT

(Pages 63 - 68)

The Head of Corporate Risk and Insurance will submit the Operational Risk and Opportunity Management update report.

#### 8. COVERT SURVEILLANCE RIPA

(Pages 69 - 70)

Members will be provided with the Covert Surveillance RIPA update for their information.

**9. AUDIT UPDATE - GRANT THORNTON (Pages 71 - 82)**

Grant Thornton will provide the Committee with a general update on audit progress.

**10. ANNUAL AUDIT LETTER 2012/2013 (Pages 83 - 98)**

Grant Thornton, the External Auditor, will submit the Annual Audit Letter 2012/13.

**11. CERTIFICATION REPORT 2012/13 (Pages 99 - 108)**

The Council's External Auditor, Grant Thornton, will submit the Certification Report 2012/13 for the Committee's consideration.

**12. REVIEW OF ROLLING WORKPLAN (Pages 109 - 112)**

The Committee will review the rolling workplan.

**13. DATE AND VENUE OF FUTURE AUDIT MEETINGS**

The following Audit Committee meetings have been scheduled for 2pm in the Council House:

- Thursday 13 March 2014

A Sub Committee has been scheduled for 23 January 2014 at 2pm to discuss Treasury Management.

**14. EXEMPT BUSINESS**

To consider passing a resolution under Section 100A(4) of the Local Government Act 1972 to exclude the press and public from the meeting for the following item(s) of business on the grounds that it (they) involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

**PART II (PRIVATE MEETING)**

**AGENDA**

**MEMBERS OF THE PUBLIC TO NOTE**

that under the law, the Panel is entitled to consider certain items in private. Members of the public will be asked to leave the meeting when such items are discussed.

NIL.

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## **Audit Committee**

**Thursday 19 September 2013**

### **PRESENT:**

Councillor Wheeler, in the Chair.  
Councillor Dr. Mahony, Vice Chair.  
Councillors Gordon (substitute for Councillor Stevens) and Murphy.

Independent Members:  
Ms Badger, Mr Stewart and Mr Clarke.

Apologies for absence: Councillors Stark and Stevens.

Also in attendance:  
David Bray (Senior Audit Manager for Grant Thornton), Malcolm Coe (AD for Finance, Efficiencies, Technology and Assets), David Curnow (Deputy Head of Devon Audit Partnership), Geraldine Daly (Senior Audit Manager for Grant Thornton), Claire Fisher (Group Accountant), Mel Gwynn (Head of ICT), Mike Hocking (Head of Corporate Risk and Insurance), Dominic Measures (Audit Manager), Barrie Morris (Director for Grant Thornton), David Northey (Head of Finance), Helen Rickman (Democratic Support Officer).

The meeting started at 2.00 pm and finished at 4.20 pm.

*Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.*

18. **DECLARATIONS OF INTEREST**

There were no declarations of interest in accordance with the code of conduct.

19. **MINUTES**

The minutes of 13 June 2013 were approved as a correct record.

Under this item the Chair informed the panel that, with reference to minute 11, 'Operational Risk Management – Update Report', an update on the Plymouth and West Devon Records Office had been provided to the Committee via email.

20. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's Urgent Business.

21. **ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE - INCLUDING THE AUDIT OPINION**

Barrie Morris, Director for Grant Thornton, provided the Committee with an update on the 'Annual Report to Those Charged with Governance – Including the Audit Opinion'. The purpose of the report was to highlight key matters arising from the audit of Plymouth City Council's financial statements for the year ending 31 March 2013.

The Committee was informed that –

- (a) Grant Thornton proposed to provide an unqualified opinion on the Council's financial statements for the year ending 31 March 2013 confirming that the financial statements comply with accepted accounting procedures however some key issues were raised;
- (b) the Council had not followed the accounting treatment for its Icelandic Bank investments in accordance with the CIPFA guidance issued;
- (c) Grant Thornton had identified the need for the Council to include three additional disclosures in relation to the post balance sheet events: the disposal of the Civic Centre; the governance arrangements for the Devon Waste Partnership agreement; and further clarification for the amount expended to date on the waste partnership arrangements;
- (d) Grant Thornton considered that the Council had not included a provision within its financial statements for the future after-care costs of managing its closed landfill site; an additional disclosure note had been added to the financial statements setting out estimated future costs of £6.6m;
- (e) the Council's joint waste PFI scheme with Devon County Council and Torbay Council would become operational in 2014/15; governance arrangements and accounting treatment still needed to be finalised;
- (f) governance arrangements for the Tamar Bridge and Torpoint Ferry joint operation still needed to be finalised;

In response to questions raised it was reported that –

- (g) with regards to the treatment of the Icelandic Bank officers confirmed that the Council had been prudent with its approach in calculating the impairment adjustment within the accounts due to the continued uncertainty over the level of future recovery; this was consistent with the treatment in previous years;
- (h) Grant Thornton confirmed that Plymouth City Council was not alone in its approach to the auditing arrangements for the Icelandic Bank issue;

- (i) with regards to the issue of future after care costs of managing the Council's closed landfill site, officers confirmed that the requirement for this provision and associated accounting treatment was not included in the accounts due to issue with timing and staffing levels. It was considered that the amendments were technical accounting issues and would not affect the cash position of the Council. With respect to officer time, it was considered that several days' work was required to include this information in the audit. Given that the amendment would not have any impact on the reader's ability to interpret the accounts, and that there was no impact on the financial result or council tax levels, officers had decided not to make the amendment this year. However, it would be included from next year;
- (j) with regards to the issue of the Tamar Bridge and Torpoint Ferry Joint Committee governance arrangements, officers were currently in communication with colleagues in Cornwall and it was reported that progress was being made on this matter; this was not expected to be an issue for next year's accounts;

The Chair thanked Barrie Morris for his report and it was agreed that the 'Annual Report to Those Charged with Governance – Including the Audit Opinion' was noted and signed by the Chair.

Under this item Barrie Morris, Director for Grant Thornton, thanked Claire Fisher, Group Accountant, for her excellent support over the years.

22. **AUDIT PLAN 2012/13 PROGRESS REPORT**

Geraldine Daly, Senior Audit Manager for Grant Thornton provided the Committee with the Audit Plan 2012/13 Progress Report. Areas of work including Grant Certification, NNDR, Teachers Pension Return and Housing Benefit Subsidy Claim were still in progress with work expected to be completed between September – November 2013.

PCC Officers confirmed they were aware of emerging issues.

Agreed that the Audit Plan 2012/13 Progress Report is noted.

23. **VALUE FOR MONEY REPORT - FINANCIAL RESILIENCE**

Geraldine Daly, Senior Manager for Grant Thornton provided the Committee with the Value for Money Report – Financial Resilience. David Bray, Senior Manager for Grant Thornton was introduced to the Committee.

The Committee was informed that –

- (a) the Value for Money report included a review to determine if the Council had proper arrangements in place for securing financial resilience;
- (b) the Council was given an overall amber rating for financial resilience which defined the arrangements as adequate;

- (c) levels of sickness at the Council were still higher than average however the overall trend was a downward one;
- (d) the Council's main overspend was Joint Commissioning and Adult Social Care, with a final outturn position of a £4.6m overspend; the Council identified the overspend in individual directorates early in the year and took effective action to manage this across the Council;
- (e) the majority of key indicators within the report were rated as green suggesting that good arrangements were in place;
- (f) there was a consistency process around the rating of key indicators to ensure that judgements were fair;

In response to questions raised it was reported that –

- (g) the Council had spent a considerable amount of time in tackling sickness absence; tolerance levels were now set in order to reduce sickness. Consultants had not been approached to help with this issue however occupational health were used in order to help individuals return to work;
- (h) the council tax collection rates were currently set at amber as officers were unable to meet internal targets set for the in-year collection rates however the collection rate itself had increased for the fourth year which was positive;
- (i) with regards to page 83 of the supplementary agenda pack regarding the comment that Council 'officers have been slow to respond to significant accounting issues' it was confirmed that this related to discussions around the waste partnership and the perceived lack of progress around the Tamar Bridge & Torpoint Ferry (TBTF) Joint Committee governance. The Strategic Finance Manager confirmed that the Council had been in discussions with auditors on both of these areas. However, for the South West Devon Waste Partnership, there was a lack of clarity in the process regarding governance arrangements of the three councils (Plymouth, Torbay and Devon). With regards to TBTF, officers confirmed an initial meeting had been held and a follow up meeting was scheduled before the end of November. Geraldine Daly confirmed that the relationship between Grant Thornton as external auditors and Plymouth City Council was very good; the auditors were simply concerned that progress had delayed slightly between January and August 2013; officers were continuing to work on these issues and assured the Committee that these two areas would be resolved as soon as possible;

Agreed that the report is noted.



24. **AUDIT FEE LETTER 2013/14**

Geraldine Daly, Senior Audit Manager for Grant Thornton provided the Committee with the Audit Fee Letter 2013/14.

The Committee was informed that the Audit Commission defines the scale audit fee and this charge was the same as 2012/13.

Agreed that the Audit Fee Letter 2013/14 is noted.

25. **STATEMENT OF ACCOUNTS 2012/13**

Claire Fisher, Group Accountant, provided the Committee with the Statement of Accounts 2012/13. Members were informed that there was a minor amendment to the layout of the paperwork published regarding the officers remuneration note on page 97 of the agenda pack. The External Auditors had requested the amendment to aid readers' clarity.

The Committee was informed that –

- (a) the Council's draft statutory statement of accounts was prepared and approved ready for the Audit Committee by the Director for Corporate Services on 25 June 2013;
- (b) there was a significant event which had occurred since the draft accounts were published in June, namely the 3 September 2013 Cabinet decision approving the selection of a preferred bidder for the redevelopment of the Civic Centre;
- (c) further repayments of £528,000 had been received with regards to the Icelandic Bank investment;
- (d) in 2013/14 there were expected to be several significant new or changed requirements to the Code of Practice;
- (e) there was a requirement for the letter of representation to be authorised and submitted to the auditor by 30 September 2013;

In response to questions raised it was reported that –

- (f) the Committee would be provided with a written response regarding the difference of depreciation of property between schools which was currently set at 10 to 40 years and Public Finance Initiative schools which was set at 60 years;
- (g) the word 'componentisation' listed in the Glossary of Financial Terms described the way in which assets were analysed by being broken down into separate components to reflect depreciation in accounts;

- (h) the Committee would be provided with a written response regarding the increase in outstanding debts of 'more than one year' between 31 March 2012 and 31 March 2013;
- (i) the analysis of the travel, subsistence and other expenses related to Members Allowances showed an increase of eight times the amount listed in 2011/12; this was because a Councillor claimed childcare expenses in order to attend Council meetings;

Agreed that –

- 1 the Audit Committee note the amendments made to the Statement of Accounts for 2012/13 as agreed with the Auditor, and outlined in this report;
- 2 the Statement of Accounts for 2012/13 attached at Appendix A is approved;
- 3 the letter of representation attached at Appendix B is authorised and submitted to the Auditor;
- 4 the minor amendment to the paperwork published regarding the officers remuneration note on page 97 of the agenda pack in which the figure in the total remuneration column for the Director for People/ Community Services should have read 137,857 instead of 137,87 was noted;
- 5 the Committee would be provided with a written response regarding the difference of depreciation of property between schools which was currently set at 10 to 40 years and Public Finance Initiative schools which was set at 60 years;

Under this item the Chair informed the Committee that Claire Fisher, Group Accountant, was due to leave the Council after 24 years' service; Claire was praised for her hard work and commitment to her role and was wished good luck for the future.

26. **STRATEGIC RISK AND OPPORTUNITY REGISTER MONITORING REPORT**

Mike Hocking, Head of Corporate Risk and Insurance, provided the Committee with the Strategic Risk and Opportunity Management Register Monitoring Report.

The Committee was informed that the report provided a summary of the latest formal monitoring exercise for the period March 2013 to August 2013; the total number of strategic risks reported had decreased from 37 to 32 with the addition of one new risk and the deletion of six risks.

In response to questions raised it was reported that –

- (a) God TV was a religious media business which was considering establishing a Plymouth presence in Union Street;

- (b) the organisations associated with the ALARM/ Cipfa Risk Management Benchmarking Club 2013 were different to those used by Grant Thornton for benchmarking exercises;
- (c) Plymouth was rated top in the league table of 18 other similar sized authorities for Risk Management in Public Services;
- (d) there were on-going discussions with KPMG and Microsoft with regards to the development of the HR Transformation Project; a fully integrated system could allow for personnel information such as payslips to be transacted electronically;

Agreed that the Audit Committee note and endorse the current position with regard to the Strategic Risk and Opportunity Register.

27. **INTERNAL AUDIT - PROGRESS REPORT**

Dominic Measures, Audit Manager, and David Curnow, Deputy Head of Devon Audit Partnership, provided the Committee with the Internal Audit – progress report.

The Committee was informed that –

- (a) the audit coverage was progressing well as good progress had been made against the plan agreed with management for the 2013/14 financial year;
- (b) improvements were required for the Housing Benefits System, the Access Controls to Key Systems 2012/13 and the 'Carefirst' Creditors system however work was being undertaken to progress this;
- (c) work regarding the Welfare Reforms was incorrectly labelled in the paperwork and should have read that the status was at a 'good standard' and not 'in progress';

Agreed that the report is noted.

28. **INTERNAL AUDIT - FOLLOW UP WORK**

Dominic Measures, Audit Manager, and David Curnow, Deputy Head of Devon Audit Partnership, provided the Committee with the Internal Audit – Follow Up Work report.

The Committee was informed that –

- (a) Devon Audit Partnership had undertaken follow up reviews of work, as a result of the Annual Internal Audit, where the overall audit opinion was that 'improvements were required';
- (b) overall managers were making progress in responding to issues raised;

- (c) Partnership Working ICT Systems showed that good progress had been made but there was still work to be done;
- (d) follow up work with regards to Carefirst Creditors would be undertaken later in the year;
- (e) good progress had been made with the Business Continuity 2012/13 work;

The Committee was impressed with progress made and encouraged officers in attendance at the meeting to feed this back to members of staff.

Agreed the report is noted.

29. **REVIEW OF ROLLING WORKPLAN**

The Committee noted the rolling workplan.

Agreed that 'Information Commissioners Audit' would be included in the rolling workplan for March 2014.

30. **ICT REPORT**

Mel Gwyn, Head of ICT, provided the Committee with an update on ICT.

The Committee was informed that –

- (a) Delt shared services was to be discussed at Cabinet Planning next week; each organisation was currently going through the approval process; the New Devon Clinical Commissioning Group had approved the report and Teignbridge District Council had discussed this issues at their executive committee in September and the results of this meeting was yet to be provided to officers;
- (b) the aim of shared services was to support economic growth, reduce costs and drive the transformation agenda;
- (c) the business case for Delt shared services was due to go to Cabinet in October 2013; due diligence and implementation planning was the next agreed step;

In response to questions raised it was reported that –

- (d) the business case for shared service proposed that each partner would have one vote each;

- (e) the model for shared services had the ability to be rolled out to other services and organisations; the model was considered to be quite cutting edge;
- (f) Exeter City Council was still in the process of considering the shared services report;
- (g) financial savings were based on all five partners working together on the venture however the success of this piece of work did not require all five partners;
- (h) commercial opportunities could be investigated in the future;
- (i) information was only shared by agreement in order to protect data protection security;
- (j) it was difficult to assess if staff members were to be made redundant as a part of this transformation process; officers were confident that shared services was a sustainable project;
- (k) the public health integration at Windsor House was a successful project which relied on the hard work of officers from ISD;
- (l) officers would provide the Committee with the number and changing nature of temporary staff;

Agreed that the report is noted and that officers would provide the Committee with the number and changing nature of temporary staff.

31. **DATE AND VENUE OF FUTURE AUDIT MEETINGS**

The Chair confirmed the dates and venues of future meetings namely:

- Thursday 12 December 2013, 2pm in the Council House
- Thursday 13 March 2014, 2pm in the Council House
- A sub-committee had been scheduled for 23 January 2014, 2pm in the Council House.
- Treasury Management Training had been scheduled for Monday 9 December 2013, 1.30 – 3pm in the Council House.

Under this item the Assistant Director for Finance, Efficiencies, Technology and Assets highlighted the importance of the Treasury Management Training. The Democratic Support Officer confirmed that an electronic invite would be sent out to all Members to attend the training in December.

32. **EXEMPT BUSINESS**

Agreed that under Section 100(A)(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act, as amended by the Freedom of Information Act 2000.

33. **IM POSITION STATEMENT (E3)**

The Committee was provided with an update on the IM Position Statement.

Agreed that the update is noted.

**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Internal Audit – Progress Report
<b>Committee:</b>	Audit Committee
<b>Date:</b>	December 2013
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Malcolm Coe, (Assistant Director FETA)
<b>Author:</b>	Robert Hutchins, Head of Devon Audit Partnership
<b>Contact details:</b>	Tel: (01752 (30) 6710 e-mail: robert.hutchins@devonaudit.gov.uk
<b>Ref:</b>	AUD/RH
<b>Key Decision:</b>	No
<b>Part:</b>	I

**Purpose of the report:**

This report provides Members of the Audit Committee with a position statement on the audit work carried out since our last report of September 2013 and based on work performed to date during 2013/14. Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

**The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:**

The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting high standards of service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.

The delivery of the Internal Audit Plan assists all directorates in delivering outcomes from the Corporate Plan:-

- Pioneering Plymouth – by ensuring that resources are used wisely and that services delivered meet or exceed customer expectations;
- Confident Plymouth - the Government and other agencies have confidence in the Council and partners.

**Implications for Medium Term Financial Plan and Resource Implications:**

**Including finance, human, IT and land:**

None.

**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.

**Equality and Diversity:**

Has an Equality Impact Assessment been undertaken? Yes/No

**Recommendations and Reasons for recommended action:**

It is recommended that:-

- I. The report be noted.

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**Alternative options considered and rejected:**

None, as failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 2003, 2006 and 2011.

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**Published work / information:**

Internal Audit Annual Plan 2013/14

**Background papers:**

None

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**Sign off:**

Fin MC	27.11.13	Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member:													
Has the Cabinet Member(s) agreed the content of the report? Yes													





Internal Audit Report  
2013/14  
Six Month Monitoring Report  
**Plymouth Council**

December 2013

Not Protectively Marked



**Auditing for achievement**

## **Devon Audit Partnership**

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The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards (PSIAS) and other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [robert.hutchins@devonaudit.gov.uk](mailto:robert.hutchins@devonaudit.gov.uk)

## **Confidentiality and Disclosure Clause**

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This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

## 1 Introduction

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This report provides a summary of performance in the first six months against the internal audit plan for the 2013/14 financial year, highlighting the key areas of work undertaken and summarising our main findings and audit opinions. However, it should be noted that Appendix A provides progress on audits up to November.

The key objectives of the Devon Audit Partnership (DAP) have been to provide assurance to the Audit Committee, Section 151 Officer (Director for Corporate Services) and senior management on the adequacy and security of the systems and controls operating within the Council and to provide advice and assurance to managers and staff.

The level of risk associated with each of the areas in Appendix A has been determined either from the Local Authorities Strategic / Operational Risk Register (LARR), or the Audit Needs Assessment (ANA). Where the audit was undertaken at the request of client, it has not been risk assessed. Assurance and recommendations should be considered in light of these risk levels and the impact this has on achievement of corporate / service goals.

### Opinion

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In our opinion, and based upon our audit work in this and previous years, we consider that adequate controls are in place to control operations in the Council.

Where weaknesses have been identified management have agreed these findings and have either agreed the recommendations or accepted the associated risks. Where management actions have been agreed and as appropriate, we shall undertake follow up work to ensure that the identified risks have been mitigated.

## 3 Performance against the Plan

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Overall, we have made adequate progress in the first six months of 2013/14, with 70% of the planned audits commenced (against expected rate of 50%) and 42% of audit fieldwork completed (against expected rate of 45%). A more detailed breakdown of performance against the plan is shown at appendix B.

It is pleasing to see that our “customer satisfaction” remains high, and hopefully provides independent assurance that our service is providing good value to the Council (please see appendix C).

Due to the fluidity of audit delivery some audits relating to the previous year (2012/13) have been brought to conclusion in 2013/14. Delivery of the ICT Audit Plan was heavily impacted by the departmental restructure during the first half of the year. However, planned work is now progressing with focus around the way in which services are delivered, service improvement and delivering value for money. Working relationships with ICT remain strong and Internal Audit continue to attend programme and project boards and provide advice and consultancy where required.

At this stage we remain confident that we will be able to deliver the internal audit plan as expected.

A summary of progress made against the plan, including various performance indicators for Internal Audit, is attached at Appendix B

## 4 Executive Summary

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Overall, management continue to remain aware of strategic risks and have established mitigating controls, as demonstrated through the progress in developing and embedding the revised strategic risk management methodology. Despite reductions in resources and pressures from operational delivery and system changes, commitment remains good to ensure services are delivered and operational risks mitigated.

Previous audit follow up activity has shown positive engagement and commitment from management to improving the control environment. Further follow up work will be undertaken to confirm that this impetus is being maintained.

Based on work performed during 2013/14 to date, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.

The audit plan is progressing in line with expectations although significant time has been spent upon irregularity work which has impacted on the performance in days against the agreed plan. This has further been exacerbated by involvement of the audit team in other essential unplanned works where our input has been sought. Such factors have affected progress against the agreed plan, however, management continue to be receptive and responsive to our work. We will need to further revise plans to accommodate these changes.

Appendix A details the assurance opinions for individual audits completed in 2013/14 since that reported in the progress report of September 2013. The definitions of the assurance opinion ratings are given in Appendix D.

Individual Executive Summaries follow to provide specific detail on directorates and identify where we have concerns that are impacting the current control environment.

**Corporate Services** - To date no significant concerns have been identified from our work; previous years work identified that the overall control environment was operating effectively, and this view continues.

Advice continues to be provided directly to officers as requested and for a number of on-going projects.

**People** – To date no significant concerns have been identified from our work; previous years work identified that the overall control environment was operating effectively and this view continues.

Advice continues to be provided directly to officers as requested and for a number of on-going projects.

The audit of Fostering & Adoption Panel Processes / EDRMS highlighted the following issues and considerations:-

Progress appears to be have been slow for both sending documents electronically and implementing an EDRMS, although the ability to send documents electronically appears to be close, delays are due to the lack of resources available to test the solution being offered.

A way forward needs to be found so that progress can be made which will in turn make the process more efficient.

The implementation of an EDRMS is a complicated piece of work in that there are a

lot of factors for consideration. The report highlighted some key areas ranging from project sponsorship to consultation and training. From the work undertaken there would be a real benefit to having a single source for documents to be stored, however any solution must be the place all records are stored otherwise there is a real risk of fragmentation and this is likely to be criticised by Ofsted when reviewing the journey of a child.

The audit of Special Education Needs found that:- Census information collected by the City Council and the Academy data provided by the Department for Education is used for a variety of different uses from planning for the future to the delivery of services.

Although data is collected throughout the year by the City Council, there are still questions on the reliability of the pupil data being held at the schools.

Based on the schools visited, the processes employed by them for the maintenance of their general pupil and SEN data were found to be effective based on the information provided to them by parents and others. With regard to children who have a statement, the Specialist Services Team have requested that any changes to data should be verified with the Team so that both school and local authority data can be verified and updated where necessary.

The processes for the annual review and the transitions from primary to secondary and then to post 16 have been effectively managed by the schools and partners.

The managing of the risk register has been in accordance with City Council procedures. This has seen the overall risk being reduced from an amber status to a green status following the May 2013 review.

In addition to audits undertaken as per the plan, advice and guidance has been provided to managers and staff at all levels within the People directorate.

**Place** - To date no significant concerns have been identified from our work; previous years work identified that the overall control environment was operating effectively and this view continues.

DAP reviewed the evidence compiled by officers to support the City Council's annual CRC Energy Efficiency Scheme submission, as required by the Environment Agency. We were able to provide assurance that the Council has fulfilled its obligations with regard to its annual submission prior to the submission deadline of 31st July 2013.

DAP were commissioned to undertake some work relating to the charging of temporary traffic orders (TTRO's) for events. A briefing note detailing our findings was issued and further work was subsequently commissioned in relation to the general operation of the Amey contract; this is currently work in progress.

DAP has continued to support the South West Devon Waste Partnership Waste PFI project which is well into its construction phase. DAP continue to attend the Project Executive Board, monitoring governance and risks. In addition, Audit have provided support and advice on two other major projects, namely the replacement of the Council's Material Recycling Facility (MRF) which is in its procurement phase, and the History Centre whose project team have been working on a funding bid to the Heritage Lottery Fund.

**Schools** - We have made progress in the delivery of our audit plan to schools although the larger proportion of the work will, as planned, be in the second half of the year. Schools have again been very appreciative of the quality of our service. The requirements to meet the challenges through change to the SFVS are significant. We

are focusing all of our effort to achieve the targets and support schools to the fullest of our ability.

Good Standard - our opinion is that the systems and controls in schools mitigate the risks identified in many areas. However, there are risks exposed in key areas which reduce overall assurance.

The key matters arising from the audits are the:

- approval of the School Development / Improvement Plan (Board);
- consideration of the year end monitor statement (Finance);
- approval of the Finance Policy as this contains the financial scheme of delegation (Board);
- review of Headteacher and Senior Leadership Team salaries (Board / Committee); and
- approval of Business Continuity Plan (Board / Committee).

Analysis of the results of audit and SFVS can be found at appendix A1.

## 5 Irregularities

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There have been a number of issues reported to us for investigation and resolution. Some of the key issues reviewed are as follows

**Corporate Services** - DAP were commissioned to investigate a whistleblowing concern raised in respect of a potential breach of the Council's Contract Standing Orders. A report into this matter was issued in August 2013 and concluded that the judgement of a Council officer could be called into question, however, the officer concerned had left the employ of the Council by this time, and, as such, no further action was required.

DAP are finalising investigations into whistleblowing and grievance issues raised by an officer in respect of alleged detriments suffered as a consequence of carrying out the requirements of their role.

**People** - During 2013/14 to date, Internal Audit have carried out, or assisted in a total of 7 new irregularity investigations within the People Directorate. Work has included support to an investigation into whistleblowing allegations concerning practices of a contracted care provider; investigations into possible misuse of the authority's IT systems and the sending of sensitive information by text to an incorrect mobile phone number.

**Place** - During 2013/14, Internal Audit have carried out, or assisted in a total of six new irregularity investigations within the Place Directorate. DAP have worked with one department to re-enforce security protocols.

DAP have assisted HR and management with the progress of a disciplinary in respect of a member of staff prosecuted for selling fake clothing. The member of staff has subsequently been dismissed.

DAP have advised HR and management in respect of

- the treatment of an anonymous complaint regarding the conduct of a member of staff. Management have concluded that the member of staff concerned has no case to answer.
- an external complainant raising concerns regarding the conduct of members of staff. It is not considered that there is any substance to the concerns raised.

- the alleged misappropriation of Council property by members of staff. The action required by the Council remains under consideration.
- disciplinary action relating to allegations of fraud and the potential referral of this matter to the Police. The disciplinary proceedings remain on-going and that a referral has been made to the Police.

**Schools** - Only one irregularity has been investigated by the Partnership in relation to Plymouth Schools in the first six months of this year. This was in relation to the misuse of a school issued laptop where it was identified that inappropriate adult websites had been accessed and a number of inappropriate images was also identified. A report was issued direct to the School.

Work has continued on providing support to the Devon and Cornwall Constabulary as part of their investigation at St Boniface's Catholic College. However, in November the charges of fraud were dropped by the Crown Prosecution Service and therefore our involvement in the Police case has come to an end.

**NFI** - As part of the 2012/13 NFI data matching exercise, DAP have continued to monitor the work undertaken within departments reviewing the data matches provided to the Council in February 2013.

In total, 9,316 matches were received, of which 2,739 were categorised by the Audit Commission as the highest priority. The majority of these matches relate to the Council's housing benefit, creditor, parking permit (including blue badges) and concessionary travel data. The remainder relate to the Council's insurance, payroll and residential care home data.

To date, a total of 4,449 matches have been processed, of which 683 errors and three potential frauds have been identified. The majority of errors identified to date involve the cancellation of blue badges and concessionary travel passes in respect of deceased badge / pass holders. The three potential frauds relate to applications for concessionary travel passes, which appear to have been made after the customer's reported date of death.

Other errors have been identified in respect of continuing payments made to a number of residential care homes after the resident's death and an overpayment of housing benefit. Of these cases, a sum of £6,358.20 is currently in the process of being recovered.

Work will continue to clear as many of the matches as possible prior to the Audit Commission's deadline of January 2014. In particular, a number of cases being investigated by the Council's Housing Benefit Fraud Team remain under investigation which could yield further errors, frauds and recoverable overpayments.

## **6 Customer Satisfaction**

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During the period we issued client survey forms with our final reports. The results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with near 98% being "satisfied" or better across our services, see appendix C. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

## **7 Inherent Limitations**

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The opinions contained within this report are based on our examination of restricted samples of transactions / records and our discussions with officers responsible for the processes reviewed.

## **8 Acknowledgements**

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We would like to express our thanks and appreciation to all those who provided support and assistance during the course of the audits in the first six months of 2013/14.

**Robert Hutchins**  
**Head of Audit Partnership**



**Assurance Opinion and extract Executive Summaries - First Six Months of 2013-14**

**Risk Assessment Key**

LARR – Local Authority Risk Register (SRR – Strategic, ORR Operational) score Impact x Likelihood = Total and Level  
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management  
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available

<b>Corporate Services (excluding ICT)</b>					
<b>Audit Area</b>	<b>Year</b>	<b>Status</b>	<b>Assurance Opinion</b>	<b>Executive Summary</b>	
Revenues & Benefits System Parameters ANA High risk	2013/14	In-Progress		The field work is nearing completion and no areas of concern have been identified.	
Main Accounting System ANA Medium risk	2013/14	In-Progress		Work has commenced on this review.	
Loans & Investments ANA Low risk	2013/14	In-Progress		Work is underway for this review.	
Procure to Pay Project (P2P) ORR - Amber	2013/14	On-Going		Recent involvement in the P2P Project Board to provide real-time advice and support on project implementation and the review of processes.	
Payroll Implementation & Transfer ANA Critical risk	2013/14	On-Going		DAP has continued its involvement as the new iTrent payroll system went live in April, ensuring the solution incorporates sufficient business and ICT controls.	

CRB / Disclosure and Barring Service Client Request ANA High risk	2013/14	In-Progress		Work has recently commenced on this review.
Revenues & Benefits - Policy Changes (Welfare Reforms) ORR - Amber	2013/14	Final	Good Standard	<p>Following changes in the Welfare Report Act 2012 the national Social Fund (Community Care Grants and Crisis Loans) which was administered by the DWP transferred to local authorities and in April 2013 the Emergency &amp; Welfare Scheme went live in Plymouth.</p> <p>Payments from the fund to date are much lower than the budgets profiled for the period and it is likely that awareness of the Emergency Welfare Fund needs to be raised further to ensure that those in genuine need have access to it. The service area are planning further promotional activities.</p> <p>Delivery of the Emergency Welfare Fund is still a relatively new responsibility for the Council and as such the systems and processes for effective delivery and management of this area are continuing to evolve.</p>
Sale of Civic Centre SRR - Red	2013/14	On-Going		<p>DAP have continued to provide advice, support and assurance to the team tasked with the redevelopment of the Civic Centre. Audit has been able to bring its experience of previous major procurement exercises involving Competitive Dialogue and has been present at project meetings following the announcement of the preferred bidder. DAP will continue to support the team during the final stages of the project.</p>
Setting up of DELT Client Request ANA Medium	2013/14	On-Going	N/A	<p>DAP was commissioned to carry out a review of the documentation relating to the development of the DELT Business Case and to challenge the assumptions and financial figures upon which it was based. In addition, an objective and independent SWOT analysis was provided outlining the opportunities and risks that the creation of a shared ICT service such as DELT would present to the Council.</p>

					Additional work was also undertaken on the procedures and governance arrangements associated with the project.
School Financial Value Standards ANA Low	2013/14	On-Going			We reported to the Department for Education that all schools had submitted their self-assessment returns for March 2013.
Payroll ANA High risk	2013/14	In-Progress			This is a new payroll system and a detailed review to provide assurance around the effectiveness of controls and processes commenced in November.
<p>The following audits will be commenced in the second half of 13/14:</p> <ul style="list-style-type: none"> <li>• Housing Benefits (ANA - High risk)</li> <li>• Key Financial Systems - Access Controls (ANA - High risk )</li> <li>• Creditors (ANA - High risk)</li> <li>• Council Tax (ANA - Medium risk )</li> <li>• Debtors (ANA - Low risk )</li> <li>• IT Material Systems (ANA - Low risk )</li> <li>• Capital Accounting - Asset Register (ANA - Low risk )</li> <li>• NNDR (ANA - Low risk)</li> <li>• Absence Management (SRR - Amber )</li> <li>• Corporate Landlord (SRR – Amber)</li> <li>• Central Buyers (Client Request - ANA – Medium)</li> <li>• FM Joint Venture Project(Client Request - ANA - Medium)</li> <li>• Street Lighting Conversion to LED and dimmers (Client Request - ANA – Medium)</li> </ul>					
<b>Corporate Services -ICT</b>					
ICT Financial Management	2012/13	Draft	Good Standard		Working in conjunction with ICT this work informs the review of ICT Programme Management in 2013/14 following the ICT re-structure. The audit concludes that ICT Financial Management is of a good standard with effective, if time consuming, processes in place to

				<p>monitor budgets on a regular basis. Improvements around service design and processes used to forecast revenue costs associated with projects would reduce the number of variances and permit more timely management of budgetary pressures. Contract management needs to take a higher priority to ensure that full value for money is obtained from suppliers and increased rigor around project approval, including CMT approvals, would also have a positive impact on both budgetary control and making the most of available resources.</p>
<p>ICT Strategy - ICT Programme Delivery ANA Critical risk</p>	2013/14	In Progress		<p>Work is being undertaken to review progress against the Programme Delivery report (April 12), producing more detailed recommendations to meet with current demands and challenges. In addition to formal audit work, auditors attend Programme and Project Boards which assists in informing audit opinion. Following the re-structure, meetings have now been held with all members of the ICT Service management team.</p>
<p>ICT Strategy – Demand Management ANA Critical risk</p>	2013/14	Not Started		<p>Work will be undertaken to identify how best effective demand management can be achieved within the current strategic and operational framework.</p>
<p>ICT Service Design – Supplier/ Contract Management ANA Critical risk</p>	2013/14	In Progress		<p>Work has already been undertaken to look at supplier and contract management within the Authority, with an IT Auditor assisting as appropriate on IT related contracts. This will help inform the formal IT audit work around identifying where improvements can be made and better value for money achieved.</p>
<p>ICT Service Design – Overall Service Design ANA Critical risk</p>	2013/14	Not Started		<p>Work in this area is likely to be high level and may well inform recommendations made as part of the overall programme delivery audit. The critical importance of getting the service design stage will also be reflected within Financial and Contract Management reports. Internal Audit continue to stress the importance of this area.</p>

<p>ICT Service Operation (Function) – New Data Centre (including Firewall &amp; Backup) <b>ANA Critical risk</b></p>	2013/14	On-Going	<p>The audit is dependent upon the commissioning of the new data centre. Auditors are attending the Data Centre Project Board and associated contract discussions, as well as contributing to the process to identify and procure appropriate monitoring tools. Due to the continuing delays in commissioning the new data centre at Windsor House a formal review is unlikely to occur during this financial year. Once the data centre is commissioned, formal work will assess if the new data centre meets with original objectives and that Firewall and Backup processes are effective.</p>
<p>ICT Service Operation (Process) – Access Management <b>ANA High risk</b></p>	2013/14	Not Started	<p>The audit will be undertaken in the fourth quarter of the financial year and will look to ensure that access to logical and (to a lesser extent) physical information assets are effectively controlled. An opinion of how effectively the Authority manages new ways of working and the erosion of the traditional corporate boundaries will be provided. Further consideration will be given to the utilisation of wireless and public access networks.</p>
<p>Corporate Application – iTrent HR/ Payroll <b>ANA Critical risk</b></p>	2013/14	In Progress	<p>During the first six months of the financial year, Internal Audit has been periodically referred to on a range of topics relating to the new HR/Payroll solution. As a result, some formal work has been undertaken to gain most value from time spent on some of the more technical aspects of the system. Some of the time resource saved due to the delays in bringing the new data centre online is to be allocated to undertaking a technical audit of the iTrent solution that will compliment the Payroll Material Systems audit.</p>
<p>ICT Compliance Board, Project Boards, Programme Board <b>Client Request</b></p>	2013/14	On-going	<p>Auditors continue to attend and contribute to the high level ICT governance process through active attendance at appropriate programme and project boards.</p>

<p><b>Cross Cutting</b></p>				
<p>Contract Management Client Request ANA High risk</p>	<p>2013/14</p>	<p>In Progress</p>		<p>The scope and objective of this audit is to provide an independent review of council wide contract management arrangements. This involves discussion with key officers across the Council to establish the extent of the current contract portfolio, identify those officers involved in contract management and the arrangements in place for managing a range of key contracts.</p>
<p>Corporate Information Management - includes Freedom of Information, Data Protection Act &amp; Information Security arrangements SRR - Amber</p>	<p>2013/14</p>	<p>In Progress</p>		<p>DAP continues to attend and support the Information Lead Officers Group (ILOG) set up in 2011/12.</p> <p>Additionally, a review of the arrangements in place to manage the Council's compliance with the new Public Sector Network security requirements is currently being finalised.</p> <p>Following the 2012/13 review of the Council's corporate framework for dealing with Data Protection (see above), DAP are examining the level of staff awareness regarding information management and security and their compliance with procedures.</p>
<p>Transformation Programme Client Request ANA High risk</p>	<p>2013/14</p>	<p>On-going</p>		<p>At the request of management, DAP are providing support and advice to the various Transformation project streams.</p>
<p>Business Continuity ANA Low</p>	<p>2013/14</p>	<p>On-going</p>		<p>DAP continues to attend meetings of the Business Continuity Strategy Group to provide advice and support.</p> <p>Work will also include following up the progress being made in implementing agreed courses of action arising from previous audit reviews of the corporate and departmental business continuity planning arrangements.</p>

CRC Energy Efficiency Scheme Annual Return	2013/14	Complete	DAP have been able to certify that the Council has fulfilled its obligations with regard to the submission of data and compilation of supporting evidence for the CRC Energy Efficiency Scheme.
Statutory requirement			Annual Certificate issued 31 July 2013.
The following audits will be commenced in the second half of 13/14:			
<ul style="list-style-type: none"> <li>Capital Programme – Governance (SRR – Amber)</li> <li>Delivery Plans - Governance and monitoring Client Request (ANA - High risk)</li> </ul>			

### People Directorate

Audit Area	Year	Status	Assurance Opinion	Executive Summary
Transfer of Public Health (ANA High Risk)	2012/13/ 14	On-going		Field work complete, report to be issued shortly.
Health & Wellbeing Board (ANA High Risk)	2012/13/ 14	On-going		Field work complete, report to be issued shortly.
Commissioning & Contracting (Adults) Follow Up (ANA - Medium Risk)	2012/13	Final	N/A	The Head of Joint Strategic Commissioning and the Commissioning Manager provided an update on progress made towards the agreed actions raised in the original report. Since the audit, both Adult and Children & Young People's Commissioning and Contracting Teams have both become part of Joint Commissioning and Adult Social Care and are currently undergoing a restructuring exercise. Therefore, many of the more strategic /longer term plans in the original report have been placed "on hold" until the restructuring exercise is complete. It would not be appropriate to conduct any further audit testing in this area until the new team is established.

<p>Commissioning &amp; Contracting (Children) Follow Up (ANA - Medium Risk)</p>	<p>2012/13</p>	<p>Final</p>	<p>N/A</p>	<p>The Head of Joint Strategic Commissioning and the Commissioning Manager provided an update on progress made towards the agreed actions raised in the original report. Since the audit, both Adult and Children &amp; Young People's Commissioning and Contracting Teams have both become part of Joint Commissioning and Adult Social Care and are currently undergoing a restructuring exercise. Therefore, many of the more strategic /longer term plans in the original report have been placed "on hold" until the restructuring exercise is complete. It would not be appropriate to conduct any further audit testing in this area until the new team is established.</p>
<p>Pre-Paid Cards – review process from end to end (ANA - High Risk)</p>	<p>2013/14</p>	<p>On-going</p>		
<p>Disabled Facilities Grants (DFGs) (ANA - High Risk)</p>	<p>2013/14</p>	<p>On-going</p>		
<p>PLUSS (ANA - Medium Risk)</p>	<p>2013/14</p>	<p>On-going</p>		
<p>Troubled Families (Families with a Future (FWAF)) (ANA - Medium Risk)</p>	<p>2013/14</p>	<p>On-going</p>		<p>Verification of quarterly claims being submitted.</p>
<p>Careers South West (ANA - Medium Risk)</p>	<p>2013/14</p>	<p>On-going</p>		



Easy Let Scheme (ANA - Low Risk)	2013/14	On-going	
Youth Offending Team YOT)	2013/14	On-going	
(ANA - Low Risk) Culture, Sport & Leisure Projects inc Pavilions Disposal (ANA - High Risk)	2013/14	On-going	
<p>The following audits will be commenced in the second half of 13/14:</p> <ul style="list-style-type: none"> <li>• Public Health Commissioning – contracting and processes (ANA - High Risk)</li> <li>• Plymouth Safeguarding Adults Board (ANA - Medium Risk)</li> <li>• Plymouth Safeguarding Children’s Board (ANA -Medium Risk)</li> <li>• Social Fund (ANA - Medium Risk)</li> <li>• Transitions (to Adults, from Primary to Secondary, from Pre-school to Primary) (ANA - Medium Risk)</li> <li>• Children’s Centres (ANA - Low Risk)</li> <li>• Academies Delivery Board &amp; UTC (ANA - Low Risk)</li> <li>• Training Schools Alliance (ANA - Low Risk)</li> <li>• Excellence Cluster (ANA - Low Risk)</li> <li>• Alternative Complimentary Education (ANA - Low Risk)</li> <li>• Local Integrated Service Trust (ANA - Low Risk)</li> </ul>			

<b>Place</b>			
Audit Area	Year	Status	Assurance Opinion
History Centre SRR(84) Amber risk	2013/14	On-Going	
			Executive Summary
			DAP has continued to provide support and advice to the Project set up to oversee the development of a History Centre for the City. Audit has been present at Board meetings as the vision and solution options have been developed and work on securing the necessary funding progresses.

<p>Control of Fuel, Fuel Cards and Fuel Containers ANA Medium risk</p>	<p>2013/14</p>	<p>Draft</p>	<p>Improvements Required</p>	<p>Fuel bunkers at Prince Rock Depot and Chelson Meadow are controlled through the use of key fobs, with electronic records maintained of fuel obtained and vehicle mileage readings at the time of refuelling. However, once inconsistencies in the production of fuel usage reports, completion of driver record books and recording of mileage information are addressed, controls will be far more effective..</p> <p>Street Scene Services use fuel cans to hold fuel for operational use, however, the controls in place for identifying and monitoring their use need to be strengthened.</p> <p>Access to red diesel was found to be well controlled, with good records and regular reconciliations undertaken.</p>
<p>Street Cleaners On-Call System ANA Medium risk</p>	<p>2013/14</p>	<p>Draft</p>	<p>Improvements Required</p>	<p>The on-call arrangements inherited by Street Scene management are longstanding and this is an excellent opportunity for Street Scene management to progress their intended reorganisation of the on-call system.</p> <p>The operation of the on-call system is well managed in respect of the close monitoring of the duties undertaken on an on-call basis. However, improvements could be made to the clarity of the forms used for recording on-call activity and if reports were obtained from Call24, (which were previously provided to support a disciplinary investigation) the monitoring process would be far more robust.</p> <p>The level of responsibility associated with staffing the on-call rota dictates that the staff involved should be at supervisory level and given that the on-call service is a Street Scene function, staff should be drawn from Street Scene. However, the on-call system is operated on a voluntary basis and as such there is a risk that there could insufficient interest amongst appropriate staff. In such circumstances management would need to consider the merits of extending the rota to staff in other service areas or considering</p>

				<p>incorporating the requirement of staffing the rota into terms and conditions.</p> <p>At the outset of the audit, concerns were raised in respect of the potential duplication of effort in respect of the experiences of Street Scene staff responding to calls where Amey were already present. As such, consideration has been given to existing relationships with contracted partners, Amey and Call24. New working arrangements have been agreed with Amey, following a roundtable meeting, including Street Scene management. With regard to Call24, the new arrangements with Amey will need to be communicated to them and it is considered a worthwhile exercise to provide them with some tailored guidance as to how out of hours calls should be dealt with to ensure that their operations align with Street Scene's requirements.</p> <p>DAP continues to support the South West Devon Waste Partnership Waste PFI project, advising on governance and risk issues.</p>
Waste PFI ANA Medium risk	2013/14	On-Going		
Replacement of MRF ANA Medium risk	2013/14	On-Going		<p>DAP have been providing the Project support and challenge during the Outline Solution (ISOS) and Detailed Solution (ISDS) stages of the procurement and will continue to do so as it moves into the final phases which will culminate in the submission of final tenders and the selection of a preferred bidder in the New Year.</p> <p>DAP have been able to provide assurance and support to the team tasked with the purchasing of replacement vehicles as part of the Council's minibus fleet and was present during the drawing up of the vehicle and contract specifications and the subsequent evaluation of tenders.</p> <p>The scope and objective of this audit is to provide an independent review of council wide contract management arrangements. This involves discussion with key officers across the Council to establish the extent of the current contract portfolio, identify those officers involved in contract management and the arrangements in place for managing a range of key contracts.</p>
Replacement of minibus fleet, Plant and Equipment Client Request	2013/14	On-Going		
Contract Management ANA High risk	2013/14	In Progress		

<p>CRC Energy Efficiency Scheme Annual Return</p> <p><b>Statutory requirement</b></p>	<p>2013/14</p>	<p>Complete</p>		<p>DAP have been able to certify that the Council has fulfilled its obligations with regard the submission of data and compilation of supporting evidence for the CRC Energy Efficiency Scheme.</p> <p>Annual Certificate issued 31 July 2013.</p>
<p>Sale of Civic Centre</p> <p><b>ANA High risk</b></p>	<p>2013/14</p>	<p>On-Going</p>		<p>DAP have continued to provide advice, support and assurance to the team tasked with the redevelopment of the Civic Centre. Audit has been able to bring its experience of previous major procurement exercises involving Competitive Dialogue and has been present at project meetings following the announcement of the preferred bidder. DAP will continue to support the team during the final stages of the project.</p>
<p>The following audits will be commenced in the second half of 13/14:</p> <ul style="list-style-type: none"> <li>• Capital Programme – Governance (ANA - Medium risk)</li> <li>• Street Lighting Conversion to LED and dimmers (ANA - Medium risk)</li> </ul>				

## Plymouth City Council - Schools Financial Value Standard Position at : July 2013

DfE No	School Name	SFVS Expectations Met	Academic Council	Met		In Part		Not Met		No SFVS Return received
				Confirmed Assessment	Unconfirmed Self-assessment	Expectations met - In Part		Expectations not Met (from Self-Assessment & or Audit)		
						Overall	of which "n" are under 85% complete	Overall	of which "n" are under 65% complete	
2678	Austin Farm Primary		Eggbuckland	Y	YS	IP	0.85	N	0.65	0
		In Part				Y				
3770	Beechwood Primary	Yes	Estover / North West	Y						
2694	Boringdon Primary	Yes	Plympton	Y						
3771	Chaddlewood Primary	Yes	Plympton	Y						
2638	College Road Primary		Devonport / Stoke Damerel			Y				
		In Part								
3159	Compton C of E Primary	Yes	Eggbuckland	Y						
2665	Drake Primary	Yes	Devonport / Stoke Damerel	Y						
2688	Dunstone Primary	Yes	Plymstock	Y						
2703	Eggbuckland Vale Primary	Yes	Eggbuckland	Y						
3767	Emesettle Community Primary	Yes	MAP	Y						
2706	Torbridge Primary		Estover / North West	Y						
		Yes								
2630	Ford Primary	Yes	Devonport / Stoke Damerel	Y						
2705	Glen Park Primary	Yes	Plympton	Y						
2725	Goosewell Primary	Yes	Plymstock	Y						
1008	Ham Drive Nursery		MAP			Y	Y			
		In Part								
2634	High Street Primary	Yes	Devonport / Stoke Damerel	Y						
3777	High View Primary	Yes	Lipson	Y						
3761	Holy Cross Catholic Primary	Yes	Devonport / Stoke Damerel	Y						
2637	Hyde Park Infants	Yes	All Saints	Y						
2636	Hyde Park Juniors	Yes	All Saints	Y						
3762	Keyham Barton Catholic Primary	Yes	MAP	Y						
2639	Knowle Primary	Yes	All Saints	Y						
2640	Laira Green Primary	Yes	Lipson	Y						
2730	Leigham Primary	Yes	Estover / North West	Y						
		Yes								
2671	Lipson Vale Primary	Yes	Lipson	Y						
2677	Manadon Vale Primary	Yes	All Saints	Y						
2682	Marlborough Primary	Yes	Devonport / Stoke Damerel	Y						
3161	Mary Dean's C of E Primary	Yes	Estover / North West	Y						
3776	Mayflower Community School	Yes	MAP	Y						
3768	Montpelier Primary	Yes	All Saints	Y						
2683	Morice Town Primary	Yes	Devonport / Stoke Damerel	Y						
2643	Mount Street Primary	Yes	Lipson	Y						
2674	Mount Wise Community Primary	Yes	Devonport / Stoke Damerel	Y						
3769	Oakwood Primary	Yes	Estover / North West	Y						
2670	Pennycross Primary	Yes	All Saints	Y						
2646	Pilgrim Primary	Yes	Devonport / Stoke Damerel	Y						
2668	Plaiستow Hill Infants	Yes	MAP	Y						
1009	Plymbridge Nursery		Estover / North West			Y				
		In Part								
3760	Plympton St Mary's C of E Infants	No	Plympton					Y	Y	
2695	Plympton St Maurice Primary	Yes	Plympton	Y						
2696	Pomphlett Primary	Yes	Plymstock	Y						
2724	Prince Rock Primary	Yes	Lipson	Y						
3772	Riverside Community Primary	Yes	MAP	Y						
3774	Salisbury Road Primary	Yes	Lipson	Y						
3775	Shakespeare Community School	Yes	All Saints	Y						
3160	St Andrew's C of E Primary	Yes	Devonport / Stoke Damerel	Y						
3757	St Budeaux Foundation C of E Juniors	Yes	MAP	Y						
3162	St Edward's C of E Primary	Yes	Eggbuckland	Y						
3758	St George's C of E Primary	Yes	Devonport / Stoke Damerel	Y						
3765	St Joseph's Catholic Primary	Yes	Devonport / Stoke Damerel	Y						
3764	St Paul's Catholic Primary	Yes	MAP	Y						
3759	St Peter's C of E Primary	Yes	Devonport / Stoke Damerel	Y						
3766	St Peter's Catholic Primary	Yes	Estover / North West	Y						
2657	Stoke Damerel Primary	Yes	Devonport / Stoke Damerel	Y						
2659	Stuart Road Primary	Yes	Devonport / Stoke Damerel	Y						
3763	The Cathedral School of St Mary	Yes	Devonport / Stoke Damerel	Y						
2708	Thornbury Primary	Yes	Estover / North West	Y						
2660	Victoria Road Primary	In Part	MAP			Y	Y			
2627	Weston Mill Community Primary	Yes	MAP	Y						
2729	Whiteleigh Community Primary (Wood View)		Estover / North West			Y				
		In Part								
2681	Widley Court Primary	Yes	Eggbuckland	Y						
2672	Woodfield Primary	Yes	Estover / North West	Y						
3773	Woodford Primary	Yes	Plympton	Y						
2707	Yealmstone Farm Primary	Yes	Plympton	Y						
	<b>Primary</b>			57	0	6	2	1	1	0
64				89%	0%	9%	3%	2%	2%	0%
				57		6		1		

Plymouth City Council - Schools Financial Value Standard Position at : July 2013

DfE No	School Name	SFVS Expectations Met	Academic Council	Met		In Part		Not Met		No SFVS Return received
				Confirmed Assessment	Unconfirmed Self-assessment	Expectations met - In Part		Expectations not Met (from Self-Assessment & or Audit)		
						Overall	of which "n" are under 85% complete	Overall	of which "n" are under 65% complete	
4185	Eggbuckland Community College	Yes	Eggbuckland	Y						
4605	Notre Dame R C School	Yes	RC Schools	Y						
4155	Plymouth High School for Girls	Yes	Grammar Schools	Y						
4172	Sir John Hunt Community Sports College (Wood View)	In Part	Estover / North West			Y				
5403	St Boniface R C College	In Part	RC Schools			Y				
<b>Secondary</b>				<b>3</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
5				<b>60%</b>	<b>0%</b>	<b>40%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
				<b>3</b>		<b>2</b>		<b>0</b>		
7066	Brook Green Centre for Learning	Yes	Estover / North West	Y						
7065	Courtlands School	Yes	Eggbuckland	Y						
7063	Cann Bridge School	In Part	Estover / North West			Y				
7068	Longcause Community Special School	Yes	Plympton	Y						
7069	Mill Ford School	Yes	MAP	Y						
7067	Mount Tamar School	In Part	MAP			Y				
7062	Woodlands School (Wood View)	In Part	Estover / North West			Y				
<b>Special</b>				<b>4</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
7				<b>57%</b>	<b>0%</b>	<b>43%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
				<b>4</b>		<b>3</b>		<b>0</b>		
<b>Grand Total All Schools</b>				<b>64</b>		<b>11</b>		<b>1</b>		

**Plymouth City Council - Internal Audit Plan 2013-14 and Progress to date as at 30th September 2013**

		Status										
Area	Audit Type	Number of Audit Entities	Detailed description	Planned days	Actual days	Audit started	Audit fieldwork completed	Draft report issued	Responses Rec'd	Final Report issued	Draft report issued in target days	Final report issued in target days
Corporate Services		50		579	167.16	25	17	17	15	16	14	16
Cross Cutting		17		133	99.36	11	3	3	2	3	3	2
People		26		237	89.94	14	8	8	6	6	7	6
Place		11		67	64.86	14	9	9	7	7	9	7
School Visits		26		180	90.89	10	10	10	5	6	7	5
Fraud Prevention & Investigation		28		239	144.47	28	17	13	8	11	13	11
Corporate Governance		0		85	34.75	6	5	1	1	1	1	1
Grant Claims/ Account Certification		1		7	0.00	0	0	0	0	0	0	0
Other Chargeable activities		0		165	22.02	1	0	0	0	0	0	0
Advice/Consultancy		7		85	45.97	7	0	0	0	0	0	0
Carry forward		0		0	0.00	0	0	0	0	0	0	0
<b>TOTAL</b>		<b>166</b>		<b>1777</b>	<b>759.41</b>	<b>116</b>	<b>69</b>	<b>61</b>	<b>44</b>	<b>50</b>	<b>54</b>	<b>48</b>
Contingency				90								

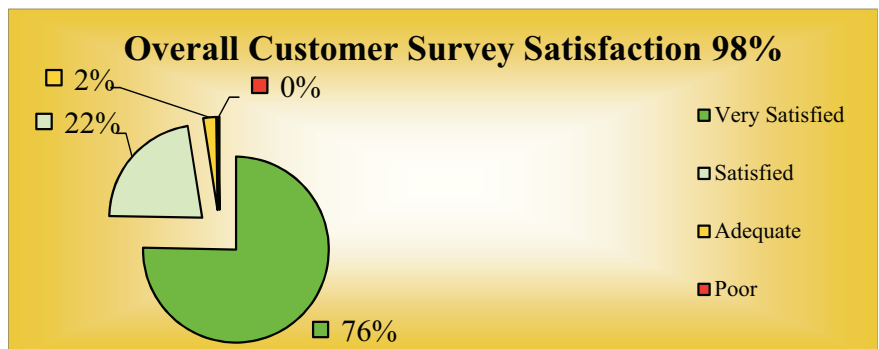
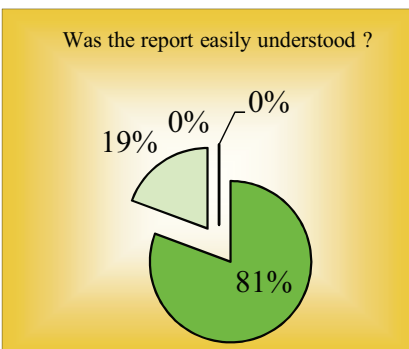
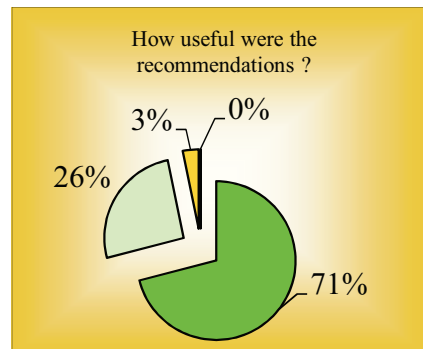
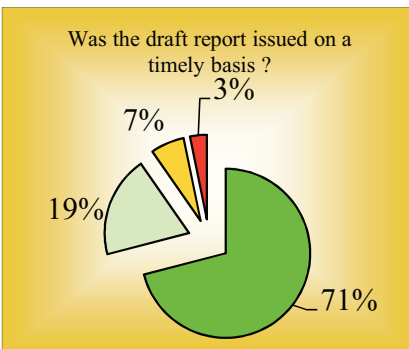
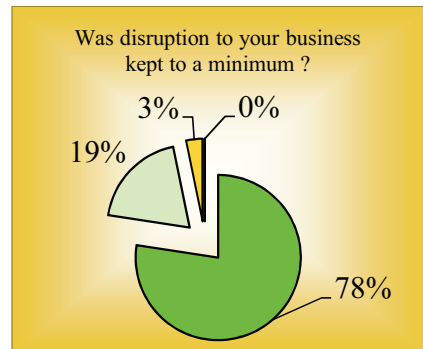
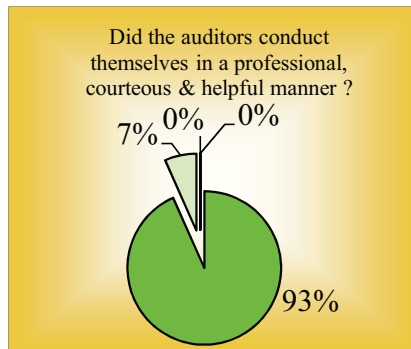
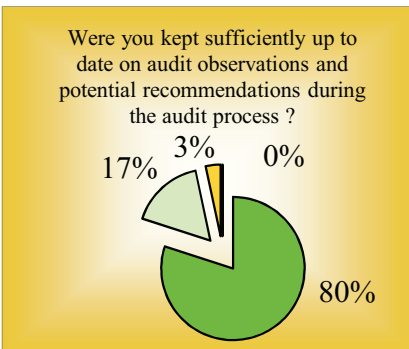
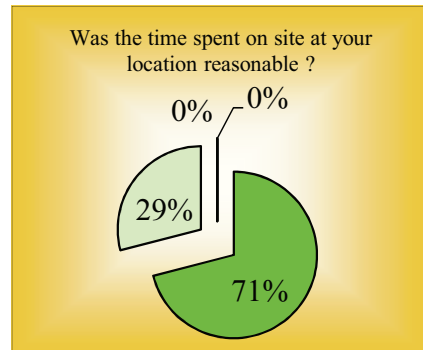
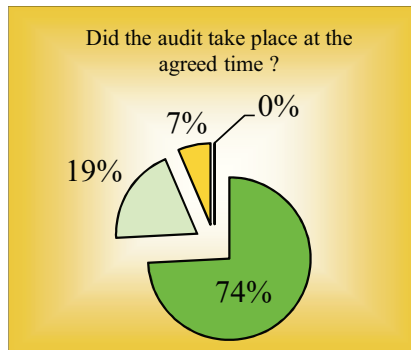
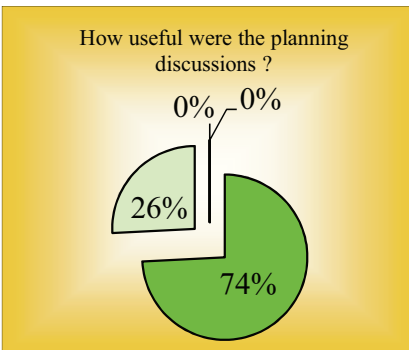
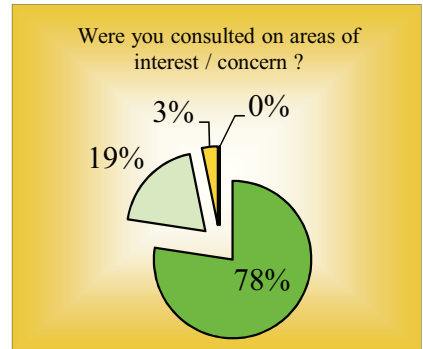
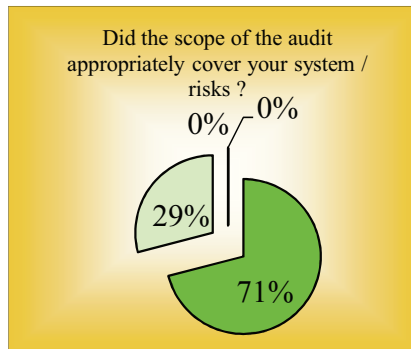
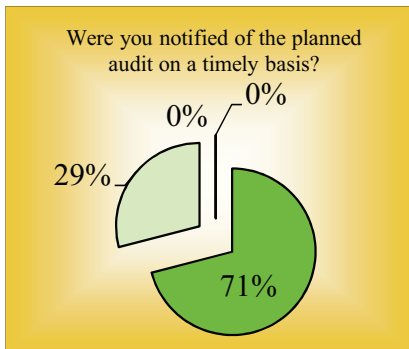
Perf. stats for Plymouth (Inc Schools)	Annual Target	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
		Target	Actual	Target	Actual	Target	Actual	Target	Actual
Percentage of audit plan started	100	23%	38%	45	70%	68	90	90	90
Percentage of audit plan completed (field work)	93	18%	16%	45	42%	71	93	93	93
Percentage of planned days delivered	95	24%	22%	48	43%	72	95	95	95
Draft reports issued in target days	90	90%	68%	90	89%	90	90	90	90
Final reports issued in targets days	90	90%	79%	90	96%	90	90	90	90
Customer satisfaction.	90	90%		90		90	90	90	90

Perf stats for Plymouth (Exc Schools)	Annual Target	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
		Target	Actual	Target	Actual	Target	Actual	Target	Actual
Percentage of audit plan started	100	23%	42%	45	48%	68	90	90	90
Percentage of audit plan completed (field work)	93	18%	17%	45	24%	71	93	93	93
Percentage of planned days delivered	95	24%	22%	48	42%	72	95	95	95
Draft reports issued in target days	90	90%	68%	90	46%	90	90	90	90
Final reports issued in targets days	90	90%	79%	90	71%	90	90	90	90
Customer satisfaction.	90	90%		90		90	90	90	90

Page 36  
**Customer Survey Results April 2013 - Sept 2013**



The charts below show a summary of 31 responses received.



- Very Satisfied
- Satisfied
- Adequate
- Poor



## Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

## Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Protect	Any material that may cause distress to individuals, breach proper undertakings to maintain the confidence of information provided by third parties, breach statutory restrictions on the disclosure of information, cause financial loss or loss of earning potential, or to facilitate improper gain, give unfair advantage for individuals or companies, prejudice the investigation or facilitate the commission of crime, disadvantage government in commercial or policy negotiations with others should be marked PROTECT.
Restricted	Information or data or documents that should only be shared between a specific group of work staff who have to demonstrate a need to know, because of the sensitive content, then the document must be marked RESTRICTED.
Confidential	Material that is so sensitive that only specific named staff should have access. Special handling rules apply and so CONFIDENTIAL must only be applied to highly sensitive data.
Secret and Top Secret	Information with this sensitivity is unlikely to be available to the Partnership and the Chief Executive of the relevant organisation must make the decision to apply either of these protective markings. These markings are only to be used with information that can only be shared on a strict must know basis, with each party having signed a specific confidentiality agreement.

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Treasury Management Strategy 2013/14 – Mid Year Review
<b>Committee:</b>	Audit Committee
<b>Date:</b>	12 December 2013
<b>Cabinet Member:</b>	Councillor Mark Lowry
<b>CMT Member:</b>	Malcolm Coe (Assistant Director for Finance, Efficiencies, Technology & Assets)
<b>Author:</b>	Andrew Liddicott
<b>Contact details</b>	Tel: 01752 304596 email: andrew.liddicott@plymouth.gov.uk
<b>Ref:</b>	ACCT/AL
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's strategy for 2013/14 was approved by full Council at its budget meeting on 25 February 2013. This report provides an update on the progress and outcomes against the Treasury Management Strategy for the six month period ended 30 September 2013. It is a requirement of the CIPFA Code of Practice on Treasury Management that a full mid-year report, as a minimum, should be presented to Full Council.

**The Brilliant Co-operative Council Corporate Plan 2013/14 - 2016/17:**

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns.

**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety  
and Risk Management:**

N/A

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

**Recommendations and Reasons for recommended action:**

- I. The report be noted and presented to Full Council.

**Alternative options considered and rejected:**

It is statutory requirement under the Local Government Act 2003 and supporting regulations to set an annual treasury strategy for borrowing and prepare an annual investment strategy. The Council has adopted the Cipfa Code of Practice for Treasury Management which requires a mid-year report to be submitted to the Audit Committee and Full Council covering the performance against this approved strategy.

**Published work / information:**

Treasury Management Strategy report to Council 25 February 2013  
 Treasury Management Practices update for 2013-14 report to Audit Committee 14 March 2013

**Background papers:**

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	
Not applicable										

**Sign off:**

Fin	CorpFS 151- 1314002 SRA 2- 12-2013	Leg	19026/ DVS	Mon Off	TH 01 39	HR		Assets		IT		Strat Proc	
Originating SMT Member - Malcolm Coe													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

## **Treasury Management Strategy Mid-Year Review**

### **I. Introduction**

- I.1 The Treasury Management Strategy for 2013/14 was approved by full Council at its meeting of the 25<sup>th</sup> February 2013. The Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of treasury management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.
- I.2 Treasury Management is defined as:
- “The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- I.3 The responsibility for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions is delegated by the Council to its Section 151 Officer and is overseen by a Treasury Management Board consisting of Councillors and senior officers of the Council.
- I.4 The day to day operation of the treasury management activity is carried out in accordance with detailed Treasury Management Practices (TMP's). Updates to these practices for 2013-14 were approved by the Audit Committee on 14<sup>th</sup> March 2013.
- I.5 The Council works closely with its treasury management advisers, Arlingclose, who assist the Council in formulating views on interest rates, regular updates on economic conditions and interest rate expectations, and advise on specific borrowing and investment decisions.
- I.6 This report therefore provides an update on the Council's treasury management activity for the period ended 30<sup>th</sup> September 2013 together with performance against approved Treasury Management Prudential Indicators. In accordance with Treasury Management Practice (TMP) note 6, the report is required to be presented to Full Council.

### **2. Economic Background**

- 2.1 Before reviewing the Council's performance to date it is appropriate to outline the national and economic background within which council officers have

operated during the first part of the year. The key financial issues are outlined below.

**Growth:** The UK economy showed some improvement, with consumer spending boosting growth. GDP for the first quarter of 2013 was revised up to +0.4% and for the second quarter was +0.7%. Recent data suggests a stronger rate in quarter three. Revisions by the Office of National Statistics to GDP back-data showed the UK avoided a double-dip recession in 2012, but that the downturn in 2008-09 was deeper than previously estimated. Growth is now still over 3% below its peak back in 2007.

Some positive signs for household spending emerged. The deterioration in real earnings growth (i.e. earnings less inflation) slowed, which implied a slower erosion of purchasing power. Consumer confidence improved. Household savings rates remained high, which is unsurprising given the uncertain economic outlook, but appear to be on a downward track, suggesting spending was being driven by borrowing or lower savings. This raises questions about the sustainability of the recovery at these rates of growth.

**Inflation:** Annual CPI for August (published September) was 2.7%. Inflation fell in line with expectations and is expected to remain close to this level throughout the autumn. Further out, inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures. The oil price (Brent Crude) climbed above \$100/barrel on the back of political unrest in Egypt and the unresolved crisis in Syria.

**Monetary Policy:** There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The main development for UK monetary policy was the start of Mark Carney's tenure as Governor and the implementation of forward guidance. Within the August Inflation Report, the Bank stated its forward guidance, the main element of which is to defer monetary tightening at least until the ILO Unemployment Rate falls to a threshold of 7% (among a raft of caveats). The Bank projected that the probability of this happening would remain below 50% until 2016. The Governor has had to defend the Bank's guidance in the face of rising financial market expectations of an earlier rate rise on the back of the encouraging economic data.

In his testimony to Congress on 22<sup>nd</sup> May the US Federal Reserve Chairman Ben Bernanke stated that, if the emerging recovery in the US economy became established, the Fed would reduce its \$85bn monthly asset purchase programme (QE). The apparent movement by the Fed towards tapering its open-ended QE programme prompted extreme asset price volatility in bonds and equities, as investors sought to crystallise gains driven by excessive liquidity. As a consequence, government bond yields spiked. There had been a growing expectation that the Federal Reserve would seek to commence 'tapering' in September but they took markets by surprise and maintained asset purchases at the existing level.

**Global:** Whilst the outlook for the global economy appeared to have improved over the first half of calendar 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth,

and, despite the time gained by the ECB to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region appears to be dragging itself out of recession and September's German general election passed with little incident but political uncertainties, particularly in Italy, could derail any progress towards a more balanced and stable regional economy. The US recovery appeared to be in train, but a lack of agreement on the federal budget by the end of September caused a partial government shutdown at the start of October, which could have an effect on GDP growth. Political risks also remain regarding the debt ceiling.

Money market data and PWLB rate movements over the first half of 2013/14 are attached as Appendix I to this report.

### **3 The Council's Strategy for 2013/14**

- 3.1 The Council's Treasury Management Strategy was approved by Full Council on 25<sup>th</sup> February 2013. As an overriding principle, the strategy proposed that the Council would continue to minimise risk contained within its current debt and investment portfolios by establishing an integrated debt management and investment policy which balanced certainty and security, with liquidity and yield. The Council would continue to make use of short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments, diversifying from pure cash investments into a wider range of asset classes.
- 3.2 The borrowing strategy was to be based on affordability and subject to credit conditions throughout the year. With the improvement in credit conditions the strategy was to borrow short-term funding from other local authorities up to the Council's Capital Financing Requirement (CFR) allowing internal balances to be externally invested. In adverse credit conditions the strategy was to use internal balances, to cover any borrowing requirement, reducing counterparty and credit risk.

### **4. Review of the Council's Performance April – September 2013**

- 4.1 Table I shows the Council's overall treasury portfolio at 30<sup>th</sup> September 2013 compared to the position at the start of the year.

Table I

01/04/2013 £m	Average Interest rate %		30/9/2013 £m	Average Interest rate %
61.315	5.4001	External Borrowing Long-term:	61.315	5.4001
130.000	4.4202	PWLB	130.000	4.4202
0.087	1.0007	Market	0.802	0.7711
34.800	0.2809	Bonds	51.690	0.2725
		Temporary Borrowing		
<b>226.202</b>	<b>4.4077</b>	<b>Total PCC Borrowing</b>	<b>243.807</b>	<b>3.7753</b>
30.247	8.7300	Long-term liabilities	30.247	8.7300
2.189	n/a	PFI Schemes	2.189	n/a
9.156	n/a	Finance Leases	9.156	n/a
		Cornwall County Council (TBTF)		
<b>267.794</b>		<b>Total External Debt</b>	<b>285.399</b>	
(77.374)	0.8889	Bank Deposits	(117.241)	0.7757
(5,000)	Variable	Property Fund (Pooled investment)	(5,000)	Variable
		Managed funds (Pooled Investments)	(5,025)	Variable
<b>(82.374)</b>		<b>Total Investments</b>	<b>(127.266)</b>	
<b>185.420</b>		<b>Net Borrowing/(Net Investment) Position</b>	<b>158.158</b>	

### Borrowing

4.2 Under Section 3 of the Local Government Act 2003 and supporting regulations the Council must determine and keep under review how much it can afford to borrow. The Council is required to set two limits:

- The Authorised Limit
- The Operational Boundary

4.3 The external debt limits for 2013/14, as approved by Council in February 2013, are as follows:

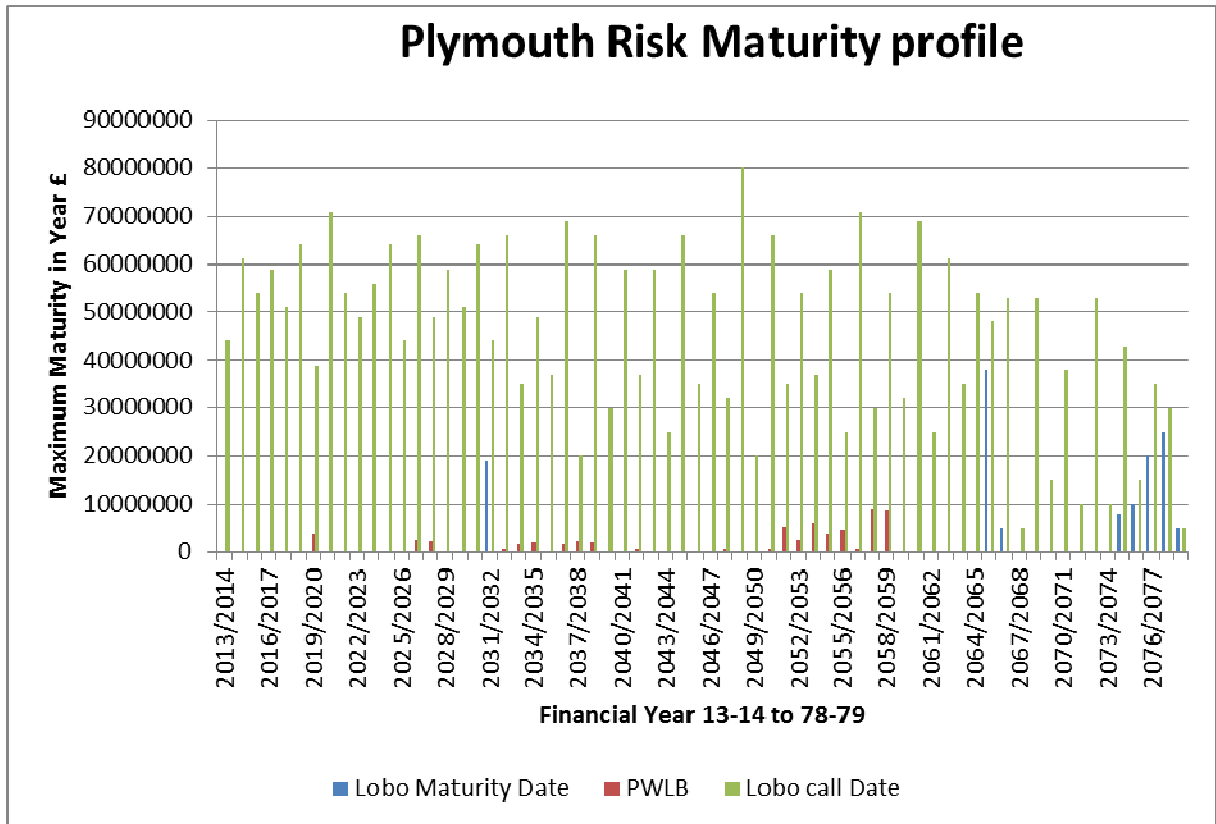
- Authorised limits           £310m
- Operational Boundary       £289m

4.4 The maximum external debt outstanding during the period was £286.9m on 24th September 2013 (including £41.6m for the PFI scheme, finance leases and Tamar Bridge debt administered by Cornwall County Council). This was within both the authorised limit and the operational boundary. At 30th September 2013 total external debt reduced to £285.4m with external borrowing excluding PFI, Finance leases and Tamar Bridge debt at £243.8m, including £52.492m of short-term loans.

4.5 The following graph shows the maturity profile of the Council's long-term borrowing at 30<sup>th</sup> September 2013:



Figure 1



4.6 The debt portfolio currently includes £130m of LOBO loans. These loans have various option call dates where the banks have the ability to amend the loan terms and at which point the Council could choose to repay the loan if the terms are changed. This is reflected within the maturity profile shown above (in green) to enable officers to risk manage the Council's cashflows. To 30<sup>th</sup> September 2013 £24m of loans had reached their call option dates. No options were exercised and these loans will continue at fixed rates until the next option dates in 2 years time.

4.7 Table 2 shows the movement in the borrowing portfolio during the year.

Table 2

	Balance on 01/04/2013 £000s	Debt Maturing £000s	Debt Repaid £000s	New Borrowing £000s	Balance on 30/09/2013 £000s	Increase/ (Decrease) in Borrowing
Short Term Borrowing	34,887	(56,400)	0	74,005	52,492	17,605
Long Term Borrowing	191,315	0	0	0	191,315	0
<b>TOTAL BORROWING</b>	<b>226,202</b>	<b>(56,400)</b>	<b>0</b>	<b>74,005</b>	<b>243,807</b>	<b>17,605</b>

4.8 New borrowing in year

The use of short-term borrowing has continued to be the most cost effective means of financing capital expenditure and cashflow requirements. During the first half of the year the level of borrowing was constrained within a maximum investment level to generate additional revenue savings whilst maintaining the risk of excessive level of investments. By matching any short-term borrowing with the available liquid deposits held in bank call accounts, this has lowered overall treasury risk by allowing flexibility of reducing debt and investment levels at short notice should credit conditions deteriorated.

The Council started the year with £34.887m of short-term loans with £74.005m of new loans taken and £56.4m of loans maturing in 2013/14. The average period of new loans taken in the period 1<sup>st</sup> April 2013 to 30<sup>th</sup> September 2013 was 101.32 days at an average rate of 0.2739%. Short-term fixed/variable rate borrowing is expected to remain attractive for some time as the Bank of England maintains the base rate at historically low levels. Subject to credit conditions the borrowing strategy for the remainder of the year will be to take further short term loans whilst reviewing the potential for any affordable longer-term borrowing to improve the maturity profile of the Council's debt.

4.9 Debt Rescheduling

There has been no debt rescheduling in the period. Officers along with our advisers Arlingclose continue to monitor PWLB interest rates looking for opportunities to repay any debt, maximising the savings achieved whilst maintaining a balanced maturity profile.

4.10 Overall debt performance for the first part of the year

All new debt taken in 2013-14 has been in short-term borrowing to meet cashflow/capital financing requirements. Over the period total loan debt has increased by £17.605m as a result of an increase in short-term borrowing due to the improvement in credit conditions and the use of cashflow balances. The increase in short-term borrowing has resulted in a reduction in the average rate on external borrowing from 4.4078% on 1<sup>st</sup> April 2013 to 3.7753% on 30<sup>th</sup> September 2013.

4.11 PWLB borrowing

In August HM Treasury announced details of a "Certainty Rate" which will enable "eligible authorities" to access cheaper PWLB funding, with a 20 basis point reduction on the standard PWLB borrowing rate. Initially announced in the March 2012 Budget, HM Treasury have introduced this initiative to incentivise local authorities to provide robust forecasts on borrowing plans. The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2012. In April the Authority submitted its application to the CLG along with the 2013-14 Capital Estimates Return to access this reduced rate for a further 12 month period from 1<sup>st</sup> November 2013.

The PWLB remained an attractive source of borrowing for the Authority as it offers flexibility and control. As concerns mounted over the timing of the removal or ‘tapering’ of QE by the US Federal Reserve, gilts sold off and yields rose in May and June. The sharp rise in gilt yields led to a corresponding rise in PWLB rates (see Appendix 1), with the most pronounced increase for 10 year loans where rates as at 30th September were 0.83% higher than 1st April. Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

Due to affordability and credit risk the current borrowing strategy is to take short-term borrowing at very low rates. However the Section 151 officer will continue to monitor interest rates and credit conditions and consider long-term borrowing in line with the approved 2013/14 Treasury Management Strategy.

## **Investments**

### **4.12 Managing Investment Risk**

4.12.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council’s aim is to achieve a yield commensurate with these principles.

4.12.2 Security of capital remained the Council’s main investment objective. This has been maintained by following the Council’s counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14. This restricted new investments to the following:

- The Debt Management Agency Deposit Facility (DMO)
- Treasury Bills (T-Bills) issued by the UK Government
- Term Deposits or business reserve accounts with UK banks or building societies
- Deposits with other local authorities
- Deposits with highly credit rated foreign banks
- Certificate of deposits with banks and building societies
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank
- Gilts (Bonds issued by the UK government)
- AAA-rated Money Market Funds with a Constant Stable Net Asset Value investing in instruments issued predominantly in government securities
- AAA-rated Money Market Funds with a Constant Stable Net Asset Value investing in instruments issued primarily by financial institutions
- AAA-rated Money Market Funds with a Variable Net Asset Value
- Other Money Market Funds and Collective Investment Schemes which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.
- Commercial Paper
- Corporate Bonds
- Investments with Registered Providers of Social Housing (housing associations)

4.12.3 Counterparty credit quality is assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the Country in which the institution operates; the Country's net debt as a percentage of GDP; sovereign support mechanisms/potential support from a well-resourced parent institution; share price.

#### 4.13 Counterparty Update

In April, Fitch downgraded the UK's long-term sovereign rating by one notch from AAA to AA+, the second of the rating agencies to do so (Moody's had downgraded the UK's ratings in February to Aa1). Where assigned, local authorities' ratings, which benefit from an uplift due to their close and direct links to central government, were also downgraded.

The proposed sale of 632 Lloyds' branches to the Co-op Bank – referred to as Project Verde – fell through in April. These branches will now be transferred in September to TSB Bank, a new bank which will be sold through a listing on the stock market in 2014.

In May, Moody's downgraded the long-term rating of Co-op Bank by six notches from A3 to Ba3 which is sub-investment grade. The downgrade reflected the agency's opinion that the bank faced the risk of further substantial losses in its non-core portfolio. In June the Co-op announced it had a £1.5bn regulatory capital shortfall requiring a recapitalisation via burden-sharing with junior creditors and asset disposals of its parent's insurance businesses. Moody's downgraded the bank's long-term rating a further four notches to Caal whilst Fitch downgraded this rating from BBB- to BB-. The Co-op is the Authority's banker and therefore the Authority has daylight exposure to the institution. Officers have put in place working practices to reduce this exposure by transferring funds within the Co-op account to offset individual account credits and debits and clearing any surplus balance to one of the Council's call accounts held with either Barclays, RBS, Bank of Scotland or Santander. These actions are undertaken throughout the day to limit both daylight and overnight exposure. The minimum balances are left in the Co-op accounts for operational purposes.

In the Chancellor's Mansion House speech on 19<sup>th</sup> June he signalled his intention to sell the Government's stake in the Lloyds Banking Group reasonably soon and a 6% stake was indeed sold to institutional investors on 17<sup>th</sup> September at a price of 75p. In a positive move, Fitch upgraded Lloyds' viability rating to bbb+. The situation was more complicated with RBS since its problems were greater and reflected in its share price. It appeared that a 'good bank' and 'bad bank' split for RBS was being favoured by the Chancellor and sat behind the announcement concerning the departure of RBS Chief Executive, Stephen Hester, who disagreed with that route.

Moody's placed the RBS's long-term rating of A3 and standalone financial strength rating of D+ on review for downgrade on 5<sup>th</sup> July 2013, amid concerns about the impact of any potential breakup of the bank on creditors. Although the

probability of losses remains low there is a possibility of capital impairment especially as the government has clearly indicated that it will not put up any further taxable funds. As a precautionary measure the Authority has reduced its maximum duration on RBS investments to overnight.

4.14 Investment Activity

4.14.1 Investments are made short term to cover cash flow and liquidity requirements and longer term to maximise and guarantee future income. The continuance of a historically low base rate and the introduction of the Funding for Lending Scheme (FFLS), where the Bank of England provides cheap funding to banks and building societies, resulted in a reduction in the returns available on the Council's deposits with these institutions. With rates falling the following deposits were taken in the period to give some protection to investment returns.

Amount	Start Date	End Date	Term (days)	Rate %
£5.0m	21/05/13	21/08/13	92	0.70
£5.0m	21/05/13	21/11/13	184	0.80
£5.0m	16/08/13	18/11/13	94	0.70

4.14.2 With bank deposit rates falling council officers have looked at alternative investment products to diversify away from pure cash deposits, achieve additional returns, and to add to the £5m invested in the CCLA Lamit Property Fund in March 2013. After discussion with the Council's Treasury Management Advisers (Arlingclose), a number of fund managers were interviewed and the following funds chosen:

- Federated Prime Rate Cash Plus Fund
- Ignis Sterling Short Duration Cash Fund
- Investec Short Bond Fund
- Investec Target Return Fund
- Payden & Rygel Sterling Reserve Fund

£1m has been deposited in each of these funds investing in a range of investments and asset classes including Certificates of Deposits (CD) and Floating Rate Notes (FRN), Government and Corporate Bonds and Asset Backed Securities (ABS). The target return on these funds will produce around 1%. These funds are variable and officers will monitor their performance with a view to consolidation and possible further investment. The performance of these funds will be included in the Treasury Management out-turn report.

4.14.3 Figure 2 below shows the split of investments over country/sector as at 30<sup>th</sup> September 2013. In terms of risk management, the majority of the investment portfolio is now held in UK institutions. These institutions are of systemic importance to the UK economy.

Figure 2

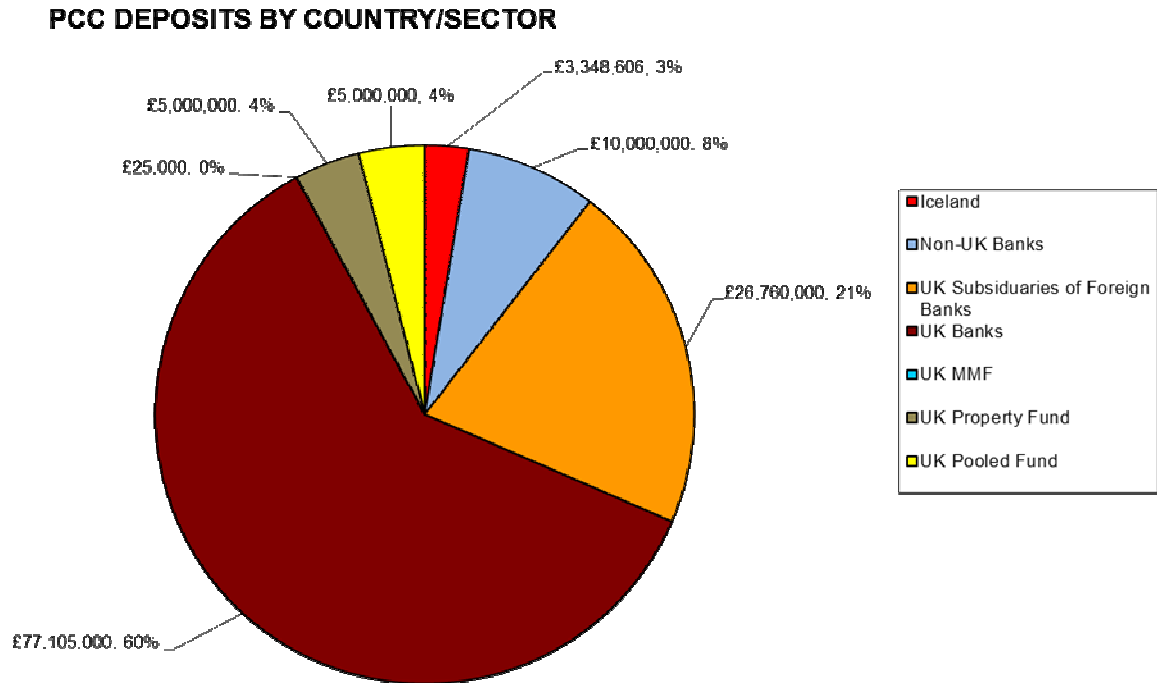


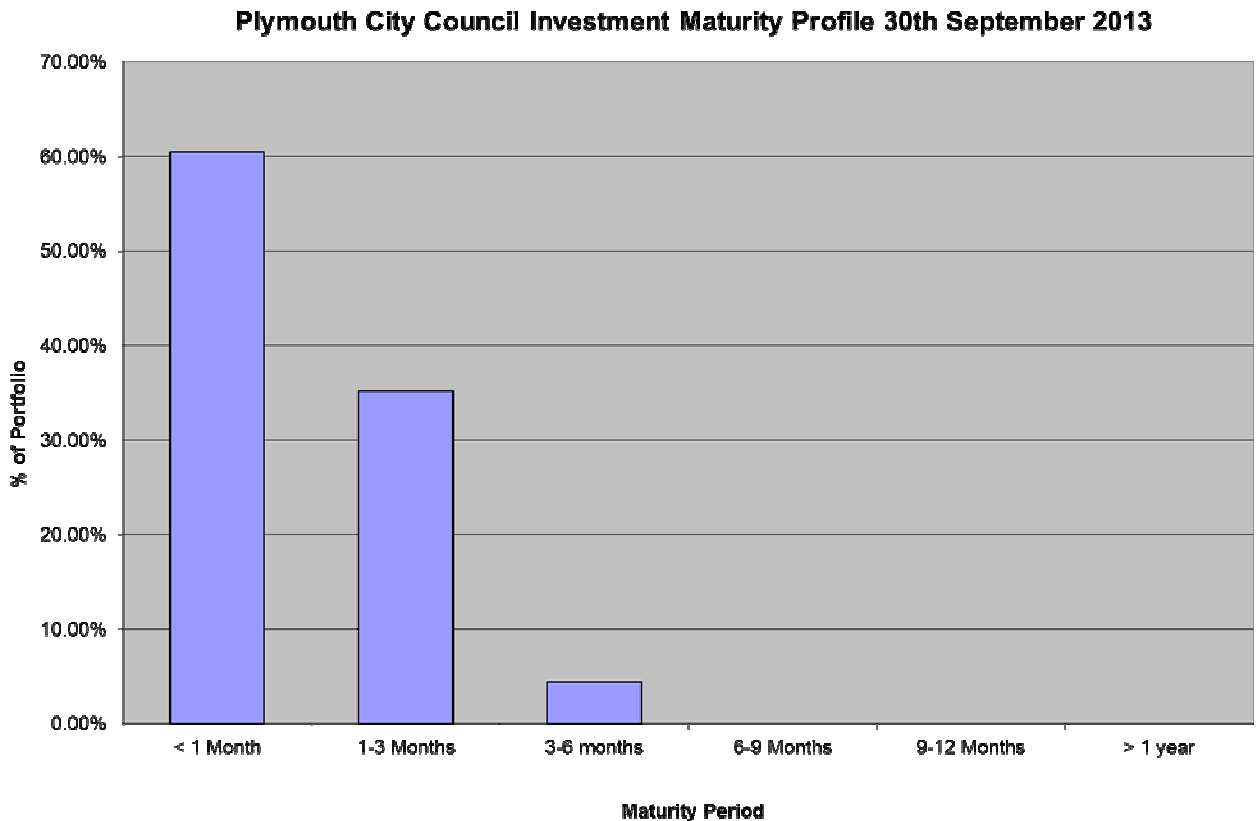
Table 3

Counterparty	Total £m
Iceland	3.349
Banco Santander	
Santander UK (was Abbey National)	26.760
Lloyds Banking Group	
Bank of Scotland	10.003
Lloyds TSB	5.000
Barclays	26.825
Royal Bank of Scotland (RBS)	
RBS	20.304
HSBC	10.000
Svenska Handelsbanken (Swedish Bank)	10.000
Close Brothers	5.000
CCLA Lamit Property Fund	5.000
Federated Prime Rate Cash Plus Fund	1.000
Ignis Sterling Short Duration Cash Fund	1.000
Investec Short Bond Fund	1.000
Investec Target Return Fund	1.000
Payden & Rygel Sterling Reserve Fund	1.000
CCLA Public Sector Deposit Fund	0.025
<b>Total</b>	<b>127.266</b>

4.14.4 The maturity profile of the Council's deposits is represented in figure 3. This shows a large proportion of deposits maturing in less than one month, reflecting the deposits in call accounts, giving the liquidity requirement to meet cashflow

and the ability to react to adverse changes in market conditions. In the period covered by this report the treasury management officer has continued to negotiate rates on the Council’s call accounts which in most cases pay higher than available fixed term deposits out to the maturity limits in place. The deposits beyond 1 month are 3 and 6 month deposits with Lloyds Banking Group where rates are higher than those available on the call account with this group.

Figure 3



#### 4.15 Credit Risk

4.15.1 The Treasury Management Strategy report to Audit Committee in February 2010 outlined a recommendation that officers work to develop a set of benchmarking criteria against which the Council’s investment risk could be measured. The Council’s treasury advisers, Arlingclose, as a result developed the following matrix to score the credit risk of an authority’s investment portfolio. This continues to be used in 2013-14:

Scoring:

- Value weighted average reflects the credit quality of investments according to the size of the deposit
- Time weighted average reflects the credit quality of investments according to the maturity of the deposit
- AAA = highest credit quality = 1

- D = lowest credit quality = 26

- Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

4.15.2 Table 3 shows the rating currently attached to the Council's portfolio and its movement during the year.

**Table 3**

<b>Date</b>	<b>Value Weighted Average – Credit Risk Score</b>	<b>Value Weighted Average – Credit Rating</b>	<b>Time Weighted Average – Credit Risk Score</b>	<b>Time Weighted Average – Credit Rating</b>
<b>31/03/2013</b>	6.00	A	6.25	A
<b>30/06/2013</b>	6.12	A	5.16	A
<b>30/09/2013</b>	5.73	A	4.67	A

Note: These scores exclude any deposits with Icelandic banks.

Based on the scoring methodology, the Council's counterparty credit quality has improved during the year as a result of the use of higher rated banks such as HSBC and Svenska Handelsbanken and investments in High rated managed funds. Throughout the first half of the year the Council's credit score was maintained well within the target level of 7 as set in the approved 2013/14 strategy.

4.15.3 Arlingclose have used the scoring matrix to compare Plymouth's investment risk against other unitary authorities who use Arlingclose as their advisers. The results are shown in section 5.

## **5. Benchmarking**

5.1 The Council's performance on investments is measured against a benchmark of the 7 day libid rate. For the period to 30<sup>th</sup> September 2013 the return on investments made in 2013/14 was 0.8090% against the average 7 day Libid for the period of 0.43%.

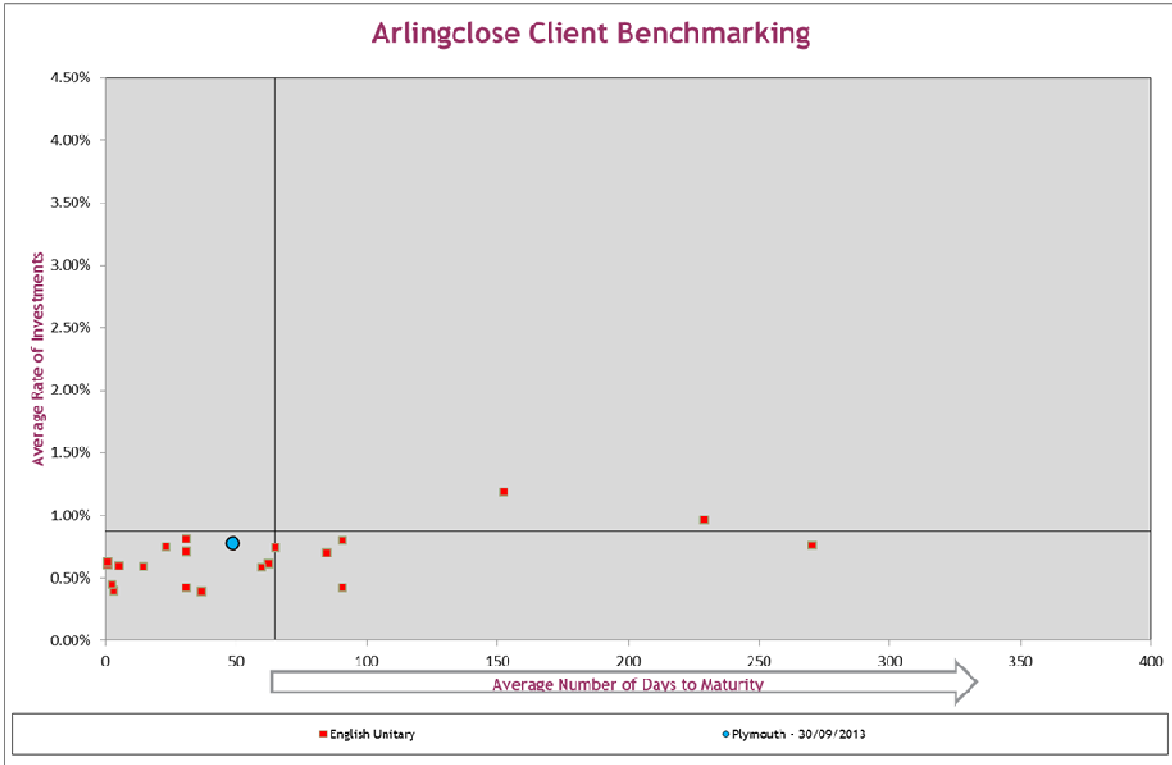
5.2 As outlined above, Arlingclose have developed a set of benchmarking criteria to enable comparisons on performance to be made on data provided by all their clients. To compare like with like the following graphs compare our performance with other unitary authorities. This is based on data provided to 30<sup>th</sup> September 2013.

The 3 graphs used for comparison are:

1. Average rate of investment against average maturity period
2. Average rate of investment against value weighted average credit risk score
3. Average rate of investment against time weighted average credit risk score

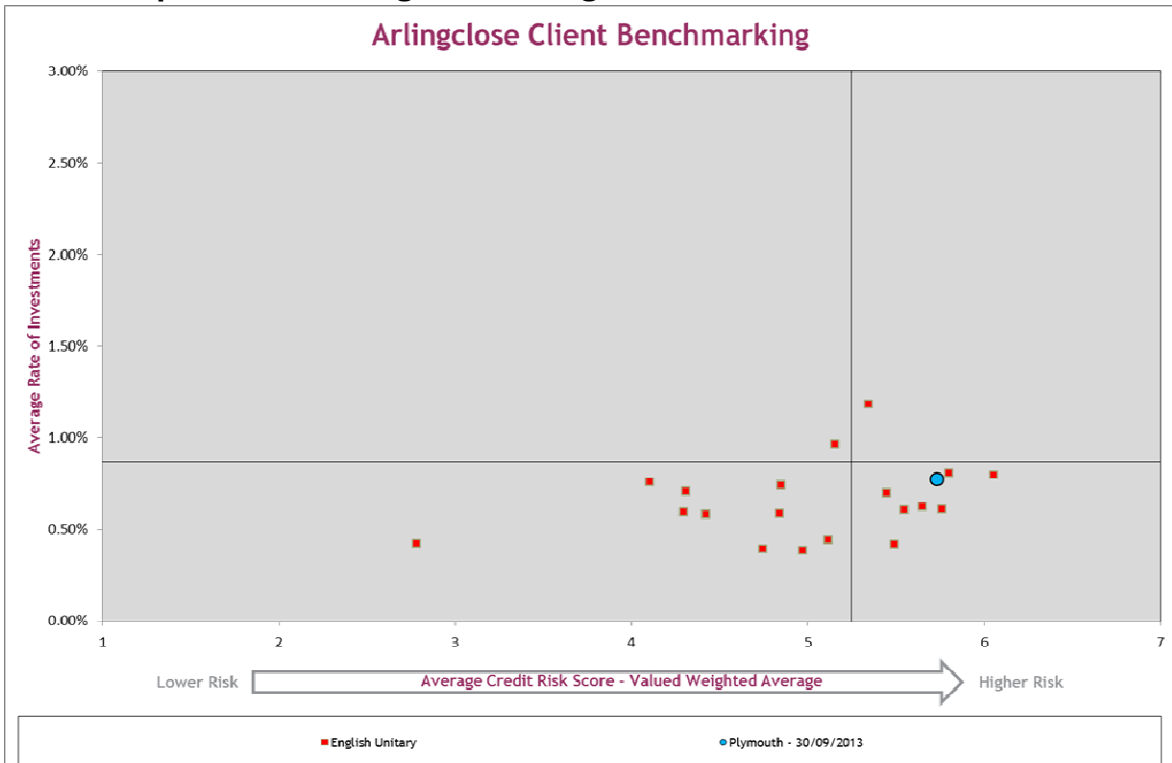


**Graph I Average Number of days to Maturity V Return**



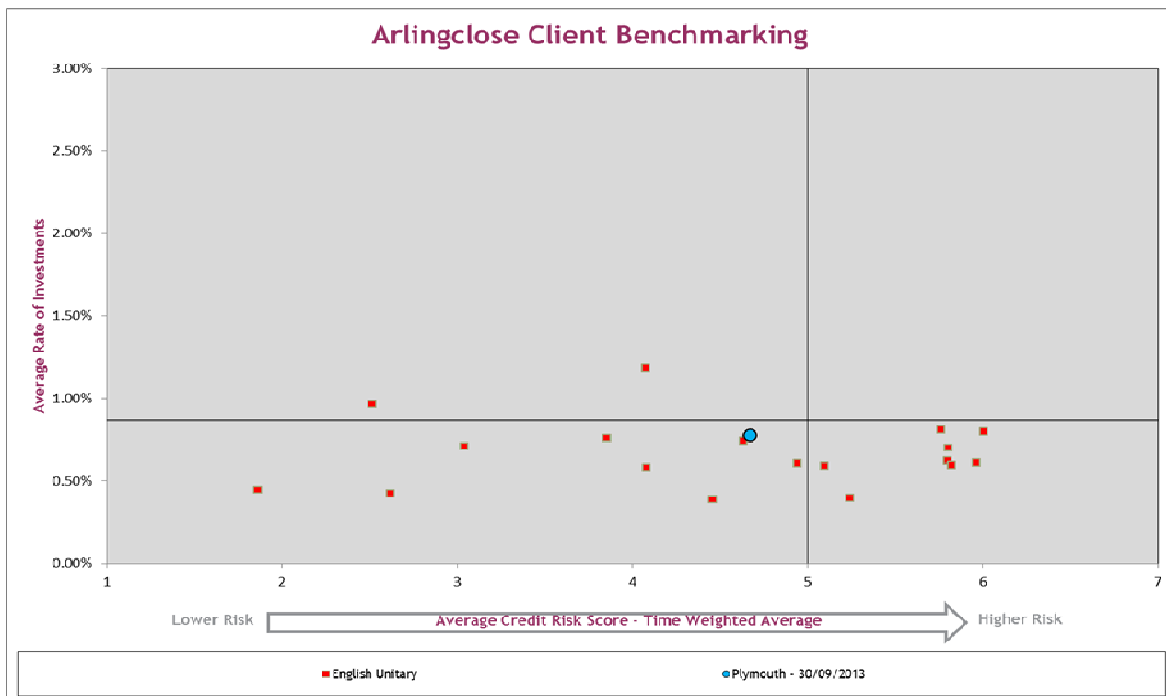
This graph shows the duration of investments against return. It shows the Council's investments have performed well against the majority of other unitary authorities reflecting the higher rates negotiated on call accounts

**Graph 2. Value Weighted Average V Return**



As a general rule the aim should be to convert a greater average length of portfolio duration into a greater than average return. There should be a positive correlation between duration and return. However this chart should not be viewed in isolation from other measured parameters and it should be noted that a high average number of days to maturity does not necessarily mean a higher risk, in fact the reverse may be considered true in some cases. The majority of the Council's investments are in call accounts with UK banks with short-dated maturities. These banks have been downgraded increasing the credit risk score but are still of systemic importance to the UK economy and as such are considered secure investments.

**Graph 3 Time weighted Average V Return**



Longer-term investments with banks are inherently more risky. Ideally authorities should move towards the top left corner of the above graph. Therefore it is preferable to see risk taken converted into return at a greater than average rate. All the Council's investments are in short-term deposits or instant access call accounts and highly rated managed funds so there are no longer-term deposits impacting on our credit risk score. The lower risk scores of other unitary authorities are due to the use of Money Market Funds (MMF) which are AAA rated giving the lowest credit risk score. It has been the policy of the Council to use call accounts with UK banks in the first half of the year as opposed to the alternative of liquid MMF's. Although MMF's are rated AAA the instruments within these funds have far lower ratings. Arlingclose are reviewing their credit risk scores to reflect this. Over time this will bring the scores of other authorities closer to that of this Authority.

## 6. Revenue Implications of Treasury Management

- 6.1 The expenditure and income arising from the Council's borrowing and investments accrues to the revenue accounts. This includes interest payable and receivable, the minimum revenue provision (for debt repayment), and premiums and discounts written out to revenue from previous debt rescheduling. Some of the interest receivable is passed on to specific accounts where this interest has accrued from the investment of surplus balances for these services. The balance (net cost) is met by the General Fund. The table below shows the monitoring positions against budget arising from these transactions in 2013/14 to 30th September 2013.

**Summary of Capital Financing Costs 2013/14**

	<b>2013/14 Budget £000</b>	<b>Forecast 2013/14 Outturn £000</b>	<b>Variance £000</b>
External Interest payments	9,610	8,789	(821)
External Interest received	(1,133)	(906)	227
Interest transferred to other accounts	15	15	0
Premiums / Discounts written out to Revenue	(189)	(148)	41
Debt Management Expenses	126	126	0
<b>Treasury Management Cost</b>	<b>8,429</b>	<b>7,876</b>	<b>(553)</b>
Minimum Revenue Provision	8,101	7,807	87
Recharges for unsupported borrowing	(4,267)	(4,267)	0
Recovered from trading Accounts	(2,805)	(3,662)	0
<b>Net Cost to General Fund</b>	<b>9,458</b>	<b>9,200</b>	<b>(466)</b>

## 7 Icelandic Bank Update

- 7.1 The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

**Glitnir** – received £5,033,247.31 (principal £4,742,018.12 and interest £291,229.19) amounting to 79.03% of our agreed claim leaving a balance yet to be recovered of £1,335,240.36.

**Landsbanki** – received £2,205,901.96 (principal £1,887,758.90 and interest £105,778.37) amounting to 52.22% of our agreed claim leaving a balance yet to be recovered of £2,018,233.28.

**Heritable** – received £2,964,327.74 (principal £2,820,520.30 and interest £143,807.44) amounting to 794.02% of our claim leaving a balance of £188,630.63 yet to be recovered.

## **8 Compliance with Prudential Indicators**

- 8.1 Under the arrangements set out in the Prudential Code for Capital Finance in Local Authorities, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code, and for establishing a range of prudential indicators covering borrowing limits and other treasury management measures. The Prudential Indicators for 2013/14 were approved by Council on 25<sup>th</sup> February 2013.

The performance to 30<sup>th</sup> September 2013 against these limits are set out below:

### **(a) Gross Debt and the Capital Financing Requirement**

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for capital purposes, the Local Authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement (CFR), this reduction is ignored in estimating the cumulative increase in the CFR which is used for the comparison with gross external debt.

Based on the current capital programme the maximum CFR estimated over the next 3 years is £285.088m. At the start of the year total debt was £267.794m. This fluctuated during the first 6 months of the year to reach a maximum level of £286.899m on 24<sup>th</sup> September 2013. By the 30<sup>th</sup> September this had fallen to £285.4m, back below the CFR. Short term cashflow requirements will sometimes mean the debt will be above the CFR but the Section 151 officer can report that the Authority had no difficulty meeting the requirement in 2012/13 or the current year to date.

### **(b) Authorised Limit and Operational Boundary for External Debt**

The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. It is measured on a daily basis against all external borrowing items on the balance sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). It is consistent with the Council's existing commitments, its proposal for capital expenditure and its approved Treasury Management Policy/Strategy.

The Council's Affordable (Authorised) Borrowing Limit was set at £310m for 2013/14 including a limit for other long term liabilities of £40m to cover PFI, Finance Leases and Tamar Bridge debt.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. It is a focus for the day to day treasury management and a means by which the authority manages its external debt within the self-imposed Authorised Limit. The Operational Boundary may be breached at certain times during the year due to short-term cashflow requirements.

The Operational Boundary for 2013/14 was set at £289m.

There were no breaches to the Authorised Limit or Operational Boundary to 30<sup>th</sup> September 2013 with the total external debt (including PFI, Finance Leases and Tamar Bridge debt) reaching its maximum level of £286.899 on 24<sup>th</sup> September 2013.

**(c) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Limits for 2013/143</b>
	%
<b>Upper Limit for Fixed Rate Exposure</b>	200
<b>Maximum exposure in 2013-14</b>	193.11
Compliance with Limits:	Yes
<b>Upper Limit for Variable Rate Exposure</b>	50
<b>Maximum exposure in 2013-14</b>	0.37
Compliance with Limits:	Yes

The Council's exposure to both fixed and variable rates was managed well within the limits set during the first half of the year.

**(d) Maturity Structure of Fixed Rate Borrowing**

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates, and is designed to protect against excessive exposure to interest rate changes.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. The repayment of the majority of PWLB loans on stock transfer has resulted in a high proportion of Lobo (Lenders Option, Borrowers Option) loans which may be subject to rate change or repayment at specified intervals. On specified dates the Lender has the option to vary the rate. If the option is taken the Council (Borrower) has the option to repay the loan. Therefore the loan

may be subject to repayment on a number of occasions throughout the life of the loan. These repayment possibilities are included in the limits set for the maturity of fixed rate borrowing and the monitoring of actuals against these limits. The following table shows the performance against limits during the year.

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Highest % of Actual Fixed Rate Borrowing during 13-14</b>	<b>Lowest % of Actual Fixed Rate Borrowing during 13-14</b>	<b>Compliance with Set Limits?</b>
under 12 months	40	0	20.42	7.88	Yes
12 months and within 24 months	60	0	47.02	31.87	Yes
24 months and within 5 years	40	0	22.92	10.45	Yes
5 years and within 10 years	25	0	4.56	1.94	Yes
10 years and within 20 years	25	0	2.86	2.86	Yes
20 years and with 30 years	25	0	5.37	5.37	Yes
30 years and within 40 years	30	0	6.36	4.67	Yes
40 years and within 50 years	35	0	17.18	15.50	Yes
50 years and above	25	0	0.00	0.00	Yes

#### **(e) Total principal sums invested for periods longer than 364 days**

- This indicator allows the Council to manage the risk inherent in investments longer than 364 days.
- The limit for 2013/14 was set at £20m.
- On the advice of the Council's advisers no deposits were made beyond 364 days during the first half of the year. Some investments were made in managed funds which could be held for longer term but as they are liquid and can be cashed in at short notice they are viewed as short term investments. Having not taken any deposits over 364 days in the first half of the year the Council still has space for up to £20m of longer-term deposits should this be viewed as appropriate in light of credit conditions, available counterparties and the risk/reward of these investments.

#### **(f) Credit Risk**

- This indicator has been incorporated to review the Council's approach to credit risk.
- The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions.
- Credit ratings remain an important element in assessing credit risk, but they are not the sole feature of the Authority's assessment of counterparty risk. The authority considers the following tools to assess credit risk.

- Published credit ratings of the financial institution and its sovereign;
  - Sovereign support mechanism;
  - Credit default swaps (where quoted);
  - Share prices (where quoted);
  - Economic fundamentals, such as country's net debt as a percentage of its GDP;
  - Corporate developments, news, articles, market sentiment and momentum.
- The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2013/14 Treasury Management Strategy.
- Long-term ratings of A- or equivalent;
  - Long-term sovereign ratings of AA+ or equivalent for non-UK sovereigns.

## 9. Outlook for Q3-Q4

9.1 At the time of writing this activity report in October 2013, the UK economic outlook appears to have improved. The projected path for growth has risen, but remains relatively subdued, with a distinct reliance on household consumption, which itself remains under pressure given the deterioration in real earnings growth, high unemployment and general low confidence. A variety of other factors will continue to weigh on a domestic recovery, including on-going fiscal consolidation, muted business confidence and subdued foreign demand. While the economic recovery may pick up steam, forward guidance from the Bank of England suggests that monetary policy is unlikely to be tightened until the ILO Unemployment Rate falls below 7%. The Bank projected this level would be reached in 2016. The latest forecast for Bank Rate from our advisers Arlingclose is below:

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Official Bank Rate												
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75
Arlingclose Centra	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

## 10 Summary

10.1 In compliance with the requirements of the CIPFA Code of Practice, this report provides members with a summary of the Treasury Management activity during the first half of 2013/14. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority given to security and liquidity over yield.

**Money Market Data and PWLB Rates**

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

Please note that the PWLB rates quoted below relate to the standard rates. The Council is eligible for the Certainty rate which provides a 0.2% reduction.

**Table 1: Bank Rate, Money Market Rates**

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2013	0.50	0.40	0.50	0.40	0.44	0.51	0.75	0.59	0.68	0.97
30/04/2013	0.50	0.50	0.47	0.40	0.44	0.51	0.75	0.57	0.64	0.91
31/05/2013	0.50	0.38	0.42	0.40	0.44	0.51	0.75	0.68	0.82	1.15
30/06/2013	0.50	0.43	0.38	0.40	0.44	0.51	0.75	0.78	0.99	1.52
31/07/2013	0.50	0.42	0.50	0.40	0.44	0.51	0.75	0.68	0.86	1.39
30/08/2013	0.50	0.43	0.41	0.41	0.44	0.51	0.76	0.81	1.10	1.71
30/09/2013	0.50	0.38	0.38	0.41	0.44	0.51	0.76	0.83	1.12	1.73
<b>Average</b>	<b>0.50</b>	<b>0.42</b>	<b>0.43</b>	<b>0.40</b>	<b>0.44</b>	<b>0.51</b>	<b>0.76</b>	<b>0.72</b>	<b>0.91</b>	<b>1.38</b>
<b>Maximum</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.45</b>	<b>0.53</b>	<b>0.65</b>	<b>0.84</b>	<b>0.95</b>	<b>1.32</b>	<b>1.99</b>
<b>Minimum</b>	<b>0.50</b>	<b>0.35</b>	<b>0.38</b>	<b>0.40</b>	<b>0.44</b>	<b>0.51</b>	<b>0.75</b>	<b>0.55</b>	<b>0.62</b>	<b>0.87</b>
<b>Spread</b>	<b>--</b>	<b>0.15</b>	<b>0.12</b>	<b>0.05</b>	<b>0.09</b>	<b>0.14</b>	<b>0.09</b>	<b>0.40</b>	<b>0.70</b>	<b>1.12</b>

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

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2013	125/13	1.11	1.74	2.83	3.87	4.18	4.25	4.22
30/04/2013	166/13	1.16	1.72	2.72	3.74	4.06	4.13	4.08
31/05/2013	208/13	1.26	1.97	3.03	3.99	4.29	4.36	4.33
28/06/2013	248/13	1.22	2.34	3.49	4.30	4.52	4.56	4.54
31/07/2013	293/13	1.21	2.22	3.43	4.29	4.50	4.52	4.50
30/08/2013	335/13	1.28	2.53	3.74	4.43	4.54	4.54	4.53
30/09/2013	377/13	1.30	2.50	3.66	4.36	4.49	4.50	4.48
	<b>Low</b>	1.11	1.70	2.71	3.71	4.02	4.08	4.04
	<b>Average</b>	1.25	2.21	3.34	4.19	4.42	4.46	4.43
	<b>High</b>	1.40	2.80	3.99	4.62	4.71	4.72	4.71



## Appendix I

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2013	125/13	1.30	1.80	2.87	3.52	3.88	4.08
30/04/2013	166/13	1.31	1.77	2.76	3.39	3.75	3.96
31/05/2013	208/13	1.49	2.02	3.07	3.67	4.00	4.19
28/06/2013	248/13	1.66	2.41	3.53	4.05	4.30	4.45
31/07/2013	293/13	1.58	2.29	3.47	4.04	4.30	4.44
30/08/2013	335/13	1.78	2.61	3.77	4.26	4.44	4.51
30/09/2013	377/13	1.79	2.58	3.69	4.17	4.37	4.45
	Low	1.29	1.76	2.75	3.37	3.72	3.91
	Average	1.61	2.28	3.38	3.93	4.20	4.35
	High	1.97	2.88	4.03	4.46	4.62	4.69

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2013	0.5700	0.5600	0.5500	1.4700	1.4600	1.4500
30/04/2013	0.5700	0.5500	0.5400	1.4700	1.4500	1.4400
31/05/2013	0.5600	0.5600	0.5600	1.4600	1.4600	1.4600
28/06/2013	0.5600	0.5600	0.5600	1.4600	1.4600	1.4600
31/07/2013	0.5500	0.5500	0.5500	1.4500	1.4500	1.4500
30/08/2013	0.5600	0.5600	0.5600	1.4600	1.4600	1.4600
30/09/2013	0.5700	0.5700	0.5700	1.4700	1.4700	1.4700
Low	0.5500	0.5500	0.5400	1.4500	1.4500	1.4400
Average	0.5640	0.5607	0.5576	1.4640	1.4607	1.4576
High	0.5800	0.5700	0.5700	1.4800	1.4700	1.4700

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Operational Risk & Opportunity Management Update Report
<b>Committee:</b>	Audit Committee
<b>Date:</b>	12 December 2013
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	David Trussler (Interim Director for Corporate Services)
<b>Author:</b>	Mike Hocking, Head of Corporate Risk and Insurance
<b>Contact details</b>	Tel: 01752 304967 mike.hocking@plymouth.gov.uk
<b>Ref:</b>	CRM/MJH
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

To support the delivery of the City's vision and to enable the provision of high quality services to the citizens and communities of Plymouth it is imperative that effective risk management arrangements are in place. A fundamental element of Corporate Governance, a risk managed approach to decision making will enable the council to achieve its objectives and deliver services more efficiently and cost effectively.

The management of risk principles and processes equally apply at operational level, supporting improved performance, integration with business planning, projects, change programmes and partnerships.

This report now outlines the continuing progress being made across Services in delivering Operational Risk and Opportunity Registers in line with the Council's shared vision and priorities.

The total number of operational risks now reported has decreased from 159 to 140, comprising 3 high (red) risks, 67 medium (amber) risks and 70 low (green) risks.

The decrease in number of risks is mainly due to a risk review within Chief Executives office.

Commentary on the high risk areas is included in the report together with details of control actions/mitigation in place.

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**The Brilliant Co-operative Council Corporate Plan 2013/14 – 2016/17:**

Operational Risk and Opportunity Registers are aligned to business plan objectives which are in turn linked to the Corporate Plan and our four priorities. This ensures that appropriate links are identified with individual risks where control action contributes to delivery of a key corporate objective.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

None arising specifically from this report but control measures identified in risk and opportunity registers could have financial or resource implications.

**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

None arising specifically from this report but community safety and health and safety issues and risks are taken into account in the preparation of risk and opportunity registers.

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? Not required.

**Recommendations and Reasons for recommended action:**

The Audit Committee is recommended to:

- Note and endorse the current position with regard to operational risk and opportunity management.

**Alternative options considered and rejected:**

Effective risk management processes are an essential element of internal control and as such are an important element of good corporate governance. For this reason alternative options are not applicable.

**Published work / information:**

Plymouth City Council’s Risk & Opportunity Management [Strategy](#)

**Background papers:**

None.

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	

**Sign off:**

Fin	Djn13 14.24	Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Tim Howes, Asst Director, Democracy & Governance													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

**1. Introduction**

1.1 The position with regard to Operational Risk and Opportunity Risk Register monitoring was last reported to this Committee on [13 June 2013](#) and this report now provides a summary of the latest monitoring exercise covering the position as at December 2013.

**2. Background**

2.1 Ten years ago Plymouth City Council implemented its first risk management strategy. This has been continuously reviewed each year and updated to ensure it remains fit for purpose.

2.2 To comply with the Risk and Opportunity Management [Strategy](#) each Directorate must implement a robust process of managing risks to corporate, service, project and partnership objectives for which they have responsibility.

2.3 To support the promotion and co-ordination of risk management each Directorate/Service has a dedicated Risk Champion. Risk Champions represent their Directorate/Service at the Operational Risk Management Group which is chaired by the Head of Corporate Risk and Insurance.

2.4 The good progress made towards achievement of this outlined in this report should provide Members with assurance that operational risks are now being identified effectively, mitigation actions put in place and Operational Risk and Opportunity Registers monitored routinely alongside the delivery of Business Plan objectives.

**3. Operational Risk and Opportunity Registers and Analysis of Risks Identified**

3.1 The corporate risk management process to enable service level Operational Risk and Opportunity Registers to be brought in line with business planning guidance linked to the Corporate Plan is now embedded across the Council.

3.2 In drawing up their Business Plans, Assistant Directors and Heads of Service are identifying risks that may prevent them from delivering on their key service objectives and, by monitoring these risks on a regular basis, will be tracking the effectiveness of mitigation controls.

3.3 As the risk identification process includes quantification through a probability/impact assessment, Services should also be able to identify key risks and prioritise their use of scarce resources more effectively.

3.4 All Services have therefore completed Operational Risk and Opportunity Registers or are reporting work in progress in line with development of their Business Plans.

**4. Red Risks**

4.1 All three of the “red” risks identified in June 2013 remain, as indicated below:-

<b>EXISTING RED RISK</b> Dept: <b>Finance, Efficiencies, Technology &amp; Assets</b> <b>(Finance)</b>	Medium Term Financial Strategy issues
<b>Comments/Mitigation:</b> This risk is also monitored via the Strategic Risk and Opportunity Register. Strategic partners have been engaged to help address future funding gap through a co-	

ordinated transformation programme. Budget presented to senior officers and members itemising all income and gross spend, delivering greater transparency and challenge.	
<b>EXISTING RED RISK</b> <b>Dept: People (Homes &amp; Communities)</b>	Increasing homelessness as a direct result of the Local Housing Allowance (LHA) & Welfare Reform changes
<b>Comments/Mitigation:</b> Service demand and use of temporary accommodation is still high. The Local Housing Allowance (LHA) action plan is being reviewed. Regular meetings are being held with Revenues and Benefits to look at Discretionary Housing Payments spend and adapt the scheme to meet those most in need.	
<b>EXISTING RED RISK</b> <b>Dept: Place (Transport &amp; Highways)</b>	Deterioration of the condition of the City's Highway Network (carriageway and footway)
<b>Comments/Mitigation:</b> The delivery of the £2m (pa) investment to resurface and reconstruct a number of city roads has been positively noticeable and welcome. Whilst the £2m, ten year commitment is welcome the underlying condition of the network is poor, hence the investment to halt further deterioration and bring it to a steady state that could be maintained is a considerable way off. Footways are not part of the carriageway investment at the current time and are a concern.	

## 5. Risk and Opportunity Register Information

- 5.1 Operational Risk and Opportunity Registers record mitigation actions and controls for all risks identified together with a named risk owner in each case
- 5.2 Risk templates include opportunities that may be realised following successful management of risk.
- 5.3 Risks scored 5 and under are considered to be managed to an acceptable level and have been removed from registers and archived in line with the Risk and Opportunity Management Strategy.
- 5.4 More detailed information on individual Services' risk and opportunity registers can be obtained from the Head of Corporate Risk & Insurance, departmental risk champions or Heads of Service.

## 6. Transformation Project

- 6.1 The first Transformation Portfolio Board met on 15 October with the aim of ensuring delivery of transformation outcomes in accordance with our Co-operative Council values.
- 6.2 During this meeting the Transformation Board agreed the key outcomes for the Transformation Project and a workshop is now being planned to log the risks to delivery of these outcomes and capture key opportunities arising from development of the programme.
- 6.3 Risks to the Transformation Project outcomes will be tracked operationally via project risk logs and an over-arching risk covering the project as a whole will be added to the Strategic Risk and Opportunity Register.

## 7. Information Governance

- 7.1 I reported to this Committee on [19 September 2013](#) that despite the continuing work of the Information Lead Officers Group (ILOG) an information security breach had occurred in July 2013 involving a caseload listing being sent to the wrong recipient.

- 7.2** The breach was disclosed to the Information Commissioner's Office (ICO) as it had been published in the Herald and subsequently, the Council has invited the ICO to carry out an audit of its processing of sensitive data which is due to take place in January 2014.
- 7.3** The ICO have since ruled that the type of data on the caseload listing was not sufficient to initiate their regulatory intervention as it consisted solely of children's and social workers' names and did not include any sensitive or other identifying information.
- 7.4** The ICO have now closed their investigation into this incident and no monetary penalty notice will be imposed.
- 7.5** Further to the above incident, ILOG initiated a staff awareness campaign during October 2013. Guidance pages were published on the staffroom intranet page under the main banner heading over the course of 5 weeks. They were entitled '[Check before you send](#)', '[No file tipping](#)', '[Don't be a loser](#)', '[Walls have ears](#)' and '[Could this happen here?](#)'.
- 7.6** The campaign was followed up with a 'Data Safe' eLearning training course that all staff with computer access must undertake by the end of the year.
- 7.7** The course concludes with a series of quiz questions and staff must achieve a pass rate of 100% or re-take the quiz.
- 7.8** The number of staff completing the eLearning training course is being tracked and success rates will be published on the Staff Room intranet page.
- 7.9** Devon Audit Partnership (DAP) have also carried out an independent review of our information governance arrangements and have sent out a questionnaire to a range of staff of different job types to gauge the current level of awareness across the organisation and this will act as a gap analysis for ILOG to update their action plan.
- 7.10** The results of the DAP and ICO audits and planned mitigation actions will be brought to this Committee in March 2014.

## **8. Conclusion**

- 8.1** The Council's success in dealing with the risks it faces can have a major impact on the achievement of key promises and objectives and ultimately, therefore, on the level of service to the community.
- 8.2** The Council recognises that it is operating in a climate of unprecedented financial pressure and that it needs to substantially reduce operating costs and ensure maximum possible investment in achieving its objectives and therefore needs to be innovative, resourceful, customer focused and provide greater value for money. The achievement of delivery plan actions to deliver budget savings continues to be closely monitored by Services with regular reporting on a risk rated basis to the Corporate Management Team.
- 8.3** The Council's approach to operational risk and opportunity management supports the implementation of the council-wide transformation programme, based on co-operative values, and is focussed on improving the ability of Services to manage those risks that may prevent them from delivery of their Business and Delivery Plans – this in turn should in time impact positively on outcomes for service users.

- 8.4** One of the responsibilities of the Audit Committee is to seek and receive assurances that the Council has an effective internal control framework in place which includes arrangements for the management of risk at both strategic and operational level.
- 8.5** This update report confirms that operational risks are now being identified across Services with clear links to Business Plan objectives and also confirms the good progress in embedding risk and opportunity management in the Council's other core business processes.
- 8.6** The Risk and Opportunity Management [Strategy](#) will provide staff with a process for identifying threats or risks that includes becoming more outcome focussed to be able to manage the upside of risk.
- 8.7** The Operational Risk Management Group is continuing to work with departmental Risk Champions to maintain the good progress to date and to further develop consistent application of risk management considerations across all operations of the Council.
- 8.8** The next report will be presented to Audit Committee in June 2014.



**Subject:** Covert Surveillance RIPA  
**Committee:** Audit  
**Date:** 12 December 2013  
**Cabinet Member:** Councillor Peter Smith  
**CMT Member:** Carole Burgoyne (Director for People)  
**Author:** Richard Woodfield) Corporate Information Manager  
**Contact details** Tel: 01752 304067  
email: richard.woodfield@plymouth.gcsx.gov.uk  
**Ref:** Annual Report position  
**Key Decision:** No  
**Part:** I

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**Purpose of the report:**

Councillors receive a yearly report as to the operation of the Surveillance Policy and the use made of the provisions of the Regulation of Investigatory Powers Act (RIPA).

The [Surveillance Policy](#) was approved by the Audit Committee on 13 December 2012 and no revisions are proposed. There have not been any investigations that have required the use of the provisions of this policy, except those which have been regulated through the RIPA process.

There are two regulatory bodies that oversee the use that public authorities make of RIPA and their inspection reports are available on the Council's [web site](#).

The Office of the Surveillance Commissioner (OSC) is not likely to next inspect the Council during the coming year. However the Interception of Communications Commissioner Office (IOCCO) is undertaking an inspection on Tuesday 2<sup>nd</sup> December 2013 but the outcome of this Inspection and any action plan will not be available from the Inspector for this Audit Committee meeting.

Thus it has been decided to assist the Committee by delaying the presentation of a full report to the next scheduled meeting, so that the Committee in March 2014 can have the benefit of the IOCCO Inspectors report and any action plan.

I can confirm that little covert surveillance activity has needed to be carried out by the Council and that since the last report in December 2012 there has only been one authorisation of Directed Surveillance to help establish the illegal sale of tobacco and four authorisations to obtain details of people being investigated by the Trading Standards department.

It is those authorisations to obtain communications data e.g. the identity of the users of mobile phone numbers, which the IOCCO Inspector will report on; as to the legality, necessity and proportionality of interference with the rights of private individuals.

If the Committee have any questions about the use of surveillance and interference with privacy, then I will be pleased to answer these in my next report.

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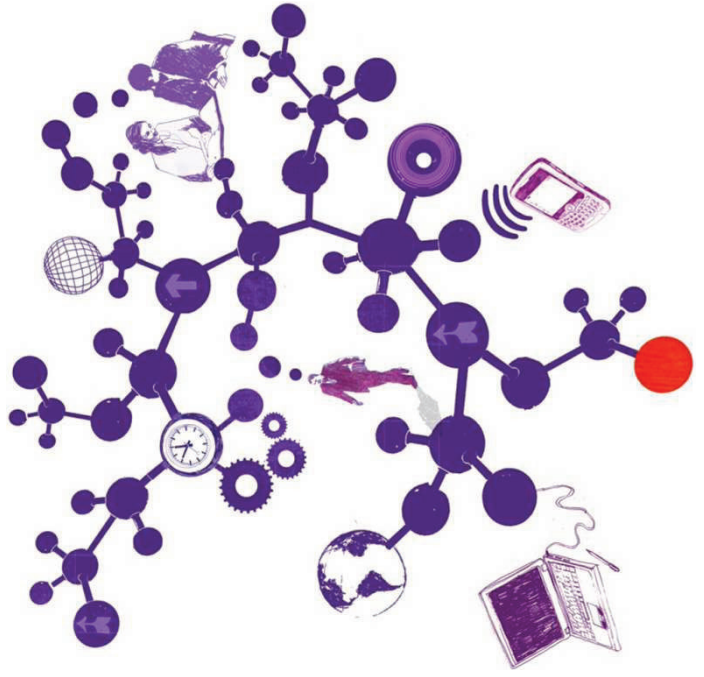
# Audit Committee Update for Plymouth City Council

**Year ended 31 March 2014**

29 November 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Accounting and audit issues	11

## Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to the Council
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website, [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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## Progress at 29 November 2013

Work	Planned date	Complete?	Comments
<b>2012-13 Audit</b>	By 31 October 2013	Yes	Our audit for the year ended 31 March 2013 is complete. Our annual audit letter has been produced and copied to this committee.
<b>Certification Work 2012-13</b>	By 30 November 2013	Yes	We audit those grants and returns that require certification in accordance with Audit Commission guidance and Government department deadlines. We have completed: <ul style="list-style-type: none"> <li>the NNDR return</li> <li>the Teachers' pensions return</li> <li>the Housing Benefits return</li> </ul> We have produced a separate certification report and this is on the Audit Committee agenda.
<b>2013-14 Accounts Audit Plan</b> We will issue an accounts audit plan setting out our proposed approach in order to give an opinion on the Council's 2013-14 accounts.	March 2014	Not due	This will be produced to inform our work on the 2013-14 audit, taking account of developments in local government accounting requirements, the results of our interim testing and reflecting on the audit process from 2012-13.
<b>2013-14 Interim accounts audit</b> Our interim fieldwork visit includes: <ul style="list-style-type: none"> <li>updating our review of the Council's control environment</li> <li>updating our understanding of financial systems</li> <li>review of Internal Audit reports on core financial systems</li> <li>early work on emerging accounting issues</li> <li>early substantive testing.</li> </ul>	Spring 2014	Not due	Not yet due.

## Progress at 29 November 2013

Work	Planned date	Complete?	Comments
<p><b>2013-14 final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council 's accounts.</li> </ul>	<p>Summer 2014</p> <p>September 2014</p>	<p>Not due</p> <p>Not due</p>	<p>Not yet due.</p> <p>We are in discussions with officers on a monthly basis to cover emerging issues.</p>
<p><b>2013-14 Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2013-14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• a detailed review of financial resilience</li> <li>• a review of arrangements for securing economy and efficiency</li> <li>• a follow up of recommendations made last year.</li> </ul>	<p>Spring and Summer 2014</p>	<p>Not due</p>	<p>Not yet due.</p>



# Emerging issues and developments

## Local government guidance

### Council tax collection – data from the value for money profiles

The Audit Commission has released a briefing on Council Tax Collection which uses the data held in the VFM profiles tool. The VFM profiles can be used to consider:

- how the cost and rate of collection compares to different comparator groups
- how changes over time compare to the overall trends described in the briefing
- how council tax collection may be affected by local arrangements in the council tax reduction scheme.

Issues for consideration:

- Has the Council reviewed its costs and performance against similar organisations?
- Where issues have been identified, has an action plan been implemented?

# Emerging issues and developments

## Local government guidance

### Local government claims and returns 2011/12

In the Summer of 2013, the Audit Commission published 'Local government claims and returns 2011/12 – The Audit Commission's report on certification work'. The report includes information and commentary on the number and value of certified claims and returns; auditors' findings; the cost of certification work; and future certification work.

The Audit Commission concluded that:

- while 2011/12 saw a fall in the value of amendments and number of qualification letters, this was largely due to fewer claims and returns requiring certification. Proportionally, the level of claims and returns amended or qualified rose, while the most significant scheme, housing and council tax benefits, saw both the value of amendments and number of qualification letters increase.
- authorities and grant-paying bodies should continue their work to ensure schemes' terms and conditions are complied with, particularly when schemes change significantly or are in their final year.

Our certification report for Plymouth City Council is a separate agenda item for the December 2013 Audit Committee.

Issue for consideration:

- What procedures does the Council have in place to ensure that grant schemes terms and conditions are complied with and that claims and returns are completed accurately?

# Emerging issues and developments

## Grant Thornton

### 'Future Councillors – where next for local politics?'

Grant Thornton has sponsored the latest New Local Government Network (NLGN) research paper: *Future Councillors – where next for local politics?* Whilst more or less every aspect of what a council does is currently up for discussion, this is not the case for the role of local politicians. The report is a response to this discourse gap.

The report content is based on a series of workshops held earlier this year with a number of councillors from different local authority types, different regions and from different political parties. The workshops, which Grant Thornton attended, included a scenario-planning exercise which identified how councillors that fail to renew their democratic processes risk losing the support of their communities. The research also suggested that councils that did grasp the opportunities offered by technology and service redesign can become far more engaged with their communities, building efficient and co-operative models of local government focused on neighbourhood needs.

The report includes a chapter by Guy Clifton from Grant Thornton on the councillor's role in financial planning. The workshops identified that many elected members are keen to take a far greater role in financial planning at their authorities, particularly given the significant funding challenges being faced. During the workshops we explored the skills and capabilities that members need to effectively manage the budget setting process. These included: effective communication and stakeholder engagement, understanding financial planning tools and, perhaps most importantly, knowing what questions to ask.

Issue for consideration:

- Are your elected members taking a greater role in financial planning and has the authority ensured that members are trained for the task?

# Emerging issues and developments

## Grant Thornton

### Spending Round 2013

It was announced in the June 2013 spending round that the local government resource budget will be reduced by 10 percent in 2015-16.

As Paul Dossett, Head of Local Government at Grant Thornton UK LLP, wrote on [informationdaily.com](http://informationdaily.com), the Chancellor 'seemingly acknowledged local government's capacity to deliver the scale of savings achieved so far. No other spending department received such positive affirmation. The Chancellor's actions imply that local government leaders are more capable of meeting the national challenge than other parts of the public sector. Over the past three years, local government members and senior officers have tightened their organisational belts and most have shown they are able to deliver significant change. The government is placing continued reliance on their resourcefulness in order to help meet the fiscal shortfalls facing the broader public sector, and many in the sector recognise this.'

*'In his speech, the Chancellor recognised the benefits that more collaborative working can bring, although not on the lines subsequently suggested by the LGA. The Chancellor called for more joined-up working between police forces, and between police forces and local authorities - with a £50m innovation fund to be established to support this work. He also called for greater collaboration between health and social care services, with £200m to be transferred to local authorities from the NHS in 2014-15, and a £3.8bn pooled budget in 2015-16. In addition, £35m is to be made available to local authorities in 2015-16 to help prepare for reforms to the system of social care funding, including the cap on care costs from April 2016. There is also the £200m additional funding to the Troubled Families programme being managed by the department for Communities and Local Government.'*

Issues for consideration:

- Has your authority reviewed its medium term financial plan in light of the Spending Round announcement and considered the action to be taken?
- How is your authority planning to work with other organisations in the public sector?

# Emerging issues and developments

## Accounting and audit issues

### 2014/15 Code of Practice on Local Authority Accounting

At the end of July, CIPFA/LASAAC released the 2014-15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The significant changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in authorities reviewing current measurements of property, plant and equipment and for some authorities, may require remeasurement of particular assets. CIPFA/LASAAC is proposing a relaxation of the measurement requirements of IFRS 13 and IAS 16 Property, Plant and Equipment for a three year period
- introduction of the new group accounting standards
- other amendments to standards issued by the International Accounting Standards Board (IASB): amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the new disclosure requirements introduced in the 2013-14 Code and clarification on comparative information from amendments to IAS 1 *Presentation of Financial Statements*
- local government reorganisations and other combinations: clarification of the Code's requirements and alignment with other public sector bodies
- options for the "dry run" for the move to depreciated replacement cost for local authority transport infrastructure assets as set out in the CIPFA Code of Practice on Transport Infrastructure Assets to the (Local Authority Accounting) Code.

CIPFA/LASAAC have also launched a consultation on simplifying and streamlining the presentation of local authority financial statements.

Both consultations closed in October 2013.

Issue for consideration:

- Has the Council reviewed the proposed amendments and assessed the potential impact?



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# The Annual Audit Letter for Plymouth City Council

**Year ended 31 March 2013**

October 2013

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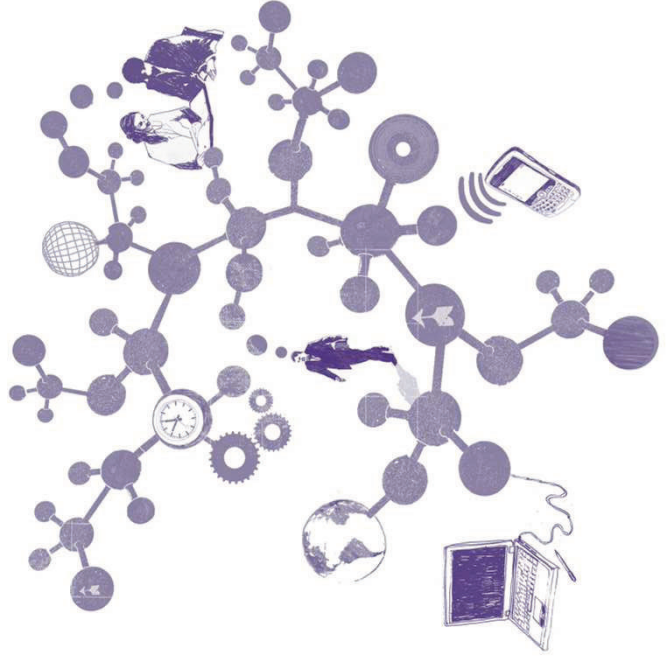
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## **Appendices**

- A Reports issued and fees



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## Section 1: Executive summary

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Certification of grant claims and returns

# Executive summary

## **Purpose of this Letter**

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Plymouth City Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 19 September 2013.

## **Responsibilities of the external auditors and the Council**

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we discussed with the Audit Committee on 13 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Audit conclusions**

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the Council's Whole of Government Accounts submission
- we certified the non domestic rates return without amendment and we are working on the other two claims and returns that are subject to external assurance.

# Executive Summary continued

## **Key areas for the Council's attention**

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The Council overspent its budget by approximately £500,000 in 2012/13. However, some large overspends – particularly within Adult Social Care – were compensated for by savings elsewhere. The Council is currently updating its medium term financial strategy (MTFS) and aims to finalise this five year financial plan alongside its budget for 2014/15. A robust MTFS will be central to enabling the Council to operate effectively with reducing resources.

Our audit of the Council's financial statements identified two errors which were not corrected. These related to the Council's investments in Icelandic Banks and the provision necessary to cover the future costs associated with managing the Council's closed landfill site. These are covered in Section Two of this Letter.

Looking ahead to 2013/14, the Council and its partners (Devon County Council and Torbay Council) need to establish:

- the status of the waste partnership they have formed (i.e. whether it is a Joint Committee or other arrangement);
- the governance arrangements for the partnership; and
- the accounting treatment of the asset that is currently being constructed.

## **Acknowledgements**

This Letter has been agreed with the Chief Executive and the Assistant Director, Finance, Efficiency, Technology and Assets.

We will present it to the Council's Audit Committee on 12 December 2013.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2013**

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## Section 2: Audit of the accounts

- 01. Executive summary
- 02. Audit of the accounts**
- 03. Value for Money
- 04. Certification of grant claims and returns

# Audit of the accounts

## **Audit of the accounts**

The key findings of our audit of the accounts are summarised below:

### **Preparation of the accounts**

The Council presented us with draft accounts on 1 July 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 1 July 2013.

The financial statements were produced to a high standard and there was evidence of good internal Quality Assurance procedures.

### **Issues arising from the audit of the accounts**

Our audit only identified a small number of amendments made, none of which were material. There were two unadjusted misstatements:

- As reported in previous years, the Council had not followed the accounting treatment for its Icelandic Bank investments in accordance with the CIPFA guidance. Had the Council followed this guidance, it would have reversed the £3.2m loss in investment income previously recognised in the financial statements.
- The Council had not included a provision within its financial statements for the future after-care costs of managing its closed landfill site. These are estimated to be in the region of £6.6m.

These unadjusted misstatements do not impact on the Council's financial outturn for the year.

## **Annual governance statement**

The Council's Annual Governance Statement complied with the guidance issued by CIPFA and SOLACE (the Society of Local Authority Chief Executives) and was in line with our understanding of the Council.

However, the Annual Governance Statement contained a number of items referred to as 'significant governance issues' – including Health and Social Care Reforms, Welfare Reforms and Health Inequalities.

Whilst these are undoubtedly challenges for the Council, and may be appropriate for inclusion within its risk registers, we do not consider that they reflect governance failures within the Council itself.

## **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 19 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 19 September 2013, ahead of the 30 September deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

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## Section 3: Value for Money

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money**
- 04. Certification of grant claims and returns

# Value for Money

## Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

**The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Overall, our work highlighted that the Council has adequate arrangements in place to secure financial resilience. The Council is in the progress of updating its medium term financial strategy and, once complete, will mean that it is planning over a five year horizon.

The Council reported a deficit of approximately £0.5m in 2012/13, although there were a number of significant overspends, particularly Adult Social Care, as well as compensating underspends within this outturn. We identified that the Council should ensure that it robustly challenges future savings plans to ensure that progress closely monitored.

We have produced a separate financial resilience report which sets out our findings and recommendations in more detail. This was presented to the Council's Audit Committee in September 2013.

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## Value for Money

### **Challenging economy, efficiency and effectiveness**

We concluded that the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. In reaching this conclusion, we reviewed the Council's corporate plan and its proposals for accommodation, ICT and business rates.

### **Overall VFM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.



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## Section 4: Certification of grant claims and returns

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Certification of grant claims and returns**

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## Certification of grant claims and returns

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Our work on certification of grant claims is on-going. Our work to date has not identified any issues which we wish to highlight.

The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

# Appendices

## Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and the provision of non-audit services.

### Fees

	Per Audit plan £	Actual fees £
Audit Fee	181,428	181,428
Grant certification fee	23,900	23,900
<b>Total fees</b>	<b>205,328</b>	<b>205,328</b>

Our grant certification work will be completed by 30 November 2013. We will confirm our final fee for the year once this work has been completed.

### Fees for other services

Service	Fees £
Plymouth City Airport Due Diligence Review	£16,900

### Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013
Certification report	Expected November 2013



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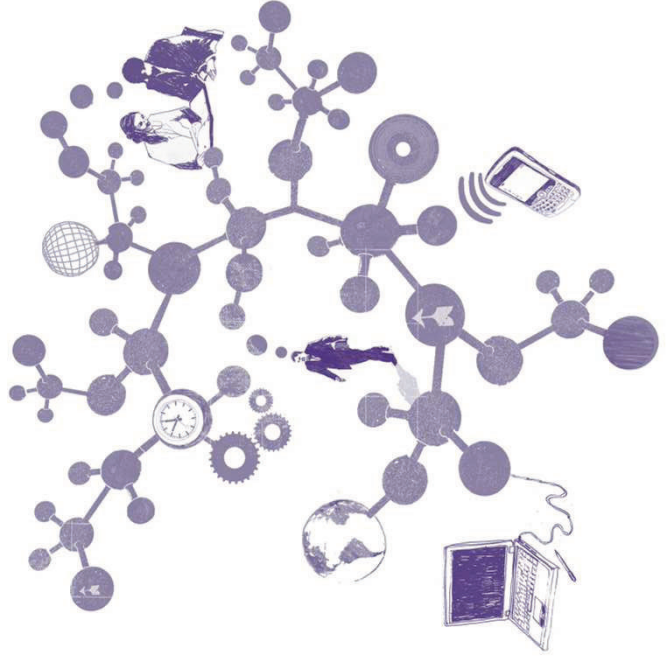


# Certification report 2012/13 for Plymouth City Council

**Year ended 31 March 2013**  
November 2013

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## Section 1: Executive summary

01. Executive summary

02. Results of our certification work

# Executive summary

## Introduction

We are required to certify certain of the claims and returns submitted by Plymouth City Council (‘the Council’). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council’s entitlement to funding.

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £214.775 million.

This report summarises our overall assessment of the Council’s management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	All three claims and returns were submitted and certified by the required deadlines.	● Green
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	None of the claims required amending prior to certification. A Qualification letter was prepared in respect of one claim.. Full details can be found in Appendix A.	● Amber
<b>Supporting working papers</b>	Working papers were in place to support the entries on the claims and returns and requests for additional information were dealt with promptly.	● Green

### **Acknowledgements**

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
**November 2013**

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## Section 2: Results of our certification work

01. Executive summary

02. Results of our certification work

## Results of our certification work

### Key messages

We have certified three claims and returns for the financial year 2012/13, as noted in Appendix A.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	3	100%	3	100%	↕
Claims certified on time	100%	3	100%	3	100%	↕
Claims certified without amendment	100%	0	100%	2	67%	↑
Claims certified without qualification	100%	2	67%	2	67%	↕

This analysis of performance shows that:

- in line with last year all claims and returns were submitted and certified by the required deadlines;
- no claims or returns required amending, which is an improvement over last year; and
- one return was qualified (Housing and Council Tax Benefit Scheme), the same as last year.

Details of the certification of all claims and returns are included at Appendix A.

### Significant findings

Our work has not identified any significant issues in relation to the management arrangements and certification of individual grant claims and returns. (see Appendix A).

### Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 was £23,900 and we are proposing a variation to reduce this fee by £1,632 due to part A work only being required for the NNDR claim. Therefore the revised fee is £22,268.

# Appendices

## Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Amendment	Qualified?	Comments
Housing and council tax benefit scheme	£121,837,558	No	Nil	Yes	<p>A small number of errors were identified during the course of our work:</p> <ul style="list-style-type: none"> <li>Benefit had been underpaid to two claimants (out of 60 tested) in respect of Rent Allowances.</li> <li>Benefit had been misclassified in respect of Council Tax Benefit expenditure. From 60 cases one case was identified which had been recorded in the wrong cell.</li> <li>An under-claim of subsidy (£63) was found due to expenditure being classified as a modified scheme when it should have been recorded in Rent Allowances.</li> </ul> <p>These errors were reported in the Qualification letter sent to the DWP on the 26<sup>th</sup> November 2013. These errors were not identified in the previous year and, overall, there were less errors in 2012/13 than in previous years.</p>
National non-domestic rates return	£82,444,908	No	Nil	No	None
Teachers' pensions return	£10,492,965	No	Nil	No	None



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**Audit Committee Work Plan 2013/14**

Item	Cabinet Member / Lead Officer	2013							2014					
		J	J	A	S	O	N	D	J	F	M	A	M	J
Internal Audit Annual Report (including six month Internal Audit Progress Report - Dec)	Cllrs Lowry and Peter Smith / DfCS	13						12						√
Statement of Accounts 2012/13	Cllrs Lowry and Peter Smith / DfCS	13			19									√
Operational Risk and Opportunity Management - Update Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	13						12						√
Risk Management Annual Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	13												√
Annual Governance Statement	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)	13												√
Annual Report on Treasury Management Activities for 2012/13	Andrew Liddicott	13												

### Audit Committee Work Plan 2013/14

		2013							2014					
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RIPA Surveillance Report	Richard Woodfield							12						
Strategic Risk and Opportunity Management Register Monitoring Report	Cllrs Lowry and Peter Smith / DfCS (Mike Hocking)				19						13			
Internal Audit Annual Plan	Cllrs Lowry and Peter Smith / DfCS (Sue Watts)										13			
Internal Audit – Progress Report	Brenda Davis/ Dominic Measures/ Robert Hutchins				19									
Internal Audit – Follow Up Work	Brenda Davis/ Dominic Measures/ Robert Hutchins				19									

**Audit Committee Work Plan 2013/14**

		2013							2014					
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Audit Plan 2012/2013 – progress report	External Auditor Grant Thornton				19									
Annual Report to Those Charged with Governance (ISA260 Report) 2012/2013	External Auditor Grant Thornton				19									
Value for Money Report - Financial Resilience	External Auditor Grant Thornton				19									
Project Management Review	External Auditor Grant Thornton													
Audit Update	External Auditor Grant Thornton							12						
Annual Audit Letter 2012/2013	External Auditor Grant Thornton							12						

**Audit Committee Work Plan 2013/14**

		2013							2014					
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Audit Plan 2013/2014	External Auditor Grant Thornton										13			
Audit Fee Letter 2013/2014	External Auditor Grant Thornton				19									
Review of rolling workplan	Lead Officer/DSO	13			19			12			13			√
ICT Update	Mel Gwynn				19									
Information Commissioners Audit	Mike Hocking										13			