

MEETING: AUDIT AND GOVERNANCE COMMITTEE

DATE: Wednesday 14th December, 2011

TIME: 3.00 pm

VENUE: Town Hall, Bootle

Member

Councillor
Councillor Hands (Chair)
Councillor Tonkiss (Vice-Chair)
Councillor Brady (Spokesperson)
Councillor Brennan
Councillor Lord Fearn
Councillor Friel
Councillor Maher
Councillor McIvor
Councillor Parry (Spokesperson)
Councillor Shaw

Substitute

Councillor
Councillor Mainey
Councillor M. Fearn
Councillor Tweed
Councillor Mahon
Councillor Ashton
Councillor McGinnity
Councillor Moncur
Councillor Crabtree
Councillor Porter
Councillor Robertson

COMMITTEE OFFICER: Steve Pearce
Head of Committee and Member Services
Telephone: 0151 934 2046
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E-mail: steve.pearce@sefton.gov.uk

If you have any special needs that may require arrangements to facilitate your attendance at this meeting, please contact the Committee Officer named above, who will endeavour to assist.

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AGENDA

1. **Apologies for absence**
2. **Declarations of Interest**

Members and Officers are requested to give notice of any personal or prejudicial interest and the nature of that interest, relating to any item on the agenda in accordance with the relevant Code of Conduct.
3. **Minutes of Previous Meeting** (Pages 5 - 8)

Minutes of the meeting held on 28 September 2011
4. **External Audit - Annual Audit Letter 2010/11** (Pages 9 - 18)

Report of the External Auditors, PricewaterhouseCoopers
5. **Doubtful Debt Policy - Update**

Report of the Head of Corporate Finance and ICT to follow
6. **Treasury Management 2011/12 - Half year Update** (Pages 19 - 34)

Report of the Head of Corporate Finance and ICT
7. **Internal Audit Plan 2011/12 Performance Report - April to November 2011** (Pages 35 - 52)

Report of the Head of Corporate Finance and ICT
8. **Recommendation Escalation Policy for Non Response** (Pages 53 - 58)

Report of the Head of Corporate Finance and ICT
9. **Exclusion of Press and Public**

To consider passing the following resolution:

That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following item(s) of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act. The Public Interest Test has been applied and favours exclusion of the information from the Press and Public.
10. **Internal Audit Fraud Report - April to November 2011** (Pages 59 - 66)

Report of the Head of Corporate Finance and ICT

11. Corporate Risk Register - Update

(Pages 67 -
72)

Report of the Head of Corporate Finance and ICT

THIS SET OF MINUTES IS NOT SUBJECT TO "CALL-IN"

AUDIT AND GOVERNANCE COMMITTEE

MEETING HELD AT THE TOWN HALL, SOUTHPORT ON 28 SEPTEMBER 2011

PRESENT: Councillor Hands (in the Chair)
Councillor Tonkiss (Vice-Chair)

Councillors Lord Fearn, McIvor, Parry and Shaw

ALSO PRESENT: Mr P. Chambers and Mr S. Baron from
PricewaterhouseCoopers

13. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Brennan, Friel, Maher and Robertson.

14. DECLARATIONS OF INTEREST

No declarations of interest were made.

15. MINUTES OF PREVIOUS MEETING

RESOLVED:

That the Minutes of the meeting of this Committee held on 29 June 2011 be confirmed as a correct record.

16. STATEMENT OF ACCOUNTS 2010/11

Further to Minute No. 5 of the meeting held on 29 June 2011, the Committee considered a report by the Head of Corporate Finance and ICT detailing the 2010/11 Statement of Accounts for consideration and approval following the completion of the audit by the External Auditors, PricewaterhouseCoopers (PwC). The report included an Executive Summary of the Accounts, the Annual Governance Statement and the "Letter of Representation" from the Council to the External Auditors for approval.

The Council, or nominated Committee charged with the responsibility for Governance must approve the Statement of Accounts following the completion of the annual audit. The Audit and Governance Committee had been delegated with this responsibility and consequently must approve the audited accounts for 2010/11 by 30 September 2011.

The Head of Corporate Finance and ICT referred to the major issues/variations that occurred during the last financial year and answered questions from Members on various aspects of the Statement of Accounts with regard to capital grants and contributions, the One Vision Housing

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AUDIT AND GOVERNANCE COMMITTEE- WEDNESDAY 28TH
SEPTEMBER, 2011

accounts receivable balance, One Vision Housing legal claim, the viability of Sefton New Directions, the equal claims provision and the bad debt provision.

The report also included the External Auditor's report to those charged with Governance, which gave details of the significant accounting matters to be considered and the adjusted accounting issues identified as part of their audit work. The report also referred to an objection received to the 2009/10 accounts, which had not been upheld and provided an update on the audit fees charged for 2010/11 by PwC. Mr. P. Chambers from PwC was present and provided Members with a brief summary of the issues contained in the report and answered their questions as appropriate.

Mr Chambers confirmed that an unqualified audit opinion on the Statement of Accounts and the Council's Value for Money conclusion had been given.

The Council was also required to provide a Letter of Representation to the External Auditor at the conclusion of the audit. This letter provided a management response to the significant accounting matters identified by the External Auditor, acknowledged the Council's responsibilities in preparing the Accounts and provided the assurance to the External Auditor that no new information or decisions had been taken that would materially affect the Statement of Accounts for the year. The letter had to be signed by the Chair and Head of Corporate Finance and ICT once approved.

RESOLVED: That

- (1) the Statement of Accounts for 2010/11, be approved;
- (2) the Annual Governance Statement for 2010/11 be approved;
- (3) the comments of PricewaterhouseCoopers LLP, be noted;
- (4) the Letter of Representation be approved and the Chair and Chief Executive be authorised to sign it on the Council's behalf, and
- (5) the Head of Corporate Finance and ICT submit a report to the next meeting on the current policy for bad debt provision and the implications of changing components of the policy.

17. TREASURY MANAGEMENT 2011/12 - FIRST QUARTER UPDATE

The Committee considered the report of the Head of Corporate Finance and ICT which provided details of the Treasury Management activities undertaken in the first quarter of 2011/12 and the amendments to the Prudential Indicators for 2011/12 which had been approved by the Cabinet on 11 August 2011.

RESOLVED:

That the report be noted

**18. INTERNAL AUDIT PLAN 2011/12 - PERFORMANCE REPORT:
APRIL TO JULY 2011**

The Committee considered the report of the Head of Corporate Finance and ICT which provided a summary of internal audit work undertaken during the period April to July 2011. The Committee was required to be appraised of and review Internal Audit work as part of its review of the internal control environment and overall Governance arrangements.

The report also provided details of the performance trend of Arvato's Benefit Fraud Investigation Team.

RESOLVED: That

- (1) the report be noted; and
- (2) the Head of Corporate Finance and ICT submit a report to the next meeting on the current policy for escalating issues arising from Internal Audit recommendations to this Committee.

19. ANTI FRAUD, BRIBERY AND CORRUPTION POLICY

The Committee considered the report of the Head of Corporate Finance and ICT on the revisions to the Anti Fraud, Bribery and Corruption Policy following the implementation of the Bribery Act 2010.

RESOLVED:

That the revised Anti Fraud, Bribery and Corruption Policy be approved.

20. COMMITTEE BRIEFING SESSIONS

Further to Minute 7 of the meeting held on 29 June 2011, the Head of Corporate Finance and ICT reported on the proposals to hold briefing sessions for Members and Substitute Members of the Committee on the following topics, on the dates indicated at Bootle Town Hall:

<u>Topic</u>	<u>Date</u>
Internal Audit - Roles and Responsibilities	Friday 9 December 2011
Treasury Management	Friday 10 February 2012
Risk Management	Friday 30 March 2012

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SEPTEMBER, 2011

RESOLVED

That the proposals be approved.

21. EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

That, under Section 100A(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 it would involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act. The Public Interest Test has been applied and favoured exclusion of the information from the press and public.

22. INTERNAL AUDIT FRAUD REPORT APRIL - JULY 2011

The Committee considered the report of the Head of Corporate Finance and ICT which provided a summary of the proactive and reactive anti-fraud and investigation work undertaken during the period April to July 2011 by the Internal Audit Team.

RESOLVED:

That the report be noted.

23. CORPORATE RISK REGISTER - UPDATE

The Committee considered the report of the Head of Corporate Finance and ICT on the Corporate Risk Register which had been updated to reflect the Council's corporate objectives and monitor the Council's strategic risks.

RESOLVED:

That the updated Corporate Risk Register be approved.



Government and Public Sector

Sefton MBC

Annual Audit Letter

2010/11 Audit

November 2011



Agenda Item 4


The Members
Sefton Metropolitan Borough Council
Town Hall
Lord Street
Southport
PR8 1DA

4 November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. We look forward to presenting it to Members on 14 December 2011.

Yours faithfully



PricewaterhouseCoopers LLP

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at Sefton Metropolitan Borough Council that is accessible for the Authority and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit Progress Report 2010/11 (March)
- Audit Progress Report 2010/11 (June)
- Audit report for the 2010/11 Statement of Accounts, incorporating the value for money conclusion
- Report to those charged with Governance (ISA (UK&I) 260)

The matters reported here are those that we consider are most significant for the Authority and a summary of the recommendations that we have made can be found in Appendix A.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 December 2010.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 29 September 2011. The key matters considered as part of the audit are summarised below.

One Vision Housing accounts receivable balance

Upon the transfer of the Council's housing stock to One Vision Housing (OVH) a VAT shelter agreement was signed between the parties. The agreement entitles the Council to a share of the VAT reclaimed by OVH on housing capital expenditure post transfer. The amount due to the Council at the end of 2010/11 was £8.5m, and as part of our audit work we obtained evidence to satisfy ourselves that there was reasonable assurance that the amount will be received from OVH.

Due to the significance of the balance, and particularly because the matter is inevitably linked to the matter below, we also obtained confirmation from the Audit Committee that it was comfortable that the balance was fairly stated, and that no provision needed to be recognised against it at the end of 2010/11.

One Vision Housing legal claim

The Council will shortly go to mediation with OVH to resolve a dispute over a liability in relation to repair works for cladding to seven multi-storey tower blocks that were transferred to OVH upon the stock transfer. OVH claims that the Council (and its advisors) is liable for the £6m cost as the need to replace the cladding should have been identified at the point of the transfer. The Council maintains that it is not liable for the cost and as a result the matter is to be resolved by mediation on 22 November 2011.

As part of our audit we reviewed independent evidence to confirm that amount in dispute is £6m, and that there was sufficient evidence about the strength of the Council's case to demonstrate that no liability needed to be recognised in the financial statements. Again due to the significance of this matter we sought confirmation from the Audit Committee that it was comfortable with the treatment of this item in the financial statements.

Sefton New Directions

The Council has reduced the value of its contract with Sefton New Directions (SND) in 2011/12, from £12m to £9m. As a result of this the Council has been in discussions with SND regarding the ongoing viability of the company. As SND is a 100% owned subsidiary of the Council the ability of the company to continue as a going concern has an impact on the presentation of the Council's group accounts. We were informed by management that union agreement to changes to pay and conditions had resulted in the Board of SND being able to conclude that the entity is a going concern for the foreseeable future.

We reviewed the evidence to support the going concern assessment, and obtained confirmation from the Audit Committee that it was satisfied that officers had obtained sufficient assurance that it was reasonable to work on the basis that SND was a going concern when preparing the Council's group accounts. This matter should be kept under review in 2011/12.

Bad debt provision – Sundry accounts receivable and council tax

The Council had total sundry and council tax debtors of £25.8m at the end of 2010/11, and had provided for £3.2m of this balance. Officers had followed a logical approach to calculating the provision, but there was evidence that they could have been more prudent. Our own calculations indicated that the provision should be higher, and could have been significantly increased without being considered over cautious. As the amounts involved were not material to the financial statements, whilst we asked officers and the Audit Committee to consider increasing the provision, we did not take any further action when they concluded not to change it.

Notwithstanding the above, this is an area that we strongly recommend is given more detailed consideration at the end of 2011/12.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we were not required to reach a scored judgment in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we determined a local programme of work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We issued an unqualified value for money conclusion.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Summary of recommendations

We report recommendations to the Governance and Audit Committee and have reported these within our Audit Progress Report 2010/11 - June and within our Report to those charged with Governance. There were fourteen recommendations and we received an appropriate management response for each. We do not consider it necessary to include the full details of the recommendations here, but in summary the key recommendations raised were:

- Fixed Asset Register (FAR) – The Council’s FAR is currently maintained within a spreadsheet though we have recommended the implementation of a fixed asset module.
- Annually recurring journals – Our audit identified a journal that is processed year on year without challenge by management on the appropriateness of the journal. We have recommended that management review journals processed to ensure there is a clear rationale for the journal.
- Internal invoicing – The Council operates a policy of internally invoicing other departments for works performed internally. We have recommended that management review the procedures for internal re-charges.
- Bad debt provision – We challenged managements approach to the calculation of the bad debt provision. We have recommended that management review the basis for its bad debt provision.
- Open purchase order review – We identified that there is no review of open invoices performed by management. We have recommended that management review and clear open invoices on a timely basis.
- Manual journals processing – We identified from the audit that there is no systematic approach for the approval of journals. We have recommended that the Council reviews its procedures for journals and introduces a level of review for journals.

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In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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Report to: Audit & Governance Committee **Date:** 14 December 2011

Subject: Treasury Management 2011/12 – Half year Update

Report of: Head of Corporate Finance & ICT

Wards Affected: All

Is this a Key Decision? No

Is it included in the Forward Plan?
No.

Exempt/Confidential No

Purpose/Summary

To inform members of Treasury Management Activities undertaken in the first half of 2011/12, and of the recent activity of credit rating agencies. An amendment of the credit ratings as approved by Council on 24 November 2011 is also presented.

Recommendation(s)

The Audit and Governance Committee is requested to note the Treasury Management Mid-year review 2011/12.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	
4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	
7	Creating Inclusive Communities		√	
8	Improving the Quality of Council Services and Strengthening Local Democracy		√	

Reasons for the Recommendation:

To comply with the requirements of the Council's Treasury Management Policy Statement.

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What will it cost and how will it be financed?

(A) Revenue Costs

The report notes actions to mitigate against a falling investment income.

(B) Capital Costs

None.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	Statutory Duty
Human Resources	None
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

None.

What consultations have taken place on the proposals and when?

The Head of Corporate Legal Services has been consulted on the content of this report. (LD 457/11)

Are there any other options available for consideration?

None.

Implementation Date for the Decision

Immediately following the Committee Meeting.

Contact Officer: Margaret Rawding, Head of Finance and ICT

Tel: 0151 934 4082

Email: Margaret.rawding@sefton.gov.uk

Background Papers:

Treasury Management advisory reports

TREASURY MANAGEMENT ACTIVITY HALF YEAR REPORT 2011/12

1. BACKGROUND

1.1 *Glossary of terms*

TMSS	Treasury Management Strategy Statement
CPI	Consumer Price Index
MPC	Monetary Policy Committee
ILO	International Labour Organisation
EFSF	European Financial Stability Facility
PWLB	Public Works Loan Board
CFR	Capital Financing requirement

1.2 The Treasury Management Policy and Strategy document for 2011/12 (approved by Council on 3 March 2011) included a requirement for a mid-year review of treasury management activities in 2011/12. The strategy document also requires a quarterly update on treasury management activity. The second quarter report will be included as part of this mid-year review and no separate quarterly report will be issued for the second quarter to September 2011.

1.3 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 3 March 2011.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit & Governance Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2011/12
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy

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- A review of the Council's investment portfolio for 2011/12
- A review of interest earned
- A review of the Council's borrowing strategy for 2011/12
- A review of any debt rescheduling undertaken during 2011/12
- A review of compliance with Treasury and Prudential Limits for 2011/12

2 ECONOMIC UPDATE

2.1 **Growth:** Global growth prospects deteriorated considerably over the six months to September, moving from an expectation of modest expansion to the risk of a double-dip recession. Quarter 1 of 2011 Gross Domestic Product in the UK was 0.5% but was just 0.2% in Quarter 2. Economies such as Germany's, which were hitherto seemingly strong, have also now begun to see reductions, with growth registering 0.1% in Quarter 2.

Inflation: Inflation remained stubbornly high. Annual CPI for September was 5.2%; CPI had remained above MPC's 3% upper limit for 21 consecutive months and required the Bank of England's Governor to write a further open letter to the Chancellor. The Bank believed the elevated rate of inflation reflected the temporary impact of several factors: the increase in the VAT rate to 20%, past increases in global energy prices and import prices.

Employment / Consumer Confidence: Weakness has persisted in the labour market. Job creation was unable to absorb the 90,000 quarterly growth in jobseekers, particularly those in the 16-20 age bracket. Unemployment on the International Labour Organisation (ILO) measure rose to 7.9%. Earnings growth is only 2.9%, with scarce availability of credit, stagnant house prices, all combined to lower disposable income, squeeze household spending power and leave consumer confidence fragile.

Central bankers' policies were driven by the low growth outlook rather than the upward trend in inflation. The Bank of England's Inflation Report downgraded the growth forecast, as it acknowledged CPI of 5% with an expectant reduction in inflation to 2% target over the medium-term. The UK's strategy of combining loose monetary policy (the Bank Rate had remained at 0.5% for 2½ years and Quantitative Easing at £200bn, although a further £75bn has recently been announced) with tight fiscal policy supported the rebalancing of the economy and also commanded support in the markets.

The impasse to resolve the US debt ceiling issue has identified a lack of both political governance and measures to address the high debt burden (put off until after the 2012 presidential election). This has ultimately led Standard & Poor's to downgrading the US Sovereign from AAA to AA+. The country's weak economic and fiscal situation and an unemployment rate of 9.1% left the Federal Reserve little option but to commit to exceptionally low interest rates until mid 2013.

The European sovereign debt crisis has deepened. The agreement in July to address Greece's fiscal problems and broaden the mandate for the European Financial Stability Facility (EFSF) only bought time for the Eurozone as market pressure increased on Italy and Spain, but did little to address the issue of overburdened sovereign balance sheets.

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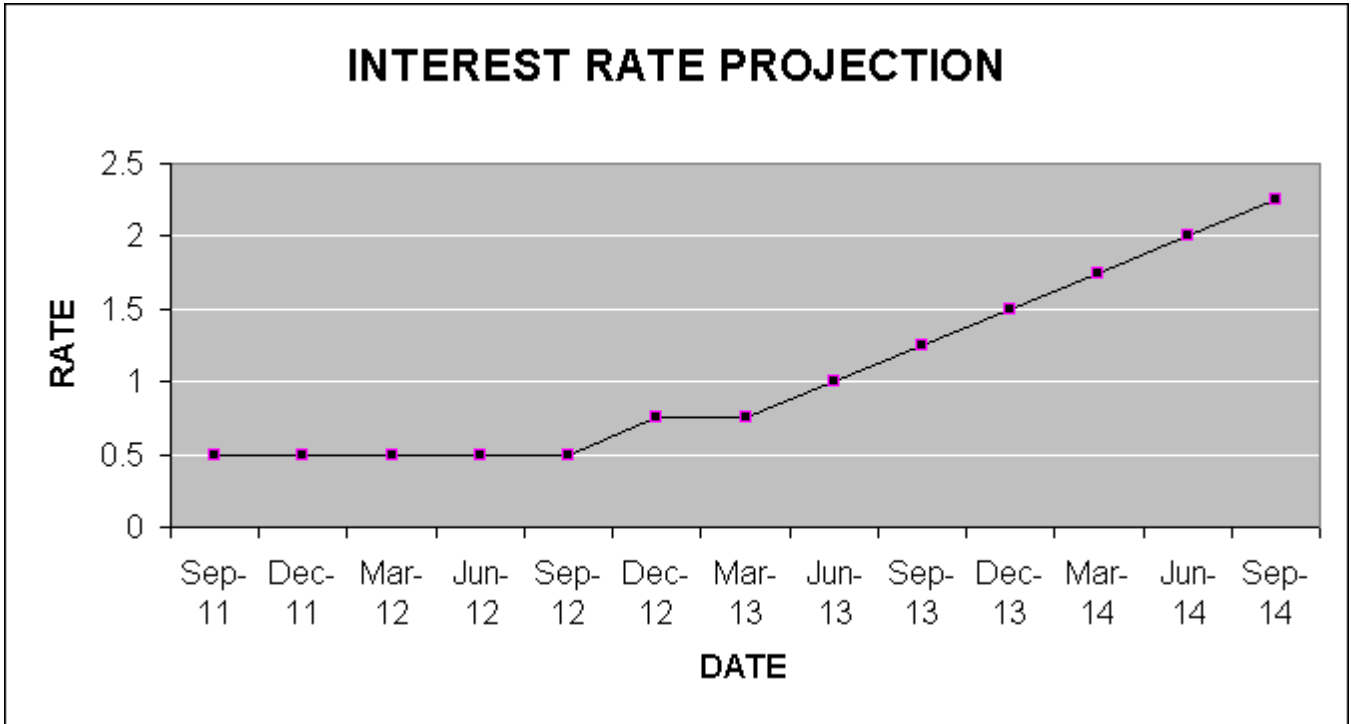
The European Banking Authority released the results of the second of its stress tests in July. Eight banks (two Greek, one Austrian and five small domestic Spanish banks) out of ninety one banks failed the tests. All of the UK and non-UK banks tested by the EBA and which are on the Council's lending list met the 'stressed' Core Tier 1 Ratio of 5%, none were adjudged as 'near-failed' (i.e. having ratios between 5% and 6%).

Gilt yields and money market rates: The economic uncertainty resulted in analysts postponing the likelihood of an increase in the UK Bank Rate until mid 2012. Gilts were considered a safe haven and benefited from market turmoil. Gilt yields fell to their lowest levels in five years. Five year gilt yields fell to 1.25%, ten year yields to 2.2% and twenty year yields to 3.05%.

PWLB borrowing rates fell commensurately (the Board maintained the +0.90% margin above the equivalent gilt yield for new borrowing).

2.2 **AAA rating** – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling has strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and PWLB rates.

2.3 The Council's Treasury Management Consultants, Arlingclose, project bank base interest rates to be as follows:



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3 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2011/12 was approved by this Council on 3 March 2011. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity

The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum investment period of 3 or 6 months as advised by Arlingclose), and only invest with highly credit rated financial institutions, using Arlingclose's suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) information. This is discussed further below.

A breakdown of the Council's investment portfolio is shown in Section 5 of this report.

Investments and borrowing during the first six months of the year have been in line with the strategy.

As outlined in Section 2 above, there is still uncertainty and volatility in the financial and banking market, both globally and in the UK. Against this background it is considered that the strategy approved on 3 March 2011 is still applicable in the current economic climate, subject to the issues raised in paragraph 10.

4 RISK APPETITE

4.1 The Council's current policy is that investments will only be held in banking institutions that hold a minimum Fitch rating of F1+ AA-, or Aaa/Mr1+ for money market funds. The ratings applied to investment grade institutions and the much riskier speculative grade institutions, as defined by Fitch, has been placed into a risk matrix – see Appendix B. The matrix defines institutions in terms of their Fitch rating, and grades them as follows:

- Low risk – score of 1 – 4
- Low to medium risk - score of 5 – 9
- Medium risk – score of 10 – 20
- High risk – score of 21 - 36

4.2 The matrix shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield, by ensuring that it invests with institutions where the probability of default, and consequence of any default, is kept to a minimum. This is done by keeping within the confines of institutions rated with a risk profile of 1 - 4. The matrix also shows where the Council's deposits are held in terms of the matrix as at 30 September 2011.

- 4.3 Recent turmoil in the world markets has resulted in Ratings Agencies downgrading the credit ratings of a number of sovereign states. Whilst the U.K. has not been affected by this, (it has retained a AAA rating), there has been widespread reduction in the credit ratings of U.K. banking institutions during October (discussed further in paragraph 10). The Independent Commission on Banking issued a report, which said investment banks should be ring-fenced from retail banks so investment banks could be allowed to fail. The credit rating agencies have seen this as the Government signalling that it is now more likely to allow smaller institutions to fail if they get into financial difficulty. The expectation is that the Government is likely to continue to provide support to systemically important institutions. The banks which fall within this definition have not been made clear.

Downgrades do not represent deterioration in the financial strength of the UK government or the banking system. However, the implications of this for Sefton are potentially significant. However, a saving proposal to achieve an additional £100,000 of investment income in 2012/13, may be at risk as a result of the decision to downgrade the credit rating of UK banks.

5 INVESTMENTS HELD

- 5.1 Investments held at the end of September 2011 comprise the following:

Immediate access deposits

Institution	Deposit £m	Rate %	Maturity date	On current counterparty list?
Natwest	15.000	0.80	N/A	No
Blackrock MMF	9.060	0.58	N/A	Yes
Insight MMF	9.900	0.62	N/A	Yes
Goldman-Sachs MMF	9.070	0.6	N/A	Yes
Total	<u>43.030</u>			

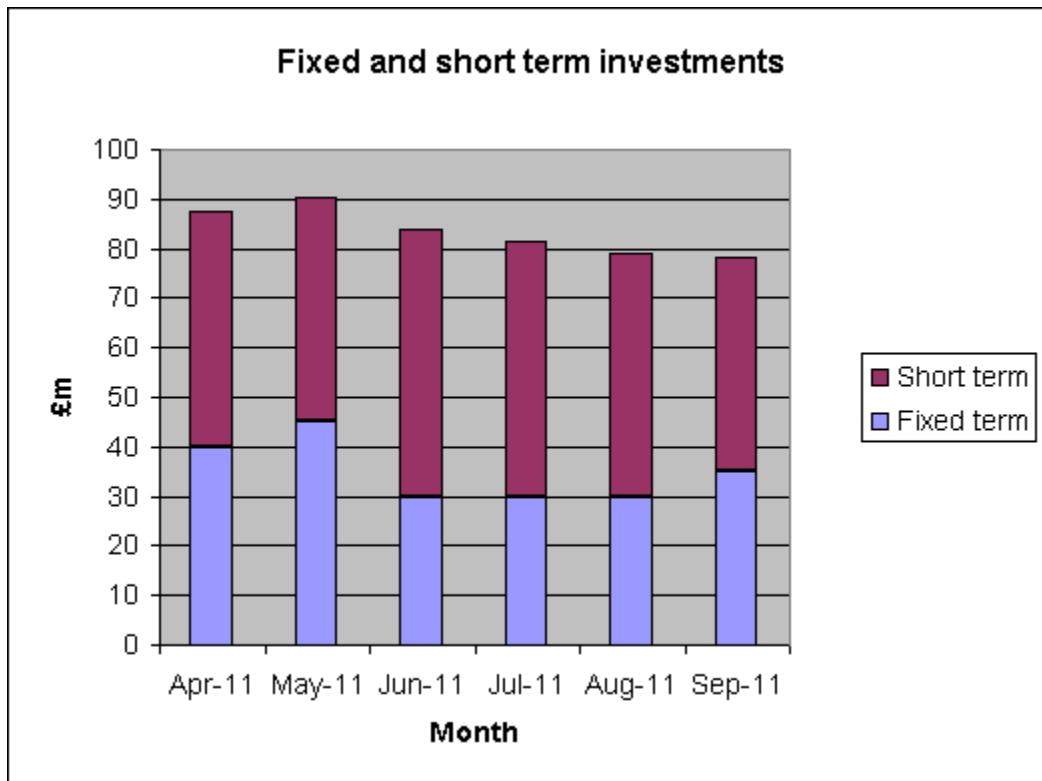
Fixed term deposits

Santander	10.000	1.32	14/10/2011	No
Santander	5.000	1.35	22/12/2011	No
Barclays	5.000	1.20	30/03/2012	Yes
Lloyds	10.000	1.14	23/03/2012	No
Lloyds	<u>5.000</u>	2.65	27/07/2012	No
Total	<u>35.000</u>			
TOTAL	<u><u>78.030</u></u>			

- 5.2 As can be seen, not all of the above organisations are on the **current** counterparty list as contained in Appendix A due to the recent reduction in credit ratings by Moody's and Fitch (see paragraph 10).

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- 5.3 The maximum level of investment permitted in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in case conditions change, a day to day operational maximum of £15m is currently being imposed. This will spread the risk of investments for the Council, but will have a small detrimental impact on the returns the Council will receive in the future.
- 5.3 The amount of cash held in fixed term deposits has recently increased in order to maximise investment income. In line with advice from Arlingclose, our overnight deposits with Money Market Funds (MMF's) are maintained at approximately equal levels between each institution.
- 5.4 The ratio of overnight deposits (i.e. short term) to fixed term investments is illustrated below:



The standard lending list is contained within appendix A

6 INTEREST EARNED

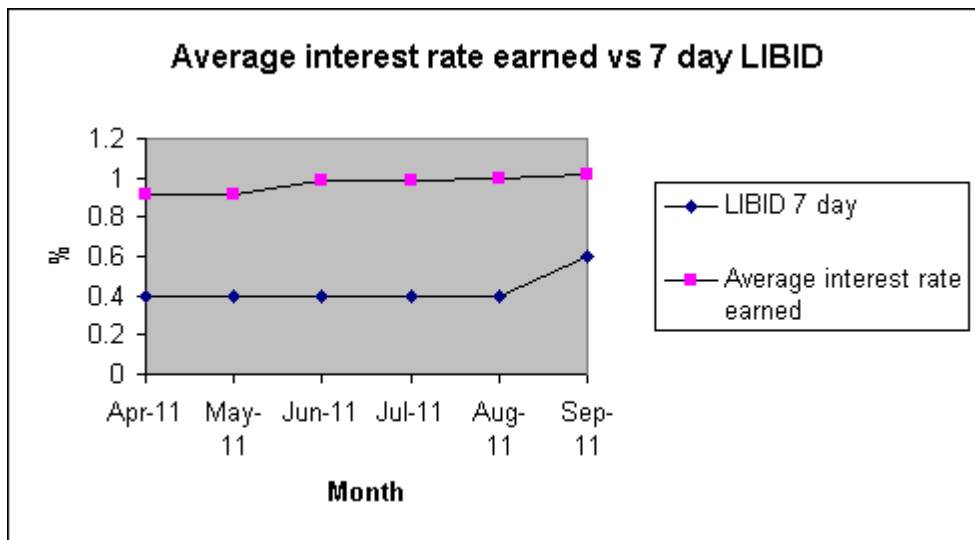
- 6.1 The actual performance of investments against the profiled budget for the period to 30 September is shown below:

	Budget £'000s	Actual £'000s	Variance £'000s
To 30 September	354	397	43

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- 6.2 The original budget of investment income for 2011/12 was £0.856m (which equated to an average interest rate of 0.819%), was based on investments in place at 1st April 2010.
- 6.3 The investment income achieved during the first half year is £0.354m, which equates to an average interest rate of 0.97%.

We have outperformed the 7 day LIBID average (standard measure of performance for local authorities) as follows:



7 BORROWING

The Council's Capital Financing Requirement (CFR) for 2011/12 is £224m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Due to the high cost of borrowing as against the low level of interest rates earned on investments, the Council had taken the decision to internally borrow and not taken on any new external borrowings this financial year.

The Council's current level of PWLB borrowing at September 2011 is £131.24m, which in comparison with the CFR gives a borrowing capacity of £92.76m. It is not anticipated that any borrowing will be undertaken during the remainder of this financial year.

8 DEBT RESCHEDULING

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. During the first six months of the year, no debt rescheduling was undertaken. However, any future potential restructurings will be considered as they arise.

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9 PRUDENTIAL INDICATOR MONITORING

- 9.1 Prudential indicators are an integral component of measuring how prudently a Council is acting with regard to its finances. They were introduced into all local authorities (by CIPFA) following the Local Government Act 2003. A number of measures/limits/parameters including capital financing, external debt, impact on council tax, and treasury management are set prior to the start of the year and are monitored on a monthly basis.
- 9.2 It should be noted that the Interest Rate Exposure Indicator has been exceeded on a number of occasions in the recent months:
- The limits for fixed rate interest rate exposure expressed as a percentage of net outstanding debt were set to remain between 250% and 150%.
 - The limits for variable rate interest rate exposure expressed as a percentage of net outstanding debt were set to remain between -50% and -150%.
- 9.4 The above indicators are there to prevent either too much investment in fixed or variable interest rate arrangements. This is to ensure a reasonable balance between fixed rate investments where cash is locked away, and variable rate investments that earn a lower rate of interest but give more immediate access to funds.
- 9.5 The variance in both of these indicators is due to the higher level of overnight deposits being held than originally envisaged earlier in the financial year. This is the same issue that arose in the last financial year. The Prudential Indicators were adjusted for 2011/12 in order to try and align the policy of retaining more temporarily available cash in short-term investments. However, the recent turmoil in the world / UK economic markets has meant that more short-term investments have been retained than anticipated. However, the breaching of these indicators is unlikely to continue over coming months, as the ratio of overnight to fixed term investments has reduced.
- 9.6 The breaching of these indicators has been caused by specific reasons identified which are not considered to be an indication of any inherent problems.

10 UK BANKS CREDIT RATINGS DOWNGRADE

- 10.1 Due to the recent turmoil in the European financial sector, the spotlight has fallen on exposure that UK banks have to those Eurozone countries that are felt to be at risk (Spain, Portugal, Ireland, and Italy). This has caused Fitch and Moody's to downgrade a number of UK financial institutions.
- 10.2 The Council's Treasury Management Policy and Strategy, as agreed by Cabinet on 3 March 2011, allowed investments with institutions contained on our treasury management consultants approved counterparty list, but that had a minimum credit rating with Fitch of F1+ (short term), AA- (long term) credit rating, and individual financial strength rating of the institution of C.
- 10.3 Fitch has recently downgraded number of institutions to F1 and A, and downgraded individual strength to C-, which is below the threshold contained in

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the Council's Treasury Management Policy and Strategy. The institutions downgraded are as follows:

RBS
Natwest
Lloyds
HBOS

- 10.4 Moody's has downgraded RBS, Natwest, and Nationwide to a level comparable to the F1 and A rating used by Fitch. Lloyds, HBOS, and Santander have been downgraded to a level comparable to the F1 and A+ rating used by Fitch.

The advice from Arlingclose is that for those institutions downgraded:

- No new investments to be undertaken
- Fixed term investments should not be broken
- Funds in call accounts should be recalled.

A number of authorities have already withdrawn substantial resources from such banks. Recent discussions with Arlingclose have identified that they are completing work on a strategy for local authorities for the 2012/13 financial year. Consideration has been given by them to a range of options which could allow investment in the banks that have been downgraded. This however, puts their current advice to local authorities in a potentially conflicting situation. The potential impact of all authorities doing this could result in a de-stabilising impact on those banks with a wider impact on the economy.

- 10.5 The current advice from Arlingclose is to amend this year's strategy to reflect the advice which will be given for 2012/13, if required, which is to reduce our credit rating requirement to F1 A-. This will allow the Council to use the institutions noted above. Although a maximum duration of 6 months is suggested by Arlingclose for such institutions, it is advised by them that only call accounts are used. This revision has been reflected within appendix A and was approved by Council on 24 November 2011. These deposits would be classed as non-specified deposits as they are not of the highest credit rating.

- 10.6 The Council's current exposure, as at 25/10/2011, to such institutions is as follows:

Nationwide	£5m	Fixed term to 04/04/2012
Santander	£5m	Fixed term to 22/12/2011
Santander	£10m	Fixed term to 16/01/2012
Lloyds	£10m	Fixed term to 23/03/2012
Lloyds	£5m	Fixed term to 27/07/2012
Natwest	£15m	Call account

The deposit risk matrix has been updated in order to reflect the current situation (see appendix C).

- 10.7 It should be noted that Natwest is the Council's banker. Although it does not meet the minimum credit criteria of F1+ AA-, it will still be used for short term liquidity

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arrangements (overnight and weekend investments) and business continuity arrangements.

- 10.8 The level of systemic support given by the Government to these institutions has not been removed, and the main level of exposure of these banks is to Ireland, which is currently fairing best out of the troubled Eurozone economies. With regard to the Nationwide, Santander, and Lloyds investments, no action is proposed, as there is no immediate need to recall the monies in Arlingclose's advice. It is felt that our only exposure is to a Natwest overnight call account. Given that the NatWest are the Council's own bankers, as noted in 10.7, and more particularly, that the investment allows immediate access, the level of risk is considered to be low. Consequently, at this point in time, no action is being proposed to withdraw any monies from the "Call Account". Audit and Governance is requested to note this course of action.
- 10.9 The potential transfer of monies from the Call Account, poses the question as to where it can be invested. The Council's prudent approach means that there are limited investment opportunities in UK banks. One option is the investment in other Money Market Funds. Council Officers are currently looking at gaining access to new money market funds in order that the breadth of investment opportunities is as wide as possible, the 40% limit in non-specified investments is not breached, and that the £15m maximum investment in any one banking institution is maintained. This may result in a lowering of the level of investment income.

APPENDIX A

SEFTON COUNCIL STANDARD LENDING LIST POST CREDIT RATING REVISION

<u>UK and International Banks</u> <u>(including Nationwide</u> <u>Building Society</u>	RATING	Individual rating	Support rating
<i>United Kingdom AAA</i>			
Santander UK Requires Council approval	F1 / A+	C-	1
Barclays	F1+ / AA-	B	1
Lloyds TSB/HBOS – nationalised Requires Council approval	F1 / A	C-	1
RBS Group – nationalised Requires Council approval	F1 / A	C-/D+	1
Nationwide Requires Council approval	F1 / A	C-	1
HSBC	F1+ / AA	B	1
<i>Australia AAA</i>			
Australia & New Zealand Banking Group	F1+ / AA-	B	1
Commonwealth Bank of Australia	F1+ / AA-	A/B	1
National Australia Bank	F1+ / AA-	B	1
Westpac Banking Group	F1+ / AA-	A/B	1
<i>Canada AAA</i>			
Bank of Montreal	F1+ / AA-	B	1
Bank of Nova Scotia	F1+ / AA-	B	1
Canadian Imperial Bank of Commerce	F1+ / AA-	B	1
Royal Bank of Canada	F1+ / AA	A/B	1
Toronto Dominion Bank	F1+ / AA-	B	1
<i>Finland AAA</i>			
Nordea Bank	F1+ / AA-	B	1

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<u>UK and International Banks (including Nationwide Building Society)</u>	RATING	Individual rating	Support rating
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Germany AAA

Deutsche Bank	F1+ / AA-	B/C	1
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Sweden AAA

Svenska Handelsbanken	F1+ / AA-	A/B	
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Switzerland AAA

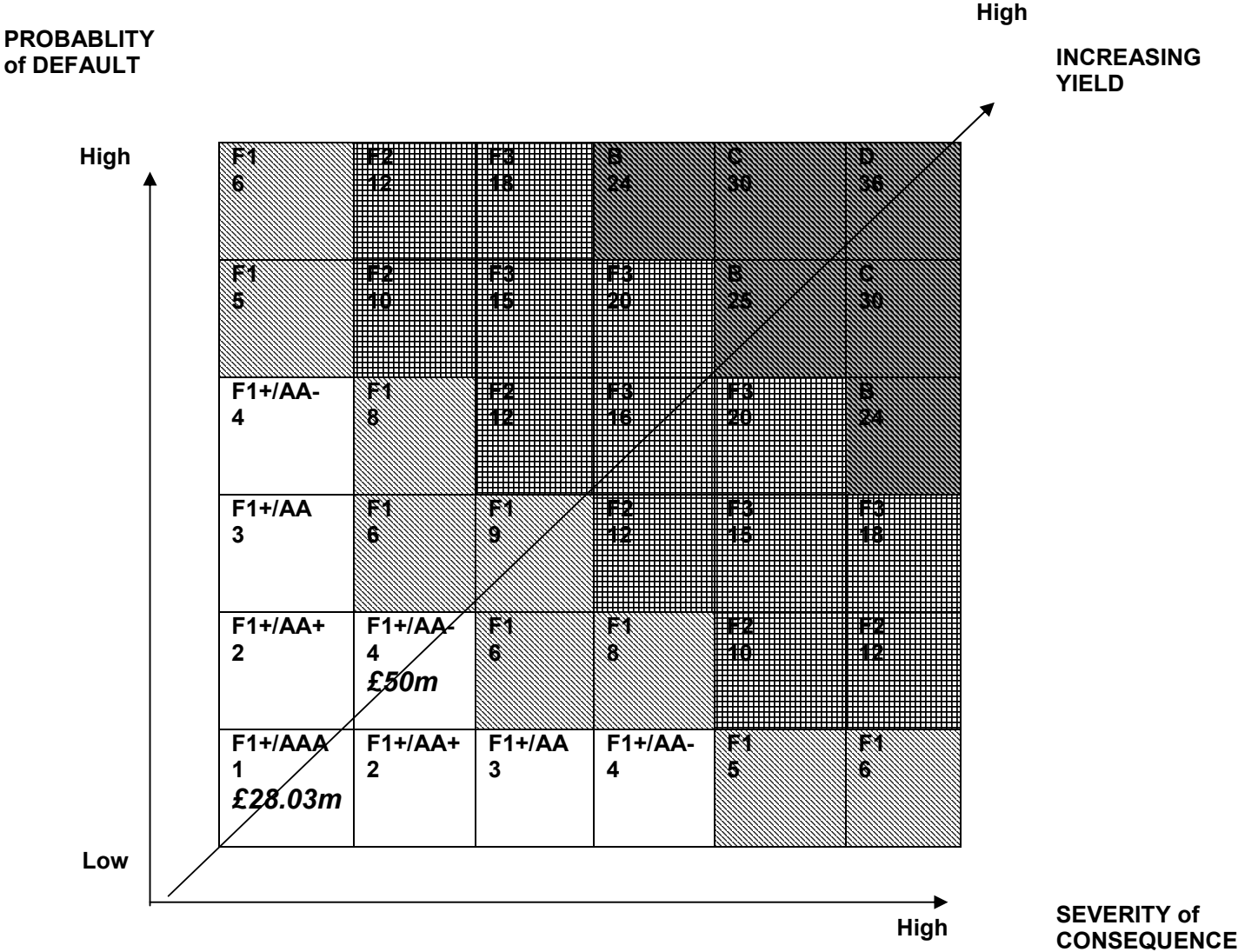
Credit Suisse	F1+ / AA-	B/C	
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USA AAA

JP Morgan Chase Bank	F1+ / AA-	B	
----------------------	--------------	---	--

The recent economic situation has provided challenges for the Council with regard to its investment strategy. The report presented to Cabinet on 11 June 2009 explained the difficulties in identifying banking institutions to invest in (which provided reasonable investment returns), whilst remaining within the deposit limit of £15m. Consequently, Cabinet agreed to increase the deposit limit from £15m to £25m. As noted in 5.2 above, the Council has remained within an operational boundary of £15m. At present, it is not expected that the operational boundary will be increased to £25m.

RISK ASSESSMENT MATRIX - FITCH RATINGS @ 30/09/2011

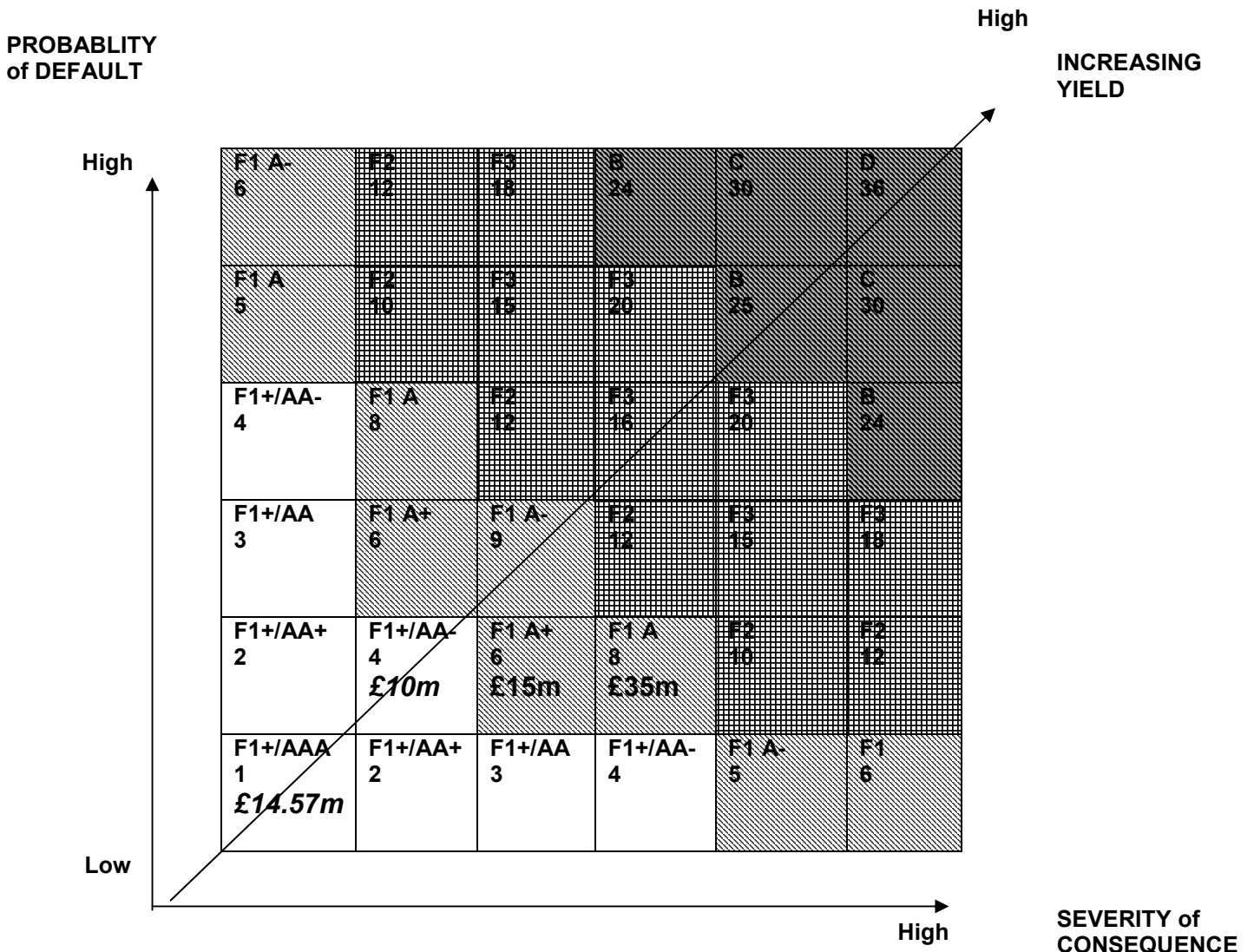


SEFTON RISK TOLERANCE	4		INVESTED
LOW RISK	1 - 4	Investment Grade	£78.030m
LOW - MEDIUM RISK	5 - 9	Investment Grade	Nil
MEDIUM RISK	10 - 20	Investment Grade	Nil
HIGH RISK	21 - 36	Speculative Grade	Nil

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Appendix C

RISK ASSESSMENT MATRIX - FITCH RATINGS POST REVISION @ 25/10/2011



SEFTON RISK TOLERANCE	4		INVESTED
LOW RISK	1 - 4	Investment Grade	£24.57m
LOW - MEDIUM RISK	5 - 9	Investment Grade	£50m
MEDIUM RISK	10 - 20	Investment Grade	Nil
HIGH RISK	21 - 36	Speculative Grade	Nil

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Report to: Audit & Governance Committee **Date of Meeting:** 14 December 2011

Subject: Audit Plan 2011/12 – Internal Audit Performance Report
April to November 2011

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? No

Is it included in the Forward Plan?
No

Exempt/Confidential

No

Purpose/Summary

To provide Audit and Governance Committee with a summary of Internal Audit work undertaken during the period April to November 2011.

Recommendation(s)

Members are requested to:-

- (i) Consider the revised format, which includes dates of issue and response and approve the format for future reports; and
- (ii) Consider and note the content of the report.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community	✓		
2	Jobs and Prosperity	✓		
3	Environmental Sustainability	✓		
4	Health and Well-Being	✓		
5	Children and Young People	✓		
6	Creating Safe Communities	✓		
7	Creating Inclusive Communities	✓		
8	Improving the Quality of Council Services and Strengthening Local Democracy	✓		

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Reasons for the Recommendation:

At the previous meeting of this Committee it was requested by Members that the report include date of issue and responses of Audit reports, the monitoring report has been amended to include that request and requires approval by Members of this Committee for future progress reports to be produced in this format.

Audit and Governance Committee require to be informed of and review Internal Audit work as part of their review of the internal control environment and overall Governance arrangements.

What will it cost and how will it be financed?

There are no financial costs associated with the proposals in this report

(A) Revenue Costs

(B) Capital Costs

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal		
Human Resources None		
Equality		
1.	No Equality Implication	<input checked="" type="checkbox"/>
2.	Equality Implications identified and mitigated	<input type="checkbox"/>
3.	Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

Internal Audit provide assurance to the Council that Internal Controls are provided for within systems utilised across the Council providing for effective and efficient service delivery for the community.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD1186) and Head of Corporate Legal Services (LD552/11) have been consulted and any comments have been incorporated into the report.

All departments / establishments receive Audit Reports as necessary throughout the year.

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Audit & Governance Committee receive quarterly Internal Audit Performance Reports.

Are there any other options available for consideration?

No

Implementation Date for the Decision

Immediately following the Audit & Governance Committee meeting.

Contact Officer: Janice Bamber, Chief Internal Auditor

Tel: 0151 934 4051

Email: janice.bamber@sefton.gov.uk

Background Papers:

The following papers are available for inspection by contacting the above officer(s).

Audit Plan

Audit Reports & Correspondence

CIPFA Code of Practice for Internal Audit 2006

Accounts & Audit (Amendment) (England) Regulations 2006

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1. Introduction/Background

- 1.1. The Chief Internal Auditor under the CIPFA Code of Practice for Internal Audit is required to provide periodic reports on the performance of Internal Audit to Audit and Governance. These progress reports support the Chief Internal Auditor's Annual Report and opinion and allow the Committee to assess the level of assurance it can gain over the Council's governance and control arrangements. The work of the Internal Audit Section, which is drawn from the Annual Audit Plan, is fundamental in enabling this opinion to be formed. This opinion also contributes to the review of internal control and the Annual Governance Statement (AGS).

2. Report April to November 2011

- 2.1. This is the second progress report of 2011/12 on the work of the Internal Audit Section. It provides Members with a summary of Internal Audit work both completed and at various stages of progress (i.e. draft report, final report, in progress) for the above mentioned period. As part of the Internal Audit Code of Practice 2006 the Chief Internal Auditor is required to provide a written report to those charged with governance, i.e., this Committee, which compares the work actually undertaken with that which was agreed as planned work in the Audit Plan. The summary has been compiled taking into account this requirement and identifies the status of each audit (as outlined above) against the plan, following discussion at the previous meeting of this Committee the report has been altered to include dates of issue and response.
- 2.2. For each relevant Audit Area the numbers of Proposed / Agreed Recommendations are shown together with the following dates; Draft Report Issued, Final Report Issued, Action Plan Returned and Job Closed. For each area reviewed an opinion has been given on the overall control environment pertaining at the time of the review and based on the Auditors assessment on the extent to which the system control objectives identified for the specific audit review have been met and the risks mitigated. Opinion classifications given are: 'Very Good', 'Good', 'Fair', 'Weak' or 'Poor'. Where audit reviews are 'In Progress' or 'Pre Draft Report' the outcome of these will be reported on in the next quarterly report. The summary is attached at Annex A.
- 2.3. The performance report for the Benefit Fraud Investigation Team (BFIT) provided by arvato Government Services is attached at Annex B.

3. Matters Arising from Audit Reports issued between August and November 2011

- 3.2 An audit of the Carbon Reduction Commitment Energy Efficiency Scheme identified that there had been insufficient provision made for the purchase of Carbon Allowances which had been based on the original risk and reward scheme. The Medium Term Financial Plan (MTFP) has been amended to reflect the current scheme and now includes sufficient provision to meet the requirements.
- 3.3. As part of the planning process every effort has been made to ensure that there has been a reasonable spread of audit work across Departments. As the table below shows, with regard to completed audits, recommendations for improvement identified by Internal Audit continue to have a high level of acceptance by clients

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(99%). It is expected that a similar level of acceptance will apply to audits in progress.

Analysis of Audit Recommendations April to November 2011

	Proposed	Agreed	Not Agreed	Awaiting Confirmation
Audit Reviews				
– Completed Audits	238	235	3	
– In Progress/Draft etc	100			100
Total	338	235	3	100

- 3.5 Details of two recommendations that were not agreed in the previous period were reported at the previous Audit and Governance committee meeting. A further recommendation was not agreed in the current period which related to Freshfield Primary School. The school elected to maintain a one year school development plan rather than a 3 year plan as is best practice. The non agreement to the recommendations has not resulted in weakness of controls or left the council open to any significant risks in these areas.
- 3.6. Response to Audit Reports is generally good and there are no significant non response issues requiring referral to Members at this stage. Internal Audit continues to receive a very positive response to their Client Satisfaction Surveys with 84% considering services to be Very Good / Good.
- 3.7 A number of comments were received from clients in writing during the period, praising the work Internal Audit had undertaken. The comments are as follows:

“He has been very thorough and efficient and has assisted us in remaining on target for our evaluation”

“Thanks for all the hard work that has been put into the audit and the way they have worked to resolve any issues”.

“Gratitude and thanks for this piece of work. Not only achieved in terms of timescale but it is a very clear, unambiguous, easily understood and “honest broker” report that is very helpful”. “I think this work demonstrates the important role that “Audit” could play in helping to drive out inefficiencies in services and I don’t think we have yet fully utilised the resource that your service offer across the organisation

“The audit became a much more valuable process to our own Council approaches and offered constructive proposals for improvements. The Audit Officer developed her knowledge of the subject matter above and beyond our expectations and in doing so delivered the audit throughout as a valuable ‘critical friend’ and indeed added confidence to our submissions and methods in preparation for this. For the next round of statutory actions for CRC, the report and Audit colleague will continue to add benefit to the Councils approach.

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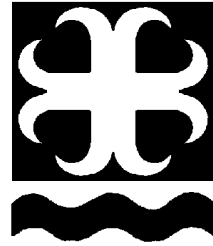
- 3.8 Verbal praise was also received in respect of Internal Audit work undertaken in relation to the Authority's contract with Eze Fitness and a recent computer misuse investigation.

4 Other Matters

- 4.1 Since the last Internal Audit Performance report to this committee, a member of staff at Senior Auditor level has been seconded to Merseyside Police Authority's Internal Audit Section for a period of 12 months commencing 14th November 2011. This reduces the operational level within Internal Audit for one year to November 2012. It is anticipated that this will strengthen partnership working and provide an enhanced learning opportunity for the Auditor involved. This also provides a one off saving that will contribute towards the Corporate Finance & ICT review.

Sefton Council

FINANCE DEPARTMENT



Internal Audit Section
Summary of Internal Audit Work
1st April 2011 – 30th November 2011

Planned Work	Status	Opinion	Recommendations		Draft Sent	Action Plan Ret	Final Sent	Job Closed
			Proposed	Agreed				
2010/11 C/FWD								
CORPORATE SERVICES								
Corporate Finance & IS								
Client Functions								
Client Team - Payroll	Draft Report				28/09/2011			
Financial Processes								
Accounts Payable Council Processes	Completed	Weak	16	16	10/08/2011	30/09/2011	30/09/2011	30/09/2011
Payroll Council Processes	Pre-Draft Report	Fair	20					
Accounts Receivables Council Processes	Completed	Good	9	9	03/08/2011	30/09/2011	30/09/2011	30/09/2011
Bank Reconciliation	In Progress							
Financial Management								
Capital Programme/Accounting	Completed	Good	2	2	13/07/2011	30/08/2011	14/07/2011	30/08/2011
Information Services								
Data Protection	Draft Report							
Mobile Phones Devices / Compliance with Policy	Draft Report	Poor	12		11/07/2011			
Corporate Personnel								
Policy & Operation								
Sickness Absence Procedure/Reporting	Completed	Fair	4	4	17/06/2011	20/10/2011	02/08/2011	27/10/2011
All Saints Primary								
Universal & Learning Services								
Our Lady Queen of Peace Catholic Primary	Completed	Good	8	8	06/10/2010	23/09/2011	06/10/2010	23/09/2011
Hillside High	Completed	Good	10	10	16/09/2010	17/06/2011	16/09/2010	17/06/2011
Formby High	Completed	Good	7	7	06/10/2010	11/07/2011	06/10/2010	11/07/2011
St Phillip's Primary (Southport)	Completed	Good	11	11	25/11/2010	15/07/2011	18/07/2011	18/07/2011
Trinity St Peters Primary	Completed	Fair	7	6	17/03/2011	01/04/2011	24/06/2011	24/06/2011
Our Lady of Lourdes Catholic Primary	Completed	Fair	23	23	02/06/2011	03/10/2011	04/10/2011	04/10/2011
Forefield Infants	Completed	Good	6	6	04/05/2011	11/11/2011	11/11/2011	17/11/2011
All Saints Primary	Completed	Fair	10	10	03/03/2011	04/05/2011	18/07/2011	18/07/2011
Crosby High	Completed	Good	5	5	14/04/2011	03/08/2011	09/08/2011	09/08/2011
Freshfield Primary	Completed	Very Good	4	3	27/05/2011	14/11/2011	15/11/2011	17/11/2011
Deyes High	Completed	Fair	9	9	09/06/2011	13/06/2011	14/06/2011	14/06/2011
Student Travel Passes	Completed	Fair	9	9	15/07/2011	09/09/2011	15/09/2011	15/09/2011

Planned Work	Status	Opinion	Recommendations		Draft Sent	Action Plan Ret	Final Sent	Job Closed
			Proposed	Agreed				

COMMUNITIES								
Operational Services								
Taxi Licencing	Completed	Good	6	6	30/08/2011	12/09/2011	12/09/2011	30/09/2011
Security Services Follow-up	Completed	Fair	13	13	01/09/2011	06/09/2011	27/09/2011	27/09/2011
Environmental & Technical Services								
Client Team - Technical Services	Draft Report	Weak	30		21/04/2011			
Car Parking	Draft Report	Fair	16		03/10/2011			
Planning & Economic Development								
Sefton at Work	Completed	Fair	4	3	17/06/2011	14/07/2011	14/07/2011	14/07/2011
SOCIAL CARE & WELL-BEING								
Adult Social Care								
Domiciliary Care	Draft Report	Fair	5		14/10/2011			
Community Equipment Service Follow-Up	Completed	Weak	15	15	01/09/2011	02/11/2011	16/09/2011	02/11/2011
Leisure & Tourism								
Beach Car Parking	Completed	Weak	9	9	06/04/2011	07/06/2011	14/06/2011	14/06/2011
Meadows Leisure Centre	Pre Draft Report							
TIC follow up	Draft Report	Weak	7		22/11/2011			
2011/12								
VALUE FOR MONEY								
Corporate Governance (Annual Governance Statement & Review of Internal Audit)	Completed	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Review of Accounting Instructions/Financial Procedure Rules	Completed	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Corporate Plans & DSPs	In Progress							
Corporate Reviews								
Delivering Budget Savings								
Data Use & Duplication (eg CTAX/Planning)								
Public Consultation								
People - Young People & Families								
Leasing for Schools								

Planned Work	Status	Opinion	Recommendations		Draft Sent	Action Plan Ret	Final Sent	Job Closed
			Proposed	Agreed				
Place - Built Environment								
Core Strategy/Planning								
New Homes Bonus								
PROBITY/COMPLIANCE								
Corporate Reviews								
Exposure to Equality Impacts and Effectiveness								
Means Tested Benefits								
Discounts allowed across Council								
Audit of Financial Skills								
Ordering Compliance/Procurement								
People - Young People and Families								
Great Crosby RC Primary	Completed	Good	9	9	17/06/2011	05/09/2011	06/09/2011	06/09/2011
Holy Rosary RC Primary	Completed	Very Good	3	3	21/06/2011	28/09/2011	05/10/2011	05/10/2011
Birkdale Primary	Completed	Good	7	7	20/06/2011	29/07/2011	04/08/2011	04/08/2011
Fostering B/F	Pre Draft Report							
Springbrook Children's Home B/F	Draft Report	Good	7		21/11/2011			
Melrose Children's Home B/F	In Progress							
Safeguarding (Adults & Children)	In Progress							
Eligibility for Free School Meals								
People - Older People								
Income Collections Systems								
Netherton Activity Centre - Project Group								
Crosby Lakeside Activity Centre B/F								
Crosby PFI								
Place - Built Environment								
Planning and Building Control	In Progress							
Land Charges	In Progress							
Homelessness	In Progress							
Carbon Reduction Commitment	Completed	Fair	17	17	05/08/2011	03/11/2011	03/11/2011	08/11/2011
Staff Car Parking								
Events								
Concessions/Agreements/Licences								

Planned Work	Status	Opinion	Recommendations		Draft	Action	Final	Job
			Proposed	Agreed	Sent	Plan Ret	Sent	Closed

Place - Street Scene								
Refuse Collection Trade & Domestic Coroners B/F	In Progress							
Chief Executive - Corporate Support Services								
Cheque Investigations	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Council Tax Write Offs	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Housing Benefits Write Offs	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NNDR Write Offs	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Over £25K payment checks	Continuous	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash/Income Collection								
Procurement								
IS Security Policy - Compliance B/F	Pre Draft Report							
Emergency Planning/Business Continuity								
Client Management Team								
Conveyancing	Pre Draft Report							
Health and Safety								
Mayor's Charity Fund	In Progress							
ANTI-FRAUD/NFI								
Corporate Reviews								
Review of compliance with Managing the Risk of Fraud								
People - Older People								
NFI - Private Care Homes	In Progress							
Place - Built Environment								
NFI - Blue Badge	In Progress							
Chief Executive - Corporate Support Services								
NFI - Payroll	In Progress							
NFI - Suppliers/Salary	In Progress							
NFI - Accounts Payable	In Progress							
NFI - Insurance	In Progress							

Planned Work	Status	Opinion	Recommendations		Draft Sent	Action Plan Ret	Final Sent	Job Closed
			Proposed	Agreed				

PROJECT SUPPORT WORK								
Corporate Reviews								
Pre-Payment Cards	In Progress							
Embedded Procurement Cards	In Progress							
People - Older People								
Liquid Logic (Replacement of Swift)	In Progress							
Place - Street Scene								
New Services within Street Scene								
Built Environment								
Taxi Licensing Transformation	In Progress							
CONTRACT AUDIT								
Pre-Contract								
Final Accounts								
GRANT CERTIFICATIONS								
Child Poverty Grant	Completed	N/A	N/A	N/A	N/A	N/A	01/07/2011	N/A
Play Capital Grant	Completed	N/A	N/A	N/A	N/A	N/A	16/06/2011	N/A
Innovative Management (for Europe's changing) Coastal Resource (IMCORE)	Completed	N/A	N/A	N/A	N/A	N/A	03/08/2011	N/A
Assessing Sustainability & Strengthening Operational Policy (SUSTAIN)	Completed	N/A	N/A	N/A	N/A	N/A	30/08/2011	N/A
CONSULTANCY								
Manual Purchase Orders	Completed	N/A	N/A	N/A	N/A	N/A	N/A	16/11/2011
IFRS Employee Leave/Flexi	Completed	N/A	N/A	N/A	N/A	N/A	15/06/2011	15/06/2011
Planning Income Procedures	Completed	N/A		5	5	N/A	27/07/2011	27/07/2011
Payroll CHAPS Payments	Completed	N/A		1	1	N/A	23/06/2011	23/06/2011
NNDR Payments	Completed	N/A		1	1	N/A	01/06/2011	01/06/2011
SWORD/Contract Cert	Completed	N/A		4	4	N/A	07/06/2011	07/06/2011
Payments to Self Employed Persons	Completed	N/A	N/A	N/A	N/A	N/A	21/06/2011	21/06/2011
Procurement cards - Southport Arts Centre	Completed	N/A		1	1	N/A	06/10/2011	06/10/2011
Birkdale High School Bank Account	Completed	N/A	N/A	N/A	N/A	N/A	06/07/2011	07/07/2011
Volunteer Expenses	Completed	N/A		2	2	N/A	29/07/2011	29/07/2011
Resourcelink - Staffing Budgets	Completed	N/A	N/A	N/A	N/A	N/A	29/09/2011	29/09/2011

Planned Work	Status	Opinion	Recommendations		Draft	Action	Final	Job
			Proposed	Agreed	Sent	Plan Ret	Sent	Closed

Insurance Payments by BACS	Completed	N/A	N/A	N/A	N/A	N/A	22/09/2011	30/09/2011
Land Charges Fees	Completed	N/A	N/A	N/A	N/A	N/A	05/07/2011	05/07/2011
Children with disabilities	Completed	N/A	N/A	N/A	N/A	N/A	18/10/2011	18/10/2011
Authorised Signatories	Completed	N/A	N/A	N/A	N/A	N/A	N/A	10/05/2011
Range High School Bank Account	Completed	N/A	N/A	N/A	N/A	N/A	31/10/2011	31/10/2011
Community Equipment Stores Section 75 Agreement	Completed	N/A	N/A	N/A	N/A	N/A	06/09/2011	02/11/2011
Hunter Kane Ltd	Completed	N/A	N/A	N/A	N/A	N/A	26/07/2011	28/09/2011
Joseph Harley Bequest Fund	Completed	N/A	N/A	N/A	N/A	N/A	N/A	23/11/2011
Budget Monitoring Workshop	Completed	N/A	N/A	N/A	N/A	N/A	N/A	23/11/2011
Pericles Data Migration	In Progress							
Leisure Centre Direct Debit Collections	In Progress							
School Bank Accounts	In Progress							
School Full Bank Accounts	In Progress							
CM93 Payments	In Progress							
My View Expenses and Car Mileage	In Progress							
Duplicate Housing Benefit Payments Run	In Progress							
Fostering Services - Home improvements	In Progress							
Green Finance	In Progress							
Planning Value for Money	In Progress							
Write Off Proposal	In Progress							
I Proc Tolerances	In Progress							
Cycle Hire	In Progress							
Crosby Lakeside Coffee Machines	In Progress							
Credit Management Policy	In Progress							
Client Contributions	In Progress							
Direct Payments (Carers Centre)	In Progress							
Academies	In Progress							
Energy Consumption Carbon Reduction	In Progress							
Trading Services	In Progress							
Annual Billing Checks	In Progress							
Farnborough Juniors - Parentmail and Pay	In Progress							
Meadows 3rd Party arrangements	Pre Draft Report							

Planned Work	Status	Opinion	Recommendations		Draft	Action	Final	Job
			Proposed	Agreed	Sent	Plan Ret	Sent	Closed

INVESTIGATIONS								
Missing Income from concession at Dunes Leisure Centre	Completed	N/A	N/A	N/A	N/A	N/A	16/05/2011	16/05/2011
Alphabet Nursery	Completed	N/A	N/A	N/A	N/A	N/A	25/07/2011	25/07/2011
Request for Internet Reports (JG)	Completed	NA	N/A	N/A	N/A	N/A	29/08/2011	29/08/2011
Southport Golf Course	Completed				09/06/2011	N/A	09/06/2011	14/11/2011
Request for Internet Logs / Email Access (SM)	Final Report	N/A	1	1	N/A	N/A	11/11/2011	
Anonymous allegations in respect of recruitment and suppliers	Final Report	NA	N/A	N/A	25/05/2011	N/A	22/07/2011	
Dunes Leisure Centre - Eze Fitness	Draft Report	NA	1	1	23/08/2011	N/A		
School Computer Misuse Allegations	Final Report	NA	N/A	N/A	N/A	N/A	26/10/2011	
Skips	Final Report	N/A	1	1	19/05/2011	N/A	26/10/2011	
Investment Centre Invoice	In Progress							
Street Cleansing	Final Report	NA	N/A	N/A	N/A	N/A	14/11/2011	
Impact	Pre Draft Report							
Sefton Resource Centre	Pre Draft Report							
Computer Misuse (LA)	Final Report	N/A	1	1	21/10/2011	N/A	25/10/2011	
Obscene Telephone Calls	In Progress							
NATIONAL ANTI FRAUD NETWORK								
Franking Supplies UK	Completed	N/A	N/A	N/A	N/A	N/A	16/11/2011	16/11/2011
ADVICE								
There have been 42 requests for Advice in the period								

ANNEXE B

Benefit Fraud Investigation Team (BFIT)

Summary of Work 1st August 2011 to 31st October 2011

1. Caseload and Results

1.1. The following table shows the number of investigations undertaken by BFIT and analyses the results.

Result Outcome	Period Aug – Oct (incl)	As % of cases investigated	Period Apr – Oct (incl)	As % of cases investigated
Cases Closed	182	100	492	100
Results				
Fraud Proved	44	26	112	25
Not Resident	16	9	33	7
Incorrect Benefit	<u>4</u>	<u>2</u>	<u>12</u>	<u>3</u>
Total Positive Results	64	37	157	34
No fraud	<u>109</u>	<u>63</u>	<u>305</u>	<u>66</u>
	173	100	462	100
Not Investigated	9		30	
Total Cases	182		492	

1.2. It can be seen that the Team has returned an investigation success rate between April 2011 and November 2011 of 157 cases out of 462, some 34%. The overall success rate of positive investigations has reduced - however, of the 305 cases closed 'no fraud' in the above period, 95 have been in respect of HBMS referrals. A sample of these closed cases has identified some of the reasons for no further action being taken on these cases, such as backlog of work in the Benefits Section (where the information has been received, but not processed in time for the referral to be produced), no change to the amount of benefit being paid or (in the case of capital matches), the capital having been reduced or spent before the claim for benefit has been made.

2. Sanctions and Prosecutions

2.1. Sanctions in the period 1st August 2011 to 31st October 2011 are as follows:

Type	Aug '11 – Oct '11	Apr '11 – Oct '11
Convictions	2	13
Cautions	14	35
Ad Pens	<u>3</u>	<u>8</u>
Total	19	56

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The Client has reduced the BFIT sanction target to a minimum of 85 for the year 2011 / 2012 to take account the assistance the Team will be providing to the Benefit Assessment Teams (see below)

Other aspects of BFIT work highlighted for Members is noted below.

3. Housing Benefit Matching Service (HBMS)

- 3.1. HBMS is a branch of the Department for Work and Pensions dealing with data-matching. Each month the Council submits HB/CTB data to the HBMS who then match this against a range of other data from the DWP, Revenue and Customs, Pensions etc. Matches, which are normally of very high quality, are then returned to the Council for further investigation. Between August 2011 and November 2011 the BFIT received 44 referrals from the HBMS that required further investigation. In the same period, 65 cases derived from HBMS were closed after investigation. Positive results were recorded on 28 cases (43%). The Intervention Team still continue to process many of the referrals received from the Housing Benefit Matching Service.
- 3.2. HBMS continually look for new data sources to match against and Sefton is one of a number of Councils who evaluate various new rules. Sefton have recently signed up for the new credit reference agency referrals (CRA matches) are awaiting the first batch of data to be sent through.

4. National Fraud Initiative (NFI)

- 4.1 Work is still continuing on the matches from the National Fraud Initiative. So far 404 cases have been looked at, with 63 being identified for further investigation. An update of investigation work in respect of these data-matches will follow in future reports.

5. Fraud Awareness

- 5.1. Work is still being undertaken to get the Meritec Fraud Awareness interactive presentation up and running again and face-to-face training in respect of 'One Vision Housing' employees has already been completed.

6. Joint Working

Of the 2 convictions obtained by BFIT during the quarter Aug '11 – Oct '11, both were as a result of joint working with The Department for Work & Pensions (DWP). Sefton MBC continues to enjoy a good working relationship with DWP Investigators, which is reflected in the many positive cases highlighted during the year. During the above period overpayments totalling £3,333.07, £870.30 and £5,976.75 were raised in respect of Housing Benefit, Council Tax Benefit and Income Support respectively. In total overpayments totalling £10,180.12 were created during the period Aug '11 – Oct '11 in respect of these 2 joint working cases with the DWP.

ANNEXE B

7. 'Living together' referral

One of the above cases concerned a female from the Maghull area, who had allegedly been co-habiting with an undeclared partner whilst in receipt of benefits from both the LA and the DWP and enquiries made by both agencies suggested that these claims were not valid. When interviewed under caution the customer initially denied the allegation, however, after being shown evidence obtained by both agencies she ultimately admitted that she had been living with her partner since she had moved into the property in July '10. She stated that she knew she should have declared her true circumstances, but did not do so for financial reasons.

As a result of her failure to declare her real circumstances, the customer was overpaid LA and DWP benefits totalling £5,514.25. At court, she was found guilty of 2 charges under the Social Security Administration Act 1992 and was given a community work order for 200 hours and ordered to pay £100 costs.

8. Assistance to the Benefit Section

Since October the BFIT has been providing assistance to the claim assessment teams within the Benefits Service to help with the outstanding backlog of work. BFIT has provided valuable support by answering telephone queries on their behalf thereby freeing up assessment resource.

9. Consultation work

The BFIT has worked with the Client in order to provide a response to the DWP consultation document regarding the proposed Single Fraud Investigation Service. This proposed service will see the implementation of a joined-up approach to benefit investigation, incorporating investigators from the Department for Work & Pensions (DWP), Local Authorities and Investigating Officers from Her Majesty's Revenues & Customs (HMRC).

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Report to: Audit & Governance Committee **Date of Meeting:** 14th December 2011

Subject: Recommendation Escalation Policy for Non Response

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? No

Is it included in the Forward Plan? No

Exempt/Confidential

No

Purpose/Summary

To seek agreement from Members of the Audit & Governance Committee to the principles in regard to the establishment of an escalation policy / process in order to establish a process by which Members of this Committee can be apprised of and take appropriate action in respect lack of responses to audit recommendations and reports, non agreement of recommendations and the failure to implement previously agreed recommendations.

Recommendation(s)

Members are requested to agree the principles outlined in order that Officers can produce an escalation policy as outlined above.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community	✓		
2	Jobs and Prosperity	✓		
3	Environmental Sustainability	✓		
4	Health and Well-Being	✓		
5	Children and Young People	✓		
6	Creating Safe Communities	✓		
7	Creating Inclusive Communities	✓		
8	Improving the Quality of Council Services and Strengthening Local Democracy	✓		

Reasons for the Recommendation:

The terms of reference for this Committee includes responsibility to

- i) consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale

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- ii) consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

In order for this Committee to fulfil these responsibilities it requires to have an escalation process / policy in place to ensure appropriate action is undertaken as and where necessary.

What will it cost and how will it be financed?

There are no financial costs associated with the proposals in this report.

(A) Revenue Costs

(B) Capital Costs

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	
The Council's Constitution provides that the Audit and Governance Committee should consider summaries of specific internal audit reports as requested and should consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.	
Human Resources	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

The failure to respond to audit reports / recommendations or implement agreed recommendations could leave the Council open to risk in those areas concerned. Providing the Audit & Governance Committee with this information enable the Committee to be confident that adequate assurance is in place that the Council's systems of internal control are operating in line with expectations

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What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD1192) and Head of Corporate Legal Services (LD549/11) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

No

Implementation Date for the Decision

Immediately following the Audit & Governance Committee meeting.

Contact Officer: Janice Bamber
Tel: 0151 934 4051
Email: janice.bamber@sefton.gov.uk

Background Papers:

The following papers are available for inspection by contacting the above officer(s).

CIPFA Code of Practice for Internal Audit

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1. Introduction/Background

- 1.1 Timely and appropriate management responses to Internal Audit reports enable the Council to demonstrate that it maintains high standards of internal control and governance in line with corporate objectives.
- 1.2 The Audit & Governance Committee have a number of responsibilities within their terms of reference, including to:-
 - i) consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale;
 - ii) consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- 1.3 It is a fundamental role of Internal Audit and specifically the Chief Internal Auditor to ensure that the Audit & Governance Committee are provided with adequate assurance that the Council's systems of internal control are operating in line with expectations. In order to ensure that the Committee receives adequate information to form an opinion on the level of assurance and the control environment an escalation process / policy is required to be developed and agreed by the Strategic Leadership Team and the Audit & Governance Committee
- 1.4 This report outlines the principles required to form a basis of the policy and seeks agreement from the members of this Committee to the principles outlined in order that a policy can be developed.

2. Policy Principles

- 2.1 In order for this Committee to fulfil those responsibilities outlined above the Audit & Governance Committee reserve the right to request attendance and explanation from officers of the Council who;-
 - i) do not respond to audit reports and / or recommendations;
 - ii) fail to respond within agreed timescales;
 - iii) do not agree to or do not implement satisfactorily, recommendations resulting from audit reviews; and / or
 - iv) fail to implement previously agreed recommendations.
- 2.2 In order to establish the escalation policy / process the following principles require to be agreed to be reported to each meeting of this Committee for the period that the report covers:-
 - i) all reports not responded to;
 - ii) all recommendations not agreed in each period where Internal Audit consider they are classified as critical and high, where no alternative recommendation can be agreed upon or can be offered by management;
 - iii) all recommendations not implemented satisfactorily
 - iv) all audit reports not responded to within agreed timescales (details of timescales to be agreed as part of the policy);
 - v) all audit recommendations not responded to;
 - vi) all previously agreed to recommendations that are not implemented within the timescales agreed (in order to report on this principle a system /

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process of tracking recommendations to be developed as part of the policy);

vii) updates on status of all recommendations.

2.3 A process for the Audit & Governance Committee to request management attendance, explanation or response will also require including in the escalation policy / process.

3. Conclusion

3.1 Members are asked to approve the principles outlined in order for officers to produce an escalation policy / process, in order to ensure there are appropriate procedures in place in respect of providing the committee with adequate assurance in respect of the Council's internal control systems.

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