

AUDIT AND STANDARDS COMMITTEE

THURSDAY 14TH FEBRUARY 2013

**AT 6.00PM
IN COMMITTEE ROOM 3
THE COUNCIL HOUSE
DUDLEY**

If you (or anyone you know) is attending the meeting and requires assistance to access the venue and/or its facilities, could you please contact Democratic Services in advance and we will do our best to help you

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You can view information about Dudley MBC on
www.dudley.gov.uk**

IMPORTANT NOTICE

MEETINGS IN DUDLEY COUNCIL HOUSE

Welcome to Dudley Council House

In the event of the alarm sounding, please leave the building by the nearest exit. There are Officers who will assist you in the event of this happening, please follow their instructions.

There is to be no smoking on the premises in line with national legislation. It is an offence to smoke in or on these premises.

Please turn off your mobile phones and mobile communication devices during the meeting.

Thank you for your co-operation.

Your ref: Our ref: Please ask for: Telephone No.
 JJ/jj Mr J Jablonski 01384 815243

6th February, 2013

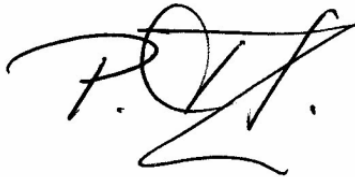
Dear Member

Audit and Standards Committee – Thursday 14th February, 2013.

You are requested to attend a meeting of the Audit and Standards Committee to be held on Thursday 14th February, 2013 at 6.00pm in Committee Room 3 at the Council House, Dudley to consider the business set out in the Agenda below.

The agenda and public reports are available on the Council's Website www.dudley.gov.uk and follow the links to Councillors in Dudley and Committee Management Information System.

Yours sincerely



Director of Corporate Resources

A G E N D A

- 1 APOLOGIES FOR ABSENCE

 To receive apologies for absence from the meeting.

2. APPOINTMENT OF SUBSTITUE MEMBERS

 To report the appointment of any substitute members serving for this meeting of the Committee.

3. DECLARATIONS OF INTEREST

 To receive Declarations of Interest in accordance with the Members' Code of Conduct.

4. MINUTES

To approve as a correct record and sign the Minutes of the meeting of the Committee held on 20th September, 2012 (copy attached).

5. ANNUAL AUDIT LETTER 2011/12 (PAGES 1 - 6)

To consider a joint report of the Chief Executive and the Treasurer

6. EXTERNAL AUDITOR REPORT: CERTIFICATION 2011/12 (PAGES 7 - 20)

To consider a report of the Treasurer

7. GRANT THORNTON – FEE LETTER 2012/13 (PAGES 21 - 70)

To consider a report of the Treasurer

8. REVIEW OF RISK MANAGEMENT ACTIVITIES IN 2012 AND PRIORITIES FOR 2013/14 (PAGES 71 - 88)

To consider a report of the Treasurer

9. TREASURY MANAGEMENT (PAGES 89 - 105)

To consider a report of the Treasurer

10. ANNUAL REPORT OF THE COMMITTEE ON STANDARDS IN PUBLIC LIFE 2011/12 – TO FOLLOW

To consider a report of the Monitoring Officer

11. TO ANSWER QUESTIONS UNDER COUNCIL PROCEDURE RULE 11.8 (IF ANY)

PRIVATE SESSION

In accordance with Paragraph 10 of Schedule 12A to the Local Government Act 1972, the Proper Officer has determined that there will be no advance disclosure of the following reports because the public interest in disclosing the information set out in the following items is outweighed by the public interest in maintaining the exemption from disclosure

12. RESOLUTION TO EXCLUDE THE PUBLIC

To consider the adoption of the following resolution:-

That the 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 Part 1 of Schedule 12A to the Local Government Act 1972 as indicated below:-

<u>Agenda Item No</u>	<u>Description of Item</u>	<u>Relevant Paragraph(s) of Part I of Schedule 12A</u>
13	Annual Audit Report in relation to the Directorate of Adult, Community and Housing Services	2 and 7
14	Annual Audit Report in relation to the Directorate of Children's Services	2 and 7
15	Audit Services Interim Performance Report	2 and 7

13. ANNUAL AUDIT REPORT IN RELATION TO THE DIRECTORATE OF ADULT, COMMUNITY AND HOUSING SERVICES (PAGES 106 - 181)

To consider a report of the Treasurer

14. ANNUAL AUDIT REPORT IN RELATION TO THE DIRECTORATE OF CHILDREN'S SERVICES (PAGES 182 - 299)

To consider a report of the Treasurer

15. AUDIT SERVICES INTERIM PERFORMANCE REPORT (PAGES 300 - 305)

To consider a report of the Treasurer

To: All Members of the Audit Committee Committee, namely:

Arshad	Branwood	Burston	Cowell	Hill
Taylor	Tyler	Mrs Westwood	Zada	

AUDIT AND STANDARDS COMMITTEE

Thursday, 20th September, 2012 at 6.00 p.m.
in Committee Room 3, The Council House, Dudley

PRESENT:-

Councillor Zada (Chair)
Councillor Arshad (Vice-Chair)
Councillors Branwood, Burston, Cowell, Hill, Taylor, Tyler and Mrs.
Westwood.

Officers

Treasurer, Head of Audit Services, Assistant Director, HR and Organisational Development, Audit Manager and Principal Auditors (All Directorate of Corporate Resources); Director of the Urban Environment, Assistant Director Culture and Leisure and Manager of Executive Support Team (All Directorate of the Urban Environment) and Mrs K Taylor (Directorate of Corporate Resources).

Also in Attendance

Mr T Corcoran (District Auditor) and Mr S Turner (Audit Manager) (Audit Commission)

12 **DECLARATIONS OF INTEREST**

Councillor Zada declared a non-pecuniary interest, in accordance with the Members' Code of Conduct, in Agenda Item 10 – Financial Regulations, in view of him being a governor at the Northfield Road Primary School.

13 **MINUTES**

RESOLVED

That the minutes of the meeting held on 3rd July, 2012 be approved as correct records and signed.

14 **AUDIT COMMISSION AUDIT AND STANDARDS COMMITTEE UPDATE**

A report of the Treasurer was submitted on a report published by the Audit Commission updating Audit and Standards Committee members across Local Government. A copy of the Audit and Standards Committee update was attached as an Appendix to the report submitted.

Mr T Corcoran, the District Auditor, and Mr S Turner, Audit Manager, were in attendance at the meeting and commented in particular on the very good report that had been submitted.

It was noted that the appointment of Grant Thornton UK LLP as the Council's external auditor had been confirmed from 1st September, 2012, and that a representative from the company would be attending future meetings of the Committee.

Arising from the presentation of the report and Appendices to the report, submitted the Treasurer responded to questions asked and with regard to queries raised by a member regarding payment by results contracts and the possibility of using social impact bonds to fund the cost of preventative work with children at risk of being taken into care, the Treasurer indicated that he would provide further details in consultation with Children's Services.

RESOLVED

That the information contained in the report, and Appendix to the report, submitted on an Audit and Standards Committee Update published by the Audit Commission, be noted.

15

AUDITOR'S ANNUAL GOVERNANCE REPORT 2011/12

A report of the Treasurer was submitted on the auditor's Annual Governance Report 2011/12, together with the formal Management Representation Letter to the Auditor. A copy of the Annual Governance Report was attached as an Appendix to the report submitted.

Mr Tony Corcoran, the District Auditor, was in attendance at the meeting and commented in particular on the very good report that had been submitted. Overall he assessed that the Council had good arrangements in place for Value for Money including arrangements for HRA self-financing, and provided an unqualified audit opinion on the financial statements.

In all it was a smooth audit and the District Auditor expressed his thanks to the Treasurer and all the Officers involved for the work that had been carried out.

Arising from the presentation of the report and Appendices to the report, submitted the Treasurer responded to a question raised by a member regarding the monitoring of the action plan, as indicated in Appendix A of the report submitted, and indicated that a report on the progress made would be submitted to a future meeting of the Committee.

RESOLVED

- (1) That the content of the auditor's Annual Governance report 2011/12 be endorsed.

ASC/9

- (2) That approval be given to the Letter of Representation as attached to the report submitted and to the Chair signing and dating the letter so as to give evidence of the approval given.
-

16 CHANGE IN ORDER OF BUSINESS

Pursuant to Council Procedure Rule 13(c) it was:-

RESOLVED

That the remaining items of business be considered in the following order:-

Agenda Item No's 14, 7, 8, 9, 13, and 15.

17 EXCLUSION OF THE PUBLIC

That the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Local Government Act, 1972, as indicated below: and that in all the circumstances, the public interest in disclosing the information is outweighed by the public interest in maintaining the exemption from disclosure.

<u>Description of Item</u>	<u>Relevant Paragraph of Part I of Schedule 12A</u>
Annual Audit Report in relation to the Directorate of the Urban Environment	2 and 7

18 ANNUAL AUDIT REPORT IN RELATION OT THE DIRECTORATE OF THE URBAN ENVIRONMENT

A report of the Treasurer was submitted on the audit work undertaken in the Directorate of the Urban Environment for the financial year 2011/12 and incorporating details of the more important findings as indicated in Appendices 2 and 3 to the report submitted.

Arising from consideration of the report, and Appendices to the report, submitted the Chair considered that overall it was an excellent report and showed steady improvement over the last few years.

Arising from further comments made regarding the possibility of repeating similar breaches, it was suggested that recommendations for improvements should be circulated to the organisation as a whole to combat the potential of repeating mistakes.

RESOLVED

That the findings of the 2011/12 audit work be accepted.

19

CODE OF CONDUCT FOR EMPLOYEES

A report of the Director of Corporate Resources was submitted on the current position regarding the Code of Conduct for Employees. A copy of the code was attached as an Appendix to the report submitted.

The Assistant Director ,HR and Organisational Development highlighted two discrepancies in the report submitted:

- Page 56 – paragraph 18 – should end with “even when Dudley Council may not have been specifically referred to but may be linked to the comments”.
- Page 59 – paragraph 37 – before the word discipline should read ‘recruitment’.

It was noted that once the Pay and Grading process had been completed, employees would be asked to sign amended contracts of employment, which would also include information in regard to the code of conduct.

Arising from consideration of the report, and Appendices to the report, submitted concerns were raised in relation to paragraph 20 of the code of conduct for employees regarding the use of social networking sites, in particular given the complexity of the issue the paragraph needed to be clear in order for the employee to understand the risks involved.

RESOLVED

- (1) That, subject to amendments to paragraphs 18, 20 and 37, the Council be recommended to adopt the revised Code of Conduct.
- (2) That the Assistant Director, HR and Organisational Development, in consultation with the Chair and Vice-Chair, be requested to agree the wording to paragraph 20 in view of the concerns raised during the meeting.

20

STATEMENT OF ACCOUNTS 2011 / 12

A report of the Treasurer was submitted on the Statement of Accounts 2011/12, attached as Appendix 1 to the report submitted, and on the outcome of the Audit of Accounts.

The Treasurer gave a visual presentation at the meeting highlighting the main issues contained in the report submitted.

As part of the presentation he referred in particular to the Movement in Reserves Statement citing the position as at 31st March, 2011 and the position as revised at 31st March, 2012, indicating an increase in the General Fund Balance from £9.1 to 12.2 million. Other aspects of that Statement were also considered.

Arising from the presentation given, the Treasurer responded to questions asked by the Committee in relation to the budget delegated to schools; the possibility of long term borrowing at lower rates and the possibility of selling unused heritage assets.

RESOLVED

That the Statement of Accounts, attached as Appendix 1 to the report submitted, be approved and that the Chair sign and date the Accounts so as to give evidence of the approval given.

21

TREASURY MANAGEMENT REPORT

A report of the Treasurer was submitted on treasury activity during the financial year 2011/12, and in the current financial year up to August .

Arising from the presentation of the report and Appendices to the report, submitted the Treasurer responded to questions asked by members of the Committee in regard to the amount that the Council would need to produce this financial year in order to service debt and the contingency plans in place should the economy deteriorate further.

RESOLVED

That the Council be recommended to note the Treasury Activity outlined in the report submitted.

22

FINANCIAL REGULATIONS

A report of the Treasurer was submitted proposing amendments to the Council and School's Financial Regulations, a copy of which were attached as Appendix A to the report submitted.

Arising from the presentation of the report and Appendices to the report, submitted, the Head of Audit Services expressed his thanks to the Officers involved for the work that had been carried out.

RESOLVED

That approval to be given to the proposed amendments to Council and School Financial Regulations, as set out in the report and Appendix A of the report submitted.

23

EXCLUSION OF THE PUBLIC

That the 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 Part 1 of Schedule 12A of the Local Government Act, 1972, as indicated below: and that in all the circumstances, the public interest in disclosing the information is outweighed by the public interest in maintaining the exemption from disclosure.

<u>Description of Item</u>	<u>Relevant Paragraph of Part I of Schedule 12A</u>
Reports required under Standing Orders	2 and 7
Audit Services Interim Performance Report	2 and 7

24

REPORTS REQUIRED UNDER STANDING ORDERS

A report of the Treasurer was submitted on cases arising under Standing Order 3.2 during the period January to June, 2012, requiring a report to this Committee.

RESOLVED

That the information contained in the report submitted be noted.

25

AUDIT SERVICES INTERIM PERFORMANCE REPORT

A report of the Treasurer was submitted on an update on Audit Services performance and other related information.

Arising from the presentation of the report and Appendices to the report, submitted, the Head of Audit Services circulated a National Fraud Initiative briefing note for information, and stated that the reason for achieving a lower performance rate for completing the audit plan was due to staff absences in the department.

Arising from the content of the report, Members raised concerns in relation to the poor performance against the target of finalising audit reports within six weeks of the draft report being issued. It was suggested that the target should be set at 80%, and that should reports arrive later than the target time the relevant manager should attend the Committee to explain the reasons for the delay.

RESOLVED

- (1) That the information contained in the report, and Appendix A to the report, submitted be noted.
- (2) That the Head of Audit Services be requested to write a letter to all Directors informing them of the target set; previous performance figures and that failure to submit the reports by the target date may result in a request that the relevant manager attend the Committee to explain the reasons for the delay.

The meeting ended at 8.10 p.m.

CHAIR

Audit and Standards Committee – 14th February 2013

Joint Report of the Chief Executive and the Treasurer

Annual Audit Letter 2011/12

Purpose of Report

1. To consider the Audit Commission's Audit Letter for 2011/12.

Background

2. The Audit Commission, who were the Council's external auditor at the audit of the final accounts, have produced an Annual Audit Letter. Representatives of the Audit Commission will be in attendance at this meeting to present the Letter and to discuss its contents with members.
3. The Audit Commission's Code of Audit Practice requires that the external auditors prepare an Annual Audit Letter (the Letter) and issue it to the Council. The purpose of the Letter is to communicate to the Council and its external stakeholders, including members of the public, the key issues arising from auditors' work, which the District Auditor considers should be brought to the attention of the Council. The Letter is intended to cover the work carried out by the external auditors since the previous Letter was issued, in this case November 2011.
4. At the meeting of this Committee on the 20th September 2012, the Audit Commission produced their Annual Governance Report. The report considered the auditor's findings in relation to the Council's Financial Statements and Value for Money conclusion for 2011/12 and the auditor issued an unqualified opinion
5. The Letter will be presented to Cabinet on 13th March 2013 and representatives from the Audit Commission will attend and address the Cabinet on key messages, conclusions and significant issue.
6. The Letter has been published, placed on the Council website, and paper copies made available at a charge of £1.00, as agreed in 2000/01.

Finance

7. The report deals with a number of financial affairs of the Council. No additional resources are required as a direct consequence of the Letter.

Law

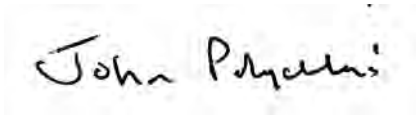
8. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made there under.

Equality Impact

9. The proposal takes account of the Council's policy in relation to equal opportunities.

Recommendation

10. It is recommended that the Committee:-
 - Note the views of the Auditor.
 - Comment on matters in the Annual Audit Letter.



.....
John Polychronakis
Chief Executive



.....
Iain Newman
Treasurer

Contact Officer: Jan Szczechowski
Telephone: 01384 814805
Email: jan.szczechowski@dudley.gov.uk

List of Background Papers
Annual Audit Letter 2011/12

16 October 2012

Members
Dudley Metropolitan Borough Council
Council House,
Priory Road,
Dudley,
DY1 1HF

Direct line 0844 798 4902
Email t-corcoran@audit-
commission.gov.uk

Dear Member

Dudley Metropolitan Borough Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Dudley Metropolitan Borough Council.

Financial statements

On 20 September I presented my Annual Governance Report (AGR) to the Audit and Standards Committee outlining the findings of my audit of the Council's 2011/12 financial statements. I will not replicate those findings in this letter.

Following the Audit and Standards Committee on 26 September I:

- issued an unqualified opinion on the Council's 2011/12 financial statements included in the Council's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

In my AGR to the Audit & Standards Committee I identified two weaknesses in internal control and made recommendations as to how they should be addressed. A completed action plan in respect of these recommendations is attached at Appendix 1 to this letter.

I certified completion of the audit on 5 October after I issued my assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and Treasurer. While this has been another challenging year for the Council I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit and Standards Committee for their support and co-operation during the audit.

Audit Commission, 1st Floor, No.1 Friarsgate, 1011 Stratford Road, Solihull, B90 4BN
T 0844 798 7173 F 0121 733 7183 www.audit-commission.gov.uk

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Corcoran', is centered on the page. The signature is written in a cursive style with a period at the end.

Tony Corcoran
District Auditor

Appendix 1 – Action plan

Internal control weaknesses and recommendations

Recommendation 1

Description of weakness	Internal audit testing found that there were weaknesses in the Council's controls for ensuring that there is appropriate authorisation of: <ul style="list-style-type: none"> • changes to the payroll; and • timesheets.
Potential impact	This prevented me from placing reliance on your controls in this area and I had to perform further testing as a result. Management have informed me that HR First was established to help address issues such as the one identified by internal audit's testing and that they expect authorisation processes to be far more robust in future
Recommendation	Management should continue to test whether changes to the payroll and timesheets are appropriately authorised and take remedial action if any errors are found.
Responsibility	Payroll Manager
Priority	High
Date	September 2013
Comments	Advances in work processes have lead to far less emphasis being placed on the authorised signatory sheets and most authorisation is now done by more robust electronic methods such as use of the "Yourself" facility on the Council's HR and payroll system PSE (which has in-built checks to ensure payments are properly authorised). In due course the need for authorised signatory sheets will be eliminated all together. Work is on-going with Internal Audit to achieve this outcome.

Recommendation 2

Description of weakness	The Council has an IT disaster recovery plan in place. However, the Council has not undertaken tests involving restoration of key application systems, such as Agresso
Potential impact	Undertaking regular restoration tests for key application systems will provide assurance on the robustness of the backup and disaster recovery arrangements
Recommendation	Management should introduce a programme of regular restoration tests for key application systems
Responsibility	Head of ICT Services
Priority	High
Date	September 2013
Comments	The Management Response to the Audit Recommendation was that a formal test of current Business Continuity Plans will be conducted, taking into account the new SAN infrastructure and backup processes. These tests have yet to be scheduled into a rolling programme with the Council's ICT DR Supplier (Sunguard) but in practice backup / restoration of application systems are fairly routine. In January 2012 the Revenues server crashed and the third party DR contract was invoked – this involved a suitable server being transported to Dudley's data centre, built, configured and the live database restored – this was completed successfully with live service operation being provided from the provided alternative DR server. Development of a programme of restoration tests for key applications has been escalated by the HoICTS with the ICT Business Continuity and Risk Manager.

Audit and Standards Committee – 14th February 2013

Report of the Treasurer

External Auditor Report: Certification Work 2011/12

Purpose of Report

1. The External Auditor's Annual Report on Certification of Claims and Returns for 2011/12 is attached and representatives from Grant Thornton will be available at the meeting to deal with any issues.

Background

2. As from 1 November 2012, the Council's external auditor is Grant Thornton. The external auditor undertakes a range of audits.
3. Whilst the report is issued in Grant Thornton's name, the majority of the work was undertaken by the Council's previous external auditor, the Audit Commission. Due to circumstances beyond the Audit Commission's control, the report could not be finalised before they ended their appointment as external auditor.
4. For 2011/12 the External Auditors undertook work to certify council grant claims and returns totalling £263m. Their Annual Report on that work is attached as an Appendix. The report outlines issues arising from their work and makes a number of recommendations for the Council's grant claiming processes.
5. Auditors are required to conduct their work in accordance with instructions agreed with the grant awarding department or body and, subject to any permitted discretion, to issue qualifications where the strict grant conditions are not met. The vast majority of qualifications do not result in any withdrawal of grant by the awarding department or body.

Finance

6. The Audit Commission charged fees for grant certification work for 2011/12 of £74,867 and Grant Thornton charged £12,670.

Law

7. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1999, the Audit Commission Act, 1998, and regulations made therein.

Equality Impact

8. A number of the grants that the Council receives are for activities benefiting children and young and disadvantaged sections of the community.

Recommendation

9. That Members note and comment on the External Auditor's Annual Report on Certification of Claims and Returns for 2011/12 attached to this report.



.....
Iain Newman
Treasurer

Contact Officer: Jan Szczechowski
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List of Background Papers

Certification of claims and returns – annual report 2011/12

Dudley Metropolitan Borough Council

Certification work report 2011/12

December 2012

Contents

1	Executive Summary	1
2	Results of our certification work	3

Appendices

A	Approach and context to certification	5
B	Details of claims and returns certified for 2010/11	7
C	Action plan	9

1 Executive Summary

Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 Seven claims and returns have been certified for the financial year 2011/12 relating to expenditure of £263 million.
- 1.3 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

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. 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.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

Key messages

- 1.6 It should be noted that most work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore predominantly represent the results of your previous auditors work.
- 1.7 A summary of all claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	All claims and returns were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Overall the Council is performing well. In respect of the housing and council tax benefit scheme, the Council needs to continue to try to minimise errors made in the calculation of benefit and classification of benefit payments on the claim form. The Council also needs to take action to ensure that the teachers' pension return is not submitted for certification until senior finance officers are satisfied that it agrees to prime records.
Supporting working papers	Supporting working papers for the majority of claims and returns were good, which enabled certification within the deadlines. However, action is needed to ensure that good quality working papers are provided to support the teachers' pension return.

The way forward

- 1.8 We have made a couple of recommendations to address the key messages above and other findings arising from our certification work at Appendix C.
- 1.9 Implementation of the agreed recommendations will assist the council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

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

Grant Thornton UK LLP

December 2012

2 Results of our certification work

Key messages

- 2.1 Seven claims and returns have been certified for the financial year 2011/12 relating to expenditure of £263 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
Total claims/returns		7		10		
Number of claims submitted on time	100%	7	100	10	100	→
Number of claims certified on time	100%	7	100	9	90	↑
Number of claims certified with amendment	0%	4	57	5	50	↓
Number of claims certified with qualification	0%	2	28	5	50	↑

- 2.3 This analysis of performance shows that:
- the Council continues to submit all claims on time
 - all claims were certified on time in 2011/12 compared to 90% in the previous year
 - the percentage of claims certified with amendment has risen slightly from 50% to 57%
 - the percentage of claims certified with qualification has fallen from 50% to 28%
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 Where we have identified significant matters or opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.

- 2.6 We charged a total fee of £12,670 for the certification of claims and returns in 2011-12. In addition, your previous auditors the Audit Commission, charged a total fee of £74,867 against an indicative budget of £90,000. Details of fees charged for specific claims and returns are included at Appendix B.

Significant findings

- 2.7 The following significant findings were identified in relation to the management arrangements and certification of individual grant claims and returns:

Grants co-ordination

- 2.8 The Corporate Finance Team continues to co-ordinate the submission of claims and returns in an effective manner. All claims and returns were submitted for certification on time and there has been a reduction in the percentage of claims amended and/or qualified.

Compilation procedures

- 2.9 Claims and returns are generally well compiled but improvements are needed in respect of the teachers' pension return and the housing and council tax benefit claim. This is detailed further below.

Supporting working papers

- 2.10 Claims and returns are generally supported by good working papers. The working papers provided in respect of the transport projects for Burnt Tree and Brierley Hill Sustainable Access Network were particularly impressive. However, improvements are needed in respect of the working papers provided to support the teachers' pension return. This is detailed further below.

Certification of teachers' pension return

- 2.11 The certificate issued on the teachers' pension return was subject to four qualifications. These covered various entries on the return not agreeing to the Council's payroll records and to other supporting working papers. A small amendment was also needed to the return (see Appendix B). The working papers submitted to support the return were not up to the standard expected and delays in obtaining responses to queries were also experienced.

Certification of housing and council tax benefit claim

- 2.12 The housing and council tax benefit claim was qualified because of a range of errors found in the calculation of benefit and classification of benefit payments on the claim form. The Council has estimated that this should not have a significant impact on the total amount of subsidy due but this will not be confirmed until the DWP considers the qualifications on the Council's claim and determines the total amount of subsidy to be paid for 2011/12. There were similar findings in respect of the 2010/11 claim and the Council undertook to provide further training to benefits staff to ensure that errors were reduced. The Council should continue to provide this training to staff.

A Approach and context to certification

Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

Role	2011/12	2010/11
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	119,226,643	Yes	683	Yes	36,426	38,555	
National non-domestic rates return	90,119,221	No	0	No	10,683	11,533	
HRA subsidy	22,078,255	Yes	The amendments had no impact on the overall level of subsidy	No	7,658	7,697	
Teachers' pensions return	19,949,364	Yes	5,415	Yes	10,948	14,631	The issues in respect of this return have been detailed above. These difficulties resulted in more time being spent on the return which increased the fee compared to the previous year

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Pooling of housing capital receipts	4,842,083	Yes	207	No	1,965	7,208	Amendments were needed to the return submitted for certification and work was also performed on the 2009/10 return which was re-submitted for certification
Local transport plan: major projects – Burnt Tree	2,564,092	No	0	No	6,655	5,203	Good working papers were prepared by the Council and prompt responses were received to queries raised
Local transport plan: major projects – Brierley Hill Sustainable Access Network	414,863	No	0	No	1,409	1,305	
Reporting to those charged with Governance					0	1,405	No separate fee was levied for reporting in previous years
Total	263,358,683		6,098		75,744	87,537	

C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Teachers' pensions return	The 2012/13 return should not be submitted for certification until senior finance officers are satisfied that it agrees to prime records and is supported by good quality working papers and a completed grant header sheet. Auditor queries on the return should be responded to promptly	High	We will ensure that additional checks are made to the 2012-13 Teachers' Pension Return and associated working papers by Accountancy officers, to confirm reconciliation to payroll records, and that a grant header sheet is completed to verify the return before submission. The audit of the 2012-13 return will be monitored by the Group Accountant (Corporate Finance & Systems) to minimise any delays in responding to auditor queries
Housing and council tax benefit scheme	Management should continue to undertake training of benefits staff to ensure that errors in the calculation of benefit and classification of benefit payments on the claim form are minimised	Medium	Benefits will continue to provide training and workshops for benefit assessors relating to errors discovered during the audit. Timescale – June 2013

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Audit and Standards Committee – 14th February 2013

Report of the Treasurer

Grant Thornton - Fee Letter 2012/13

Purpose of Report

1. This report sets out the planned audit fee for 2012/13 by the Council's external auditor, Grant Thornton. Attached is their Audit fee letter and a representative from Grant Thornton will be available at the meeting to deal with any issues.

Background

2. Up to and including the audit year 2011-12, the Audit Commission were the Council's external auditor. Following the Government's changes to the external audit of local authorities, the Audit Commission no longer undertakes audits itself. However, it does retain the role (for the next five years) of appointing and monitoring external auditors to local authorities
3. Grant Thornton, one of the big accountancy firms, were appointed to audit all local authorities in the Midlands. This followed a tender exercise run by the Audit Commission. The appointment starts with the 2012-13 audit year and runs for at least four more years. The audit fees in the appended letter are the fees that came out of this tender process.
4. In addition to their work on the Council's accounts and financial systems, the External Auditors carry out Value for Money (VFM) work and the Whole of Government accounts. Outline proposals for the work to be carried out and the fees to be charged are set out in the following documents:-
 - The Annual Audit Fee Letter 2012/13 is attached as Appendix 1. This sets out work to be carried out in accordance with the Code of Audit Practice (attached as Appendix 2) and in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (attached as Appendix 3).
 - The letter shows a decrease in the total audit fee from £296,961 for 2011/12 to £178,177 in 2012/13., a reduction of 40%. The outsourcing of audit services has achieved sizeable savings.
 - The transfer of the previous Audit Commission team to Grant Thornton has also ensured that we can continue our excellent working relationship.

Finance

5. The Council has made revenue budget provision for the annual audit fee, inspection fees and grant audits. It is anticipated that any costs arising from the above audit work will be met from within existing resources.

Law

6. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1999, the Audit Commission Act, 1998, and regulations made therein.

Equality Impact

7. There are no direct implications for children and young people.

Recommendation

8. That Members note the Grant Thornton fee letter attached to this report.



.....
Iain Newman
Treasurer

Contact Officer: Jan Szczechowski
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Grant Thornton

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12 November 2012

Dear Iain

Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £178,177 which compares to the audit fee of £296,961 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

Chartered Accountants

Member firm within Grant Thornton International Ltd

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A list of members is available from our registered office.

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Our planning to date has not identified any additional work which we are required to undertake to support our VFM conclusion. We will continue to assess the Council/Authority's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee grant certification for the Council is £41,000.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarter's in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

Main Audit fee	£
December 2012	89,089
March 2013	44,544
June 2013	44,544
Grant Certification	
June 2013	41,000
Total	219,177

Outline audit timetable

We will undertake our audit planning and interim audit procedures in January to April 2013. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in September 2013 and work on the whole of government accounts return in September 2013.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January to April 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	June to September 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	January to September 2013	Report to those charged with governance	As above
Financial resilience	January to September 2013	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2013	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2012/13 are:

	Name	Phone Number	E-mail
Engagement Lead	Kyla Bellingall	0121 232 5359	kyla.bellingall@uk.gt.com
Engagement Manager	Simon Turner	0121 232 5273	simon.a.turner@uk.gt.com
Audit Executive	Pik Ling Ho	0121 212 5324	pik.ling.ho@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner (jon.roberts@uk.gt.com).

Yours sincerely



Kyla Bellingall
For Grant Thornton UK LLP

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's Code of Audit Practice.

Code of audit practice 2010

Local government bodies

March 2010

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Preface

The role of external audit in the public sector

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. External auditors in the public sector give an independent opinion on public bodies' financial statements and may review, and report on, aspects of the arrangements put in place by public bodies to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. Because of the special accountabilities attached to public money and the conduct of public business, external audit in the public sector is characterised by three distinct features:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the financial statements, but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources; and
- auditors may report aspects of their work to the public and other key stakeholders.

These features are consistent with the 'principles of public audit' as defined by the Public Audit Forum, which comprises all the national audit agencies in the UK.

The role of the Audit Commission

The Audit Commission (the Commission) is an independent body with statutory responsibilities to regulate the audit of local government and NHS bodies in England, and to promote improvements in the economy, efficiency and effectiveness of public services. We work with our partner inspectorates to assess local public services and make practical recommendations for promoting a better quality of life for local people.ⁱ

The Commission's responsibilities in relation to audit are:

- appointing auditors to local government and NHS bodies;
- setting the required standards for its appointed auditors; and
- regulating the quality of audits.

ⁱ Our partner inspectorates are: the Care Quality Commission; HM Inspectorate of Constabulary; HM Inspectorate of Prisons; HM Inspectorate of Probation; and Ofsted.

The Commission appoints auditors from the Commission's own staff and from private firms of auditors. It provides advice and support to auditors on technical matters and monitors their performance through a rigorous quality review process. Once appointed, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the Commission.

Statutory responsibilities and powers of appointed auditors

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998 (the Act). In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's *Code of Audit Practice* (the Code).

The Code of Audit Practice

The Act requires the Commission to 'prepare, and keep under review, a Code of Audit Practice prescribing the way in which auditors [appointed by the Commission] are to carry out their functions under the Act' and which embodies 'what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors'.

The Act also provides for the preparation of a different Code 'with respect to the audit of the accounts of health service bodies as compared with the Code applicable to the accounts of other bodies'.ⁱ

The Code must be read in conjunction with any regulations that are in force under section 27 of the Act.

The Commission is committed to keeping the Code up to date to reflect changes both in the operating environment of audited bodies and in auditing standards and practice, and may amend the Code where appropriate in the light of practical experience.

ⁱ This Code covers the audits of local government bodies. These comprise the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils and local probation boards and trusts. A separate Code has been prepared for the audits of NHS bodies.

The *Code* must be approved by a resolution of each House of Parliament at intervals of not more than five years. In the intervening period, the *Code* may be amended by laying proposed alterations before parliament. In addition to the *Code*, the Commission publishes separate documents that are aimed specifically at audited bodies and members of the public, including:

- *Statement of Responsibilities of Auditors and of Audited Bodies* – which highlights the different responsibilities of the auditor and the audited body, and the limits on what the auditor can reasonably be expected to do;
- *Councils' Accounts: Your Rights* – which sets out the rights of members of the public to inspect, and of local electors to question and object to, local government bodies' accounts, and explains the powers of the auditor; and
- *How to Complain* – which explains how audited bodies or members of the public can complain about the work of the Commission and its auditors.

The contents of the Code

The *Code* comprises five sections:

- general principles;
- auditors' responsibilities in relation to the financial statements;
- auditors' responsibilities in relation to the use of resources;
- reporting the results of audit work; and
- principles relating to the exercise of specific powers and duties of local government auditors.

Schedule 1 to the *Code* provides for the audit of small bodies.

The Appendix contains a glossary of terms.

Chapter 1: General principles

Status and application of the Code of Audit Practice

1 This *Code of Audit Practice* (the *Code*) has been laid before parliament under section 4 of the Audit Commission Act 1998 (the Act) and has been approved by resolution of each House of Parliament. It came into effect on 9 March 2010 and replaces the *Code* that has been in effect from 9 March 2005, as amended on 21 July 2008.

Scope of the Code

2 The *Code* prescribes the way in which auditors of local government bodies, as defined in Schedule 2 of the Act, appointed by the Audit Commission (the Commission) should carry out their functions under the Act. As with any code that attempts to cover a wide variety of circumstances, the application of the *Code* in any particular case will depend on the specific circumstances and on auditors' assessments of what is reasonable and appropriate in those circumstances. All the provisions of the *Code* are to be read and applied with that necessary qualification.

3 The Commission may wish to appoint different auditors to carry out different elements of the audit at an audited body. In such cases, auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account any relevant guidance issued by the Commission.

4 There will be circumstances in which aspects of the *Code* that are potentially applicable may be inappropriate to the audit of certain bodies, for example because of the nature of their business or the relatively small amounts of public money controlled by the bodies in question. In carrying out the audit of such bodies, auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account the nature of the business of the body and any relevant guidance issued by the Commission. In carrying out the audit of bodies with either annual income or annual expenditure below a specified financial threshold, auditors should apply Schedule 1 to the *Code*.

5 From time to time, when necessary, the Commission also issues guidance to auditors. The Commission does so under its powers under section 3(8) of the Act and Paragraph 7 of Schedule 1 to the Act, to appoint auditors and to determine their terms of appointment.

Scope of the audit and auditors' objectives

6 Because of the special accountabilities attached to public money and the conduct of public business, the scope of external audit in local government is extended to cover not only the financial statements, but also the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors' responsibilities in relation to the financial statements are covered by professional auditing standards and so the *Code* focuses more on how the wider range of functions of auditors appointed by the Commission should be carried out.

7 Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the *Code*, the audited body's:

- a. financial statements; and
- b. arrangements for securing economy, efficiency and effectiveness in its use of resources.

8 Auditors should plan and carry out their audits to meet these audit objectives and comply with the requirements of the *Code*. The appointed auditor is responsible for carrying out an audit that meets these objectives.

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

The audit approach

10 Auditors should carry out the audit economically, efficiently and effectively, and in as timely a way as possible. In framing an audit approach to meet the objectives of the audit, they should:

- a. plan and perform the audit, on the basis of their assessment of audit risks, determining where to direct their work and to allocate resources to ensure that the audit is tailored to the circumstances of the audited body. They should obtain such information and explanations as they consider necessary to provide themselves with sufficient evidence to meet their responsibilities under statute and the *Code*. Auditors are not expected to review or perform detailed tests of all financial or other systems and processes or of all accounting procedures and transactions;
- b. have regard to the principle that each part of the audit needs to be viewed in the context of the whole, or integrated, audit. No one part stands alone and work in relation to one element of the audit informs work in relation to other elements;
- c. have regard to the fact that local government bodies operate and deliver their services in a range of partnerships and other forms of joint working or contracts with other public, private or third sector bodies. Auditors should therefore consider whether they need to follow public money into and across such arrangements;

- d. discuss with the audited body the need for timely and effective production of working papers and other information required for audit, so that the process can be carried out as efficiently and effectively as possible;
- e. establish effective coordination arrangements with internal audit. Auditors should seek to place maximum reliance on the work of internal audit whenever possible;
- f. cooperate with other external auditors and the Commission, and provide information to the Commission (both locally and nationally), to enable knowledge of good practice to be transferred effectively across local government and from one audited body to another;
- g. establish effective coordination arrangements, including for sharing information, with the Commission, its partner inspectorates and other review agencies and other appointed auditors, to minimise the burden of regulation on audited bodies, so far as is consistent with the discharge of auditors' responsibilities, and to make best use of overall audit and inspection resources; and
- h. adopt a constructive and positive approach wherever possible, thereby supporting and encouraging worthwhile change, while providing independent scrutiny and assurance, and fulfilling their statutory and professional responsibilities.

Integrity, objectivity and independence

11 Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired.

Data security and confidentiality

12 Auditors and their staff must ensure that all data received or obtained during the audit is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

Chapter 2: Auditors' responsibilities in relation to the financial statements

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

Function	Statute
1 To be satisfied that the accounts comply with statutory requirements.	s5(1)(b), s5(1)(c)
2 To be satisfied that proper practices have been observed in compiling the accounts.	s5(1)(d)
3 To express an opinion on the statement of accounts.	s9(1)(b)

13 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of financial transactions;
- maintain proper accounting records; and
- prepare financial statements in accordance with the relevant accounting framework.

14 The audited body is also responsible for preparing and publishing with the financial statements a statement on internal controlⁱ and a remuneration report and for preparing a whole of government accounts return. Some local government bodies publish other information, such as an annual report, alongside the financial statements.

15 At the conclusion of the audit of the accounts, auditors are required to give their opinion on the financial statements, including:

- a. whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;
- b. whether they have been prepared properly in accordance with the relevant accounting framework; and
- c. for local probation boards and trusts, on the regularity of their expenditure and income.ⁱⁱ

i This is known as the Annual Governance Statement for local authorities.

ii Although local probation boards and trusts are local government bodies for the purposes of this Code, they are not local authorities. In particular, local probation boards and trusts are subject to a different accounting framework from other bodies covered by this Code. Where relevant, requirements that apply specifically to local probation boards and trusts are highlighted in the Code.

16 In carrying out this responsibility, auditors should provide reasonable assurance that the financial statements:

- a. are free from material misstatement, whether caused by fraud or other irregularity or error;
- b. comply with statutory and other applicable requirements; and
- c. comply with all relevant requirements for accounting presentation and disclosure.

17 Auditors should review, and report on as appropriate, other information published with the financial statements, including the statement on internal control and the remuneration report.

18 In reviewing the statement on internal control, auditors should take into account the knowledge of the audited body that they gain through carrying out audit work in relation to the body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

19 Auditors should also review and report on the whole of government accounts return.

20 In carrying out their responsibilities in relation to the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time, and have regard to any other relevant guidance and advice issued by the Auditing Practices Board (APB), including that covering the work of auditors in relation to audited bodies' statements on internal control. Auditors should also comply with the APB's Ethical Standards currently in force, and as may be amended from time to time.

Chapter 3: Auditors' responsibilities in relation to the use of resources

This section sets out how auditors fulfil the following statutory function. References in the table are to the Audit Commission Act 1998.

Function	Statute
1 To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.	s5(1)(e)

21 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

22 The audited body is responsible for reporting on aspects of these arrangements as part of its annual statement on internal control.

Auditors' responsibilities in relation to the use of resources

23 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility, auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on these arrangements. In doing so, auditors must have regard to the criteria specified by the Commission.

24 Auditors' sources of assurance in discharging their responsibilities in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources are:

- the audited body's whole system of internal control as reported on in its statement on internal control;
- the results of the work of the Commission, its partner inspectorates and other review agencies, if the results of the work have an impact on their responsibilities;
- work specified by the Commission in support of carrying out its functions; and
- any other work that auditors consider is necessary to discharge their responsibilities.

25 Auditors should normally place reliance on the reported results of the work of the Commission, its partner inspectorates and other review agencies in relation to corporate or service performance without carrying out procedures to assess the quality of the work performed and without re-performing any of the work, except where particular circumstances or information lead them to conclude that it would not be reasonable to place reliance on such reported results.

26 In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. The audited body is responsible for deciding whether and how to implement any recommendations made by auditors. In making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

Considerations relating to planning audit work in relation to the use of resources

27 In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors should consider and assess the significant risks of giving a wrong conclusion on these arrangements. The auditor's assessment of what is

significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors should discuss their assessment of these audit risks with the audited body.

28 Auditors' assessment of risk should reflect their consideration of the relevance and significance of the potential business risks faced by all bodies of a particular type, and other risks that apply specifically to individual audited bodies. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body, and are relevant to auditors' responsibilities under the *Code*. Auditors should also consider the audited body's own assessment of the risks it faces and the arrangements put in place by the body to manage and address its risks. In assessing risks in relation to audited bodies' arrangements to secure economy, efficiency and effectiveness, auditors should have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of the Commission, its partner inspectorates and other review agencies; and
- relevant improvement needs, identified in discussion with the Commission, its partner inspectorates and other review agencies.

29 On the basis of their risk assessment, auditors should plan their work and decide whether to:

- highlight the risk to the audited body;
- defer any work in the light of current or planned work by the body or the Commission, its partner inspectorates and other review agencies; or
- carry out work in relation to specific risks to form a view on the adequacy of aspects of the body's stewardship and governance and corporate performance management and financial management arrangements.

30 In considering whether to carry out work in relation to a particular risk, auditors should have regard to the potential for them to contribute to improvement in the delivery of the functions of the audited body. Such work may include working with others in order to assess how well risks arising from the audited body's involvement in partnerships or other joint-working arrangements are being addressed.

Work specified by the Commission

31 The Commission may, from time to time, specify additional elements of work to be carried out by auditors so that it can fulfil its statutory functions. Work mandated by the Commission will be in addition to auditors' principal responsibilities.

Chapter 4: Reporting the results of audit work

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

Function	Statute
1 To comply with the <i>Code</i> .	s5(2)
2 To consider whether, in the public interest, to report on any matter that comes to the attention of the auditor so that it may be considered by the body concerned or brought to the attention of the public.	s8
3 To certify the completion of the audit.	s9(1)(a)
4 To express an opinion on the statement of accounts.	s9(1)(b)
5 To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	s11(3)

Outputs from the audit

32 The results of audit work will be reported in a range of outputs that, unless specified otherwise, should be addressed to the audited body.

33 The following outputs should be issued at key points in the audit process:

- a. audit planning document;
- b. oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of auditors' work;
- c. a report to those charged with governance summarising the conclusions of the auditor;
- d. an audit report including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;ⁱ
- e. a certificate that the audit has been completed in accordance with statutory requirements; and
- f. an annual audit letter.

ⁱ For local probation boards and trusts the opinion on the financial statements includes the auditor's opinion on the regularity of expenditure and income.

34 In addition, the following outputs, the need for which may arise at any point during the audit process, should be issued where appropriate:

- a. a report dealing with any matter that the auditor considers needs to be raised, in the public interest, under section 8 of the Act;
- b. any recommendations under section 11(3) of the Act; and
- c. information to be reported to the Commission in a specified format to enable it to carry out any of its other functions or to assist its partner inspectorates and other review agencies and the National Audit Office in carrying out their functions.

Principles of audit reporting

35 Auditors should maintain regular communications with audited bodies and ensure that emerging findings are discussed on a timely basis at the level within the audited body that auditors consider to be most appropriate.

36 All outputs from the audit should be:

- clear and succinctly expressed;
- relevant to the needs of the audited body;
- explicit when drawing conclusions and making recommendations; and
- issued promptly at the appropriate point in the audit process.

37 Auditors should report to the audited body in such a way as to enable its members or officers to understand:

- the nature and scope of the audit work;
- any significant issues arising from auditors' work;
- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

38 Auditors' recommendations, arising from their work in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, should:

- be specific about what action the audited body should consider taking;
- be useful, practicable and based on an assessment of the benefits to the audited body of implementing them; and
- take account of the costs of implementation and report where these are likely to be significant.

Audit planning documents

39 Audit planning documents should set out how auditors intend to carry out their responsibilities, in the light of their assessment of risks. Auditors should explain their assessment of risks and discuss audit planning documents with those charged with governance. They should include provision for effective follow-up arrangements to review whether the audited body has properly considered any matters that have been identified previously and, where appropriate, has implemented agreed actions. Planning documents should also demonstrate explicitly how

planned audit work will relate to those improvement planning priorities, relevant to the responsibilities of auditors, identified following any relevant assessments of performance by the Commission. Planning documents should be kept under review and updated as necessary.

Reports or memoranda on individual aspects of audit work

40 Auditors may report the results of, and matters arising from, specific elements or parts of the audit in reports, memoranda or properly evidenced presentations. Such reports, memoranda or presentations should be prepared and issued or delivered as soon as possible after completion of the work.

Reports to those charged with governance

41 Auditors' reports to those charged with governance should cover the full range of auditors' responsibilities under statute and the *Code*. However, these reports do not need to duplicate significant matters previously communicated to those charged with governance. Auditors should satisfy themselves that these reports are considered at the level within the audited body that they consider to be most appropriate.

The audit report

42 The audit report covers all the responsibilities of the auditor under section 5 of the Act. Therefore, it comprises the auditor's opinion on the financial statements and, having regard to relevant criteria, the auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit report should also include, by exception, any report by the auditor on:

- the statement on internal control;
- any matters that prevent the auditor being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- any matters reported in the public interest in the course of, or at the conclusion of, the audit;
- any recommendations made under section 11(3) of the Act; and
- the exercise of any other special powers of the auditor under the Act.

Auditors' certificates

43 Auditors are required to certify the completion of each audit. The effect of the certificate is to close the audit. This marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.

44 There will be occasions when audit work in relation to the financial statements is substantially completed but the audit cannot be concluded – for example, because there are outstanding matters to be resolved arising from action or possible action under the Act. Auditors should consider issuing their audit report, including the opinion and the conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, as soon as the necessary audit work has been carried out, subject to any exception or other qualification that the auditor may need to consider.

Annual audit letters

45 The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The annual audit letter should cover the work carried out by auditors since the previous annual audit letter was issued and matters previously reported to those charged with governance.

46 The annual audit letter should be addressed to all the members of the audited body and the auditor should ensure that all members receive a copy. Where the audited body does not arrange for distribution to all members, the auditor should make the necessary arrangements. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors should encourage these bodies to publicise the availability of the letters.

47 The auditor should issue the annual audit letter to the audited body as soon as possible after completion of the audit and, other than in exceptional circumstances, no later than a date to be specified by the Commission, following the end of the financial year to which the accounts relate.

Reports in the public interest

48 Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit, so that it may be considered by the body concerned or brought to the attention of the public.

49 Auditors should consider whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit. An immediate report should be made where auditors consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

50 In preparing and issuing reports in the public interest, auditors should tailor their approach to the urgency and significance of their concerns.

Recommendations under section 11(3) of the Act

51 The auditor should consider whether to make any written recommendations to the audited body under section 11(3) of the Act, which need to be considered and responded to publicly. Where the auditor considers it necessary to make such recommendations, these can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body.

Information to be reported to the Commission

52 From time to time auditors may be required to report information to the Commission in a specified format to enable it to carry out its functions, including assessments of performance at relevant bodies, or to assist its partner inspectorates and other review agencies and the National Audit Office to carry out their functions.

Chapter 5: Principles relating to the exercise of specific powers and duties of local government auditors

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

Function	Statute
1 To give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.	s15 and s16
2 To apply to the court for a declaration that an item of account is contrary to law.	s17
3 To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review.	s19A, s19B, s19C and s24

53 In addition to the general functions of auditors set out in previous sections of the *Code*, auditors of local government bodies have specific powers and duties under the Act. In exercising any of these specific powers and duties, including when they are carrying out audits of small local government bodies under Schedule 1, auditors should tailor their approach to the particular circumstances of the matters under consideration.

54 Where any representations are made or information is provided that is relevant to the audit, or matters relevant to the audit otherwise come to their attention, auditors should consider whether the matter needs investigation and action under their specific powers or whether it can be considered more effectively within planned work programmes and audit reporting arrangements under their general audit powers.

55 In considering whether to exercise any of their specific powers under the Act, auditors should apply a balanced and proportionate approach in determining the time and resources to be spent on dealing with matters that come to their attention. They should consider:

- the significance of the subject matter;
- whether there is wider public interest in the issues raised;
- whether the substance of the matter has previously been considered by the body's auditor;
- the costs of dealing with the matter, bearing in mind that these fall directly on the taxpayer; and
- in the case of objections, the rights of both those subject to objection and the objector.

Schedule 1: The audit of small bodies

Introduction

S1.1 This Schedule sets out the approach to be adopted for the audit of those bodies (referred to in this Schedule as small bodies) with either annual income or annual expenditure below a financial threshold, which may change from time to time and is prescribed by relevant regulations.ⁱ

Governance and accountability

S1.2 It is the responsibility of small bodies to put in place proper arrangements to ensure the proper conduct of their financial affairs, and to monitor the adequacy and effectiveness of those arrangements in practice. Small bodies are required to maintain proper accounting records and control systems and to maintain an adequate system of internal audit of those accounting records and control systems.

S1.3 Small bodies are responsible for preparing and publishing, and providing the auditor with, the accounting statements prepared for the financial year, together with such additional information and explanation as is necessary to provide sufficient evidence that they have maintained adequate systems of internal control and internal audit throughout the financial year.

The audit approach

S1.4 Auditors of small bodies should undertake an examination of the accounts and additional information and explanation provided by the body.

S1.5 Auditors should meet their responsibility by:

- reviewing compliance with the requirements for the preparation of the accounts;
- carrying out a high-level analytical review of financial and other information provided to the auditor; and
- reviewing such additional information and explanation as is necessary to provide sufficient evidence that the body has maintained an adequate system of internal control and internal audit throughout the financial year.

ⁱ Regulations made under section 27 of the Act prescribe a financial threshold for the purposes of determining the type of financial statements that a body is required to prepare and for other purposes.

S1.6 Where, on the basis of the auditor's reviews, the auditor requires further evidence in relation to any relevant matter, additional testing should be undertaken to address the auditor's concerns.

S1.7 When the auditor has completed an examination of the accounts and additional information and explanation provided, the auditor gives an opinion on the accounting statements and certifies the completion of the audit. Auditors provide assurance in the form of an opinion whether, on the basis of their review, the accounts and the other information provided are in accordance with the specified requirements and that no matters have come to their attention giving cause for concern that relevant legislative and regulatory requirements have not been met.

Appendix: Glossary

Accounting statements

The annual income and expenditure account, statement of balances or record of receipts and payments that a small body is required to prepare in accordance with, and in the form specified in, any annual return required by proper practices in relation to accounts.

This definition applies to small bodies only. Other audited bodies are required to prepare a statement of accounts. (See also 'Financial statements').

Act (the)

The Audit Commission Act 1998.

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Annual report

Although not required to do so, some local government bodies produce and publish other information, such as an annual report, alongside the financial statements. The annual report describes the aims and achievements of an audited body during a particular year and may include a summarised version of the financial statements.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the *Code* to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, Ethical Standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The *Code of Audit Practice*.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Small bodies are not required to prepare a statement of accounts. They are required to prepare accounting statements.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Local government bodies

Bodies other than NHS bodies to which the Commission is responsible for appointing auditors, as set out in Schedule 2 of the Act. These include, for the purposes of applying the *Code*, local authorities, local councils (parish and town councils), police authorities, fire authorities, national park authorities and local probation boards and trusts.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements. The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected or appointed members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Partner inspectorates and review agencies

The Commission’s partner inspectorates are those organisations that are responsible for carrying out inspections, including bodies with statutory inspection functions such as Ofsted, the Care Quality Commission, and Her Majesty’s Inspectorate of Constabulary. Review agencies include other bodies that have regulatory responsibilities in relation to local government bodies, including government departments, the government offices and relevant regulators of local government professions.

Regularity (of the expenditure and income of local probation boards and trusts)

Whether, subject to the concept of materiality, the expenditure and income of local probation boards and trusts have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Small bodies

Audited bodies with either annual income or annual expenditure (whichever is the higher) below a financial threshold, which may change from time to time and is prescribed for the purposes of regulations made under section 27 of the Act. The financial threshold is prescribed for the purposes of determining the type of financial statements that a body is required to prepare and for other purposes.

Statement on internal control

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation boards and trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in *Managing Public Money*.

Third sector

The third sector includes voluntary and community organisations, charities, social enterprises and cooperative and mutual organisations.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'. In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation boards and trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk



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Statement of responsibilities of auditors and of audited bodies

Local government, March 2010

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice (the Code), which prescribes the way auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and Paragraph 7(3) of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits of local government bodies and so supports the Code. A separate statement has been prepared for the audits of NHS bodies.

2 This statement serves as the formal terms of engagement between the Audit Commission's appointed auditors and local government bodies.ⁱ It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members and senior officers of the body.

3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that because auditors must not prejudice their independence of the audited body, the role of the appointed auditor does not include providing financial or legal advice or consultancy to the audited body.

4 Auditors may wish to refer to this statement in audit planning documents, annual audit letters, reports and other audit outputs.

Introduction to responsibilities

5 Those responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

i This statement covers the audits of local government bodies. These include the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils, local probation boards and trusts and integrated transport authorities and passenger transport executives.

6 In discharging this accountability, public bodies are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal.ⁱ They are also required to report on their arrangements in their statement on internal control.ⁱⁱ

7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals may also have specific responsibilities. Local authorities have designated statutory officers, each of whom has a specific role in relation to accountability and control. For local authorities, these include:

- the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
- the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
- an officer with responsibility for the proper administration of the authority's financial affairs.

8 In carrying out their work, auditors will:

- plan and manage the audit in a timely, professional and efficient manner;
- plan to complete work within agreed deadlines;
- maintain close liaison with the audited body; and
- provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.

9 In meeting their responsibilities, auditors obtain representations from management, both orally and in writing, on specific aspects of the audit.

10 The following paragraphs summarise the specific responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

Responsibilities in relation to the financial statements

11 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place, and review the effectiveness of, its system of internal control, including arrangements to ensure the regularity and lawfulness of transactions;ⁱⁱⁱ

i The various local government bodies covered by this statement are constituted differently and their governance arrangements will vary accordingly.

ii Known as Annual Governance Statement for local authorities.

iii For example, Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended, requires local authorities and other specified bodies to 'conduct a review at least once in a year of the effectiveness of its system of internal control'.

- maintain proper accounting records; and
- prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income and that they are in accordance with applicable laws, regulations and accounting policies.

12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements and an annual report for each financial year. The financial statements must give a true and fair view of:

- the financial transactions of its pension fund during the year; and
- the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

13 The audited body is also responsible for preparing and publishing with its financial statements a statement on internal control and, where required to do so, a remuneration report.ⁱ Local authorities and other specified bodies also prepare a whole of government accounts return. Although not required to do so, some local government bodies publish other information, such as an annual report, alongside the financial statements.

14 In preparing their financial statements, audited bodies are responsible for:

- preparing realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- assigning responsibilities clearly to staff with the appropriate expertise and experience;
- providing necessary resources to enable delivery of the plan;
- maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
- ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
- ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. Specifically, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.

15 If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided

ⁱ Local authorities prepare an Annual Governance Statement which includes a statement on internal control. Regulation 4(4) of the Accounts and Audit Regulations 2003, as amended, requires that a statement on internal control is included with an authority's accounts.

to this timetable, or is provided to an unacceptable standard, the auditor will incur additional costs in carrying out any extra work that is necessary. The Commission will charge an additional fee if the additional work is substantial.

16 In carrying out their responsibilities in relation to the financial statements, auditors have regard to the concept of materiality.

17 Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

18 Subject to the concept of materiality, auditors of local probation boards also provide reasonable assurance on the regularity of expenditure and income. In carrying out an audit, auditors do not perform detailed tests of all transactions. Therefore the audit process should not be relied upon to disclose all unlawful transactions or events that may have occurred or might occur.

19 Auditors plan and perform their audit on the basis of their assessment of risk. Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

20 Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. However, they do not provide assurance to audited bodies on the operational effectiveness of specific systems and controls or their wider system of internal control. Where auditors identify any weaknesses in such systems and controls, they draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

21 Auditors review whether the statement on internal control has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information the auditor is aware of. In doing so, auditors take into account the knowledge of the audited body gained through their work in relation to the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control covers all risks and controls, and auditors are not required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

22 Auditors also review for consistency other information that is published by the audited body alongside the financial statements, such as an annual report. If auditors have concerns about the consistency of any such information they will report them to those charged with governance.

23 At the conclusion of the audit of the accounts, auditors give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its expenditure and income for the year in question;
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- for probation boards, on the regularity of their expenditure and income; and
- for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.

24 In the case of local authorities and other specified bodies, auditors also give their opinion on whether the whole of government accounts return has been properly prepared.

25 Auditors of local authorities that are the administering authorities for a local authority pension fund include a separate opinion on the pension fund accounts within their report on the financial statements. They also issue a separate opinion on the financial statements contained in the pension fund annual report.

Electronic publication of the financial statements

26 Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication presents accurately the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. Similarly, where the audited body wishes to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders, it is responsible for ensuring that these are presented accurately.

27 The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's prior written agreement. This enables the auditor to review the process by which the financial statements to be published electronically are derived from the financial information contained in the manually signed financial statements, check that the proposed electronic version is identical in content with the manually signed financial statements and check that the conversion of the manually signed financial statements into an electronic format has not distorted the overall presentation of the financial information.

28 The examination of the controls over the electronic publication of audited financial statements is beyond the scope of auditors' responsibilities in relation to the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

29 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help it deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

30 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

31 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In doing so they are required to have regard to criteria specified by the Audit Commission.ⁱ In meeting this responsibility auditors review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements.

ⁱ These criteria are published on the Commission's website.

32 In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of these risks with the audited body.

33 When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code;
- other business risks that apply specifically to individual audited bodies;
- the audited body's own assessment of the risks it faces; and
- the arrangements put in place by the body to manage and address its risks.

34 In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

35 Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

36 In reviewing the audited body's arrangements for the use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors must avoid giving any perception that they have any role in the decision-making arrangements of the audited body.

37 Auditors do not provide assurance to audited bodies on the operational effectiveness of specific aspects of their arrangements for the use of resources. Neither can they be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

38 In reviewing audited bodies' arrangements for producing relevant and reliable data and information to support decision making and manage performance, auditors may review the data supporting specific performance information. Audited bodies are responsible for applying appropriate data quality standards, collecting data that is fit for purpose and, where applicable, conforms to prescribed definitions. Audited bodies are also responsible for satisfying themselves that performance information is reliable and accurate.

39 Where auditors identify significant misstatements or errors in specific performance information or the underlying data, they draw them to the attention of the audited body, but they do not provide assurance to audited bodies on the accuracy or reliability of performance information or the underlying data.

40 Audit work in relation to the audited body's arrangements to ensure it promotes and demonstrates the principles and values of good governance and does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Neither is it the auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they are alert to the possibility and act promptly if grounds for suspicion come to their notice.

41 The reviews arising from national studies developed by the Commission, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

42 At the conclusion of the audit, auditors report their value for money conclusion on:

- the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- whether significant matters have come to their attention which prevent them from concluding that the audited body has put in place proper arrangements.

Specific powers and duties of auditors

43 Auditors have specific powers and duties under the Audit Commission Act 1998 (the Act) in relation to matters of legality and, for local authorities, electors' rights.

44 Auditors must:

- consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention (section 8 of the Act); and
- give electors the opportunity to raise questions about a local authority's accounts, and consider and decide upon objections received from electors in relation to the accounts (sections 15 and 16 of the Act).

45 Auditors may decide:

- that the audited body should consider formally, and respond to in public, recommendations made in an audit report (section 11(3) of the Act);
- to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful (sections 17 and 19A of the Act), if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body; and
- to apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 24 of the Act).

46 Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

Reporting the results of audit work

47 Auditors provide:

- audit planning documents;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors' work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
- an annual audit letter addressed to the audited body, which is based on the report to those charged with governance.

48 Audit reports are addressed to officers or members of the audited body, as appropriate. Auditors do not have responsibilities to officers or members in their individual capacities (other than observing the rules of natural justice in the exercise of auditors' specific powers and duties in relation to electors' rights) or to third parties that choose to place reliance upon the reports from auditors.

49 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report under section 8 of the Act;
- recommendations under section 11(3) of the Act; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its functions, including assessments of performance at relevant bodies, or to assist other bodies, such as the National Audit Office, in carrying out their functions.

50 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors are drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.

Ad hoc requests for auditors' views

51 There may be occasions when audited bodies seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are as helpful as possible, but are precluded from giving a definite view in any case because auditors:

- must not prejudice their independence by being involved in the decision-making processes of the audited body;
- are not financial or legal advisers to the audited body; and
- may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

52 In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

Grant claims and returns – certification

53 Auditors may be required by the Commission to carry out work to support certification of grants or returns. Auditors carry out this work on an agency basis on behalf of the Commission. A separate statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors covering this work can be found at www.audit-commission.gov.uk

Access to information, data security and confidentiality

54 Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or third sectors. Auditors may also require a person holding or accountable for any relevant document to give them such information and explanation as they consider necessary.

55 There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation, although they are subject to the Environmental Information Regulations 2004. Audited bodies wishing to disclose information obtained from an auditor, which is subject to a statutory restriction on its disclosure, must seek the auditor's consent to that disclosure.

56 Auditors protect the integrity of data relating to audited bodies and individuals either received or obtained during the audit. They ensure that data is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

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This document is available on our website

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk



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Report of the Treasurer

Review of Risk Management Activities in 2012 and priorities for 2013/14

Purpose of report

1. This report advises of key developments in the Council’s risk management and insurance activities in the preceding 12 months and sets out priorities for 2013/14

Background

2. Risk management remains crucial to all aspects of the Council’s operations and is also integral to good corporate governance.

Risk Management activities in 2012

3. The Risk Management Strategy and guidance has been reviewed and is attached as **Appendix 1**. The position with regard to the treatment of partnership risks has been amended. Whilst partnership working continues to be an important part of the Council’s operations, work undertaken by the Risk Champions Group shows that risks rarely attach *explicitly* to partnerships in isolation. With this in mind, revised risk guidance says that where risks are apparent, they can be accounted for and managed by the lead team, division or directorate for that partnership.
4. Corporate Board receives half yearly reports on Corporate Risks. The most recent report was on the 8th January 2013. This report identified risk owners, usually directors or assistant directors and identifies controls/actions to assist with ameliorating the risks. This is a fluid process to which the Risk Champions Group also contributes via the quarterly *Risk Assurance Protocol*. The risks identified by Corporate Board on 8th January 2013 are attached as **Appendix 2**.
5. For the first time, a risk management awareness briefing featured on the new members’ induction course in May 2012. This was well received and should augment the longer standing risk management awareness sessions open to all members and made available via the Members Training Brochure.
6. Risk reduction and protection measures have been undertaken with funding from the *Risk Management Projects* budget. This funding has assisted with a number of improved security and safety projects. The budget is match funded i.e. for every £1 spent from it, other directorates or schools must match the funding. Details of spend on this budget are shown in **Table A**. £195k is currently identified in 2013/14 for similar purposes.

Table A – Summary of spend, *Risk Management Projects* 2012/13 (identified)

Spend Area	£’000
Physical security	80
Fire alarms and fire prevention works	83
Intruder alarms and upgrades	13
Training and other safety improvements	7
Total	183

Insurable risks and insurance in 2012

7. In keeping with one of the priorities identified in last year's report, an external actuarial report of the Council's insurance reserves and provisions was completed in summer 2012. **Table B** below shows a brief summary of the results of study. The report reaffirmed the level of balances required for this area and shows the Council is adequately funded in this regard.

Table B – Summary of *Actuarial Fund Study Report*, estimated requirement (£'s) needed to meet Council's civil liability claims (employers and public)

Statement of Accounts	Narrative	£M's
Provision	Consistent with F.R.S. 12 (I.A.S. 37). Those claims already lodged with the Council and to which a financial reserve is assigned. In insurance terms known as 'reported outstanding claims'.	4.38
Reserve	Estimated for liability claims not yet lodged with the Council but based on Dudley's own historical and specialist actuarial data. In, insurance terms known as 'incurred but not reported' (I.B.N.R.)	2.86
	<i>Municipal Mutual Scheme of Arrangement</i>	1.55
	Total insurance provisions and reserves as at 31st March 2012	8.79

8. The item within the Reserve shown as *Municipal Mutual Scheme of Arrangement* is a sum for the Council's liability in relation to this clawback scheme. The former 'mutual' and major insurer of many local authorities until 1993 has now officially declared that it is unable to meet its anticipated future liabilities and therefore the so called '*clawback*' scheme is triggered. The full financial impact is not yet known but the reserve as above is considered to be adequate.
9. In keeping with other priorities outlined in last year's report, a sample number of schools have been valued by the Council's insurers. This greatly assists in having confidence in *sums insured* i.e. neither over nor under insured.
10. Schools acquiring academy status can no longer be insured by the Council and consequently are removed from the Council's insurance programme at conversion. However such is the nature of liability claims, notably personal injury claims, the Council remains on cover, on a 'claims incurred' basis. This will gradually recede in keeping with civil procedures relating to personal injury claims.

Priorities for 2013/2014

11. The Council faces many radical changes and pressures across a wide area of its functions. Consequently the identifying of risks, prioritising those *most* likely to cause damage to the Council and controlling them as effectively as possible, is of paramount importance.
12. Spending of *Risk Management Funding* (£195k) will be managed in conjunction with both the Council's corporate property and security strategies i.e. directed to areas giving potential for most serious losses/damage or safety concerns.
13. Legislation giving rise to major changes in civil procedures for dealing with *Personal Injury* claims (Employers and Public liability) and due to come into force from 1st April 2013, has been very recently deferred (8th January 2013 notice). The Risk Manager will continue to liaise with relevant officers as and when the Ministry of Justice issues definitive advice.

Finance

14. There are no immediate financial implications arising from this report other than those explicitly mentioned under paragraph 7.

Law

15. The Council has a statutory responsibility for managing risks as laid out under Section 4 of the Accounts and Audit Regulations 2003 (amended 2006)

Equality impact

16. There are no equality issues arising from this report.

Recommendations

17. That the committee:
 - Notes the risk management activities set out in this report.
 - Approves the Risk Management Strategy and Guidance set out in Appendix 1
 - Notes and comments on the Corporate Risks as set out in Appendix 2



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Iain Newman
Treasurer

Contact Officer: Sara McNally, 01384 815346. sara.mcnally@dudley.gov.uk

Risk Management Strategy incorporating Risk & Assurance Protocol Guidance

2013-14



Risk Management Strategy and Assurance Protocol Guidance (Reviewed Dec 2012)

Introduction

The Risk Management Strategy within Dudley MBC will follow recognised principles encompassing the Risk Assurance Protocol process, namely:

- Risk identification and analysis should be undertaken at the earliest opportunity in the business processes
- Emphasis is placed upon assigning risk ownership and mitigating actions
- A central, corporate risk register should be used by all directorates for recording and updating risks
- Mitigating actions should be regularly reviewed and tested for efficiency and effectiveness
- Explicit exposure to partnership working risks are also assessed and documented
- Project risks should be managed in accordance with the Project Management Toolkit

The corporate risk register is the JCAD Risk system.

The Risk Assurance Protocol (R.A.P.) is required to be signed by each Director every quarter, to give assurance that all the risks and mitigating actions for his/her directorate have been reviewed and monitored. Audit Services assess compliance with the RAP when undertaking programmed risk management audits.

While primary responsibility for risk management sits with each director, the Quarterly Performance Monitoring process seeks to report the most important (“corporate”) risks to Corporate Board and to elected members, via the *Quarterly Performance Management Report*.

Practical Guidance

The purpose of this guidance is to assist with the identification, scoring, review and management of risks. Revisions have been made to the guidance to reflect experience of working with the R.A.P. and to take account of issues raised by Corporate Board, Risk Champions and Audit Services in relation to:

- Moderation of risks – to ensure that a complete range of risks are managed at an appropriate level and that risks are ranked consistently.
- Corporate risks – definition of the criteria to ensure that the most important risks (and only those) are reported to Corporate Board and elected members.
- Partnership risks – ensuring that risks explicitly relating to the Council’s exposure from partnership working are properly reflected.

A sample R.A.P. is attached as an Appendix. The sections in this guidance are structured around the questions in the R.A.P..

Have risks been clearly identified and adequately described?

Firstly, what is a risk? The corporate definition is

“Uncertainty of outcome, whether positive opportunity or negative threat”

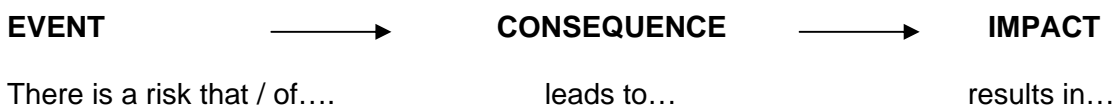
Priority risk considerations therefore are:

- New legislation/developments etc.
- Volatile/transient e.g. extreme weather/political change
- Historical evidence e.g. past problems
- Persistent but serious Audit breaches
- Prosecutions
- Early warning indicators
- Wider intelligence

The following would not **ordinarily** be included within the risk register:

- Routine operations running well with no evidence to the contrary.
- Areas giving little or no historic evidence of volatility.
- Not merely due to a ‘general lack of resources’.

Risk identification is concerned with identifying the events that can impact on the business objectives. It may be helpful to think in terms of the following phrases and to maintain focus around Dudley M.B.C. and its responsibilities in the first instance



A risk simply expressed as “failure to complete project x or achieve objective y” is unlikely to be a meaningful risk and is unlikely to help when it comes to the design of mitigating actions. Therefore all risks should be articulated in a way that makes them understandable to the layperson and **not** written in jargon or acronyms.

In order to ensure the completeness of risks, it **may** be helpful to consider the following categories (not all of these may be relevant or they may not throw up significant risks in every area of the Council’s business and some risks will fall into more than one category):

- | | |
|---------------------------|--------------------|
| • Competitive | • Environmental |
| • Financial | • Legal |
| • Partnership/Contractual | • Service Delivery |
| • Physical | • Political |
| • Professional | • Reputational |
| • Social | • Technological |

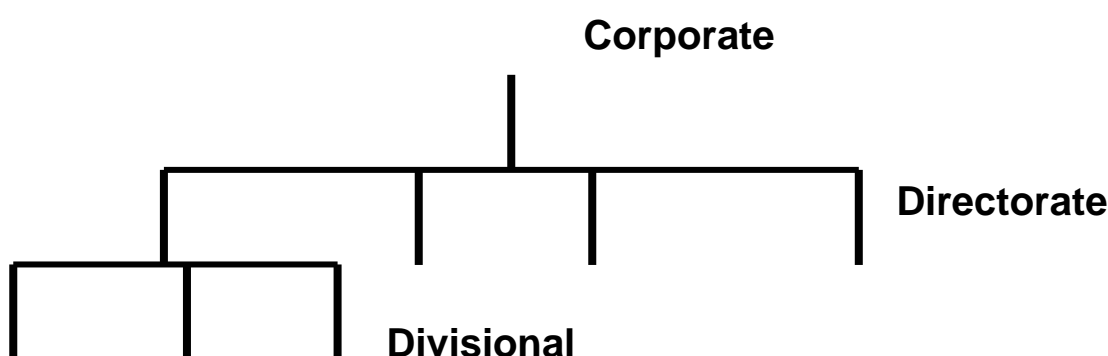
Risk identification should be repeated regularly to ensure that new risks arising are identified and brought into the risk profile as appropriate, for example:

- An adverse event (or a “near miss” event occurring either within Dudley MBC or another organisation).
- Something new e.g. a project, partnership, or very different service and/or new funding stream.
- As a result of ongoing management review, e.g. budget pressures, unexpected demand for service, etc.
- From changes in legislation.

Risks should be recorded on the JCAD system. Training and support in the use of this system is available from the Risk Management and Insurance Team.

Risk Register Levels

For manageable reporting and risk tolerance standards JCAD Risk has been structured in the following way:



Corporate - risks at this level will be **owned by Corporate Board or Directors** and should be:

- Primarily strategic, relating to key objectives or functions. Usually spanning several business planning years and several or all directorates - e.g. future funding scenario, demographics, pay structures, asset utilisation/disposal and high-level business continuity/emergency planning. It is expected that Directors/Board will identify this level of risks and will formally review them at least twice per annum. Audit Committee will also receive a risk management report and details of corporate risks not less than annually.

Directorate - risks at this level are to be owned by the senior management within directorates and should include:

- Probably fundamental to one or several key objectives of individual directorates. Expectation that Directors/Assistants would own and report to Board at his/her discretion - e.g. Waste disposal, Children in Care, Transforming Social Care

Divisional - risks at this level should be:

- Mainly key operational, unique to a division but would encompass most important or escalated risks from team levels where appropriate. Escalated to directorate level at the discretion of DMT/DMG's.

Entry of risks below this level on JCAD is discretionary.

Are the risks still valid?

Existing risks should be reviewed to ensure all aspects of the risk and its management are still valid. In this regard, risk owners should remain cognizant of risk volatility, new or revised controls and the need for accurate ratings with regard to impact and likelihood. In other words the transient and volatile nature of risks must be acknowledged and managed accordingly.

New Risks -

It is vital to consider gaps in risk registers i.e. are there any new areas of risks that are not considered. In this regard, management processes must ensure mechanisms are in place to facilitate this, e.g. at management meetings or business planning sessions. A separate mini guide is available on how to carry out a review on JCAD and the importance of the diary/letters tab.

Obsolete Risks -

Risks should not be deleted from the JCAD system. However, where a risk ceases to be relevant it should be given the status "withdrawn" in the system. The diary facility in JCAD should be used to record the reason for withdrawal of the risk. Should a risk be 'withdrawn' for a period in excess of 12 months then it will be deleted from JCAD by the Risk Management section as part of the system housekeeping.

Risk ownership and monitoring -

In determining risk ownership, there is a balance to be struck:

- Ownership of a large number of risks at too high a level may be ineffective.
- Ownership at too low a level would lead to the proliferation of risks and confuse the reporting to senior levels.

A risk owner should be an officer with authority to review and enforce the processes to manage the risk in question. It is possible that someone other than the owner of the risk itself may own mitigating actions; however overall responsibility remains with the risk owner.

Risk ownership should be recorded in the JCAD system. This supports good risk management because:

- System reminders make the risk owner aware of his/her role.
- Reminders ensure that reviews are carried out.
- Changes in staff are less likely to be overlooked, as failure to carry out reviews will be highlighted to the Risk Management and Insurance Team.

Are the review dates still valid?

Review dates for risks and their associated mitigating actions should reflect the status of the risk. See guidance on the status of risk below. The JCAD system will then send automatic reminders to review risk.

The R.A.P. is signed quarterly, while some minor risks may be reviewed less frequently than this. The R.A.P. may legitimately be signed if reviews have been carried out at the relevant review dates.

Have all mitigating actions been identified and are they operating as intended? Is the assessment of each mitigating action in reducing the likelihood and/or impact still correct?

Having ensured that the relevant risks have been identified, the main focus of risk management should be on the implementation of relevant mitigating actions and compliance with mitigating actions. Ownership of mitigating actions should be guided by the same considerations as are set out for risk ownership – i.e. officers with authority to review and enforce.

In many cases it will be possible to cite an entire business process as a mitigating action. For example, the FMMR process is a mitigating action against the risk that the Council does not manage within its available resources. Health and safety reviews are a mitigating action against the risk of physical or psychological harm to employees and the public. In these cases it is not necessary to record all the details of the process in JCAD.

Costs and logistics of implementing mitigating actions should be in perspective. If risk measures are particularly complex then a formal cost benefit analysis will need to be undertaken i.e. controls measures should remain commensurate with the risk.

The higher the current assessment of a risk (see below), the more active consideration there should be of additional mitigating actions to reduce the risk.

Reminders to review mitigating actions are issued by JCAD. Officers reviewing mitigating actions should undertake sample (“spot check”) testing to ensure that processes have operated in practice during the relevant period. The diary facility in JCAD should be used to record brief details of this testing.

Is the CURRENT assessment of the risk still valid?

The current assessment of risk is a **net** combination of impact and probability (likelihood).

Criteria for assessing impact (as insignificant, minor, moderate, significant or major) are set out below:

		IMPACT DESCRIPTIONS				
		1 Insignificant	2 Minor	3 Moderate	4 Significant	5 Major
Service, Partnership & Project Delivery	Minor errors in systems and processes handled within normal daily routine.	Short-term disruption and action required. Managed by intervention from Head of Service/ Block Leader or Project Manager.	Noticeable disruption affecting customers. Intervention and management by local management team.	Disruption of core activities. Key targets missed, some services compromised. Intervention by DMT or Project Board or Block Leaders Group required	Loss of core activities. Strategic aims compromised. Intervention by Cabinet/, etc.	
Financial	Not exceeding £10k losses or negative variance against annual revenue budget or capital budget	£11-50k losses or negative variance against annual revenue budget or capital budget	£50k to £250k losses or negative variance against annual revenue budget or capital budget	Between £250k to £750k losses or negative variance against annual revenue budget or capital budget	Greater than £750k losses or negative variance against annual revenue budget or capital budget	
Reputation	Event or decision not in the public domain that has little impact outside of DMBC	Event or decision in the public domain that receives minimal or no negative coverage by local media	Event or decision in the public domain that receives some negative coverage by local media and/or pressure groups	Event or decision in the public domain that receives significant negative coverage by national media and/or pressure groups	Event or decision in the public domain that receives extensive negative coverage by national media and/or pressure groups	

Impact descriptions above should be taken, where appropriate, to include the risk of lost opportunity. For example, there may be the risk of missing an opportunity to make significant financial gains or achieve extensive positive media coverage.

Probability should be assessed into one of five bands ranging from Rare (<10%) to Almost Certain (>90%).

The JCAD system calculates a current rating, based on a combination of impact and probability, as follows:

PROBABILITY (Over next 12 months)	Almost Certain >90%	5	Minor (5)	Moderate (10)	Significant (15)	Major (20)	Major (25)
	Likely 50%-90%	4	Minor (4)	Moderate (8)	Significant (12)	Major (16)	Major (20)
	Moderate 30%-50%	3	Insignificant (3)	Minor (6)	Moderate (9)	Significant (12)	Significant (15)
	Unlikely 10%-30%	2	Insignificant (2)	Minor (4)	Minor (6)	Moderate (8)	Moderate (10)
	Rare < 10%	1	Insignificant (1)	Insignificant (2)	Insignificant (3)	Minor (4)	Minor (5)
			1 Insignificant	2 Minor	3 Moderate	4 Significant	5 Major

Dependant upon the score of the risk, the following reporting and review standards are recommended

RISK COLOUR	RISK SCORE	REPORTING LEVEL	RECOMMENDED REVIEW PERIOD
RED	MAJOR (score of 16-25)	Directorate & Corporate Board via the Quarterly Corporate Performance Report	At least quarterly
ORANGE	SIGNIFICANT (score 12-15)	Directorate	At least quarterly
YELLOW	MODERATE (score 8-10)	Directorate	At least six monthly
BRIGHT GREEN	MINOR (score 4-6)	Division	At least annually
DARK GREEN	INSIGNIFICANT (score 1-3)	Risk Owner	At least annually

Nothing in the above should prevent risks being from time to time reported to a higher level or reviewed more frequently if required should they become volatile.

Moderation / Management

As with any system of criteria, the impact and probability criteria set out above are open to interpretation. Risk Champions and relevant DMG/DMT's and/or directorate Risk Groups should, as a matter of course, have a role in moderating those interpretations and using their discretion.

It is not possible to define the types of risks that should appear as major risks – to do so would prevent each risk from being considered on its own merits. However, if the process is operating as intended, the risks that are considered by Corporate Board and Members should be those that are not capable of being contained at directorate level and will become known as *Corporate Risks*. As a matter of course, these risks will be published in the Quarterly Corporate Performance Report.

The Risk Management process should include the following:

Risk identification – by all employees

All employees should highlight actual or potential risks to their line manager, e.g. through supervision, team meetings, planning processes. Risks are included in team/service plans, along with mitigating actions and referred to immediate line managers. It may not be necessary to enter risks on the risk register at this point. This should be something that managers and respective teams should establish and at which level they should be entered on the risk register. At this level, risks are likely to be at team level so entry on the risk register is optional but risks should be managed regardless.



Risks communicated and entered onto JCAD (Risk Register)

Following validation by line managers / heads of service, risks are entered onto JCAD. The Risk Owner must ensure that valid controls have also been entered and review periods aligned with the risk score as outlined above.



Risks reviewed (Service Level Teams (S.L.T's), Departmental Management Teams (D.M.T.'s) / Directorate risk groups)

S.L.T. members review (and identify new) risks at Quarterly Performance and/or Risk Management meetings. This provides a challenge process in order to review and monitor volatile and major risks as well as assisting with the quarterly assurance protocol process.



Possible escalation of risks to Corporate level.

It should be borne in mind that any risks which are primarily strategic, relate to key objectives or functions and span several business planning years and/or several or all directorates may need to be brought to the attention of your Director for possible escalation to 'corporate' level. There is formal opportunity to bring these risks to Corporate Board not less than twice per annum but in intervening periods, Directors should raise awareness at any time they consider appropriate.

Partnerships

Whilst partnership working continues to be an important part of the Council's operations, more recent experience indicates that partnerships have rarely given rise to risks in isolation. Accordingly there is no longer a requirement to make a risk register entry uniquely associated to a/the partnership. In future any risks associated with a particular partnership should be considered by the lead team/ division/directorate and entered on the JCAD system and monitored accordingly.

Should information arise that suggests a partnership does give rise to explicit risks that cannot be more appropriately accounted for elsewhere in the risk register, then a unique area can easily be created within the risk register structure and monitored accordingly..

Director's sign off

Director sign off should be based on an escalation of assurances from heads of service up to Assistant Directors and, in turn, to Directors themselves to enable sign off to take place. This may be a quarterly or more frequent DMT item.

Risk Management and Insurance Team can support this process with reports from JCAD to show where reviews have or have not been completed on time, where risks have been amended, etc. The RAP will need to be completed by each Directorate

Performance/Risk Management Assurance Protocol – 2013/14

Directorate:

Quarter:.....

Review criteria		Y	N
1	Have any objectives for your Directorate changed, e.g. new services or projects? (*This should include any risks that you consider should be escalated via the Director to be reported on at Corporate level).		
2	Have risks been clearly identified and adequately described?		
3	Are the risk owners still valid? (e.g. the most appropriate / still in post?)		
4	Are the risks still valid? (e.g. still current or have they now past?)		
5	Are review dates still valid? (dependant on risk status in accordance with the separate guidance notes)		
6	Have all mitigating actions been identified and are they operating as intended?		
7	Is the assessment of each mitigating action in reducing the likelihood and/or impact still correct?		
8	Is the CURRENT risk rating of the risk still valid? i.e. in accordance with the standard impact/probability guidance		
9	Have there been any significant worsening of risks since last review * (note 2)		

Additional information/notes:

1/ The Assurance Protocol will need to be completed by the relevant Director liaising with the Risk Champion to determine the arrangements are place to ensure compliance.

2/ Where significant worsening of risk/s has occurred, directors will also consider additional, formal reports to appropriate committee/s.

* Please state any risks which you consider should be escalated via the Director to be reported on at Corporate level:

List of significant partnerships and projects assumed included in the above:

Significant partnership/project	Lead Officer

Director..... Date.....

Insurable Risks

The Council is under legal obligation to arrange insurance for some areas of its operations. For example; Employers Liability, Fidelity Guarantee and a minimum of third party cover for its fleet. In addition to these mandatory covers, the Council will arrange appropriate and cost effective insurance for other insurable assets or risks e.g. staff, buildings and other liabilities.

As part of these arrangements the Council has for many years adopted a combination of external cover i.e. that which is purchased from the insurance market and that which is termed self insurance i.e. met from its own funds.


All of these arrangements are regularly reviewed by the Treasurer, Head of Accountancy, Risk Manager and where appropriate, the Council's insurer broker.

Audit and Standards Committee 14th February 2013 - Corporate Risks following review by Corporate Board 8th January 2013



Risk Ref	The Risk	Risk Rating	Owner	Status	Mitigating Controls
ORG0001	Single Status. Failure to complete appeals by end of September 2013 and potential cost implications of successful appeals and/or equal pay settlements	Significant	John Millar	●	<p>Corporate Board to receive reports as each division stage 3 is completed to review if additional resources needed. John Millar</p> <ul style="list-style-type: none"> • Corporate Board release managers and union reps as required for Panels. John Millar • Communications with employees to confirm need to prepare for stage 3 hearing when appeal submitted not to wait until hearing date allocated and that unless exceptional circumstances the hearing will be on date allocated. Teresa Reilly • Prudent provision has been made and this provision is regularly reviewed. Iain Newman <p>Specialist legal advice and support in relation to equal pay litigation. Phillip Tart</p>
ORG0002	Assumptions made in the Medium Term Financial Strategy e.g. inflation, grants and investment income, may not be achieved and funding may be inadequate for the Council to meet its statutory obligations	Major	Iain Newman	●	<p>Business Rates Localisation - financial planning in conjunction with accountants Iain Wollaston</p> <ul style="list-style-type: none"> • FMRR meetings with budget holders and directorate management teams Jan Szczechowski • Finance representation on working groups Jan Szczechowski • General and working capital reserves Jan Szczechowski • Budget review proforma for completion by directorates

					<p>Jan Szczechowski</p> <ul style="list-style-type: none"> Financial reporting to members <p>Jan Szczechowski</p> <p>Longer term budget prioritisation</p> <p>Ian Newman</p>
ORG0003	Carbon reduction targets not achieved. There is a absolute risk to the environment and the Council risks incurring fines for non compliance	Major	Phil Tart	●	<p>CRC Operational Group (to ensure compliance in future years)</p> <p>Steve Cooper</p> <ul style="list-style-type: none"> Low Carbon Management Plan (to deliver actions within plan) <p>Steve Cooper</p> <ul style="list-style-type: none"> CRC Performance Management Framework (to monitor and manage performance) <p>Steve Cooper</p>
ORG0006	Shared Services/Collaboration opportunities are not realised	Moderate	John Polychronakis	●	<p>Lead the Black Country Collaboration programme for shared services for Dudley MBC</p> <p>Geoff Thomas</p> <ul style="list-style-type: none"> Review of the first phase of Black Country Collaboration <p>Geoff Thomas</p>
ORG0007	Corporate Property Review. There is a risk that the Council fails to vacate sites in a timely manner and is unable to release sites to the LLP for disposal, resulting in financial consequences detrimental to the Council	Significant	Phil Tart	●	<p>Detail project/partnership underway incorporating Corporate Property and the LLP</p> <p>Steve Cooper</p>
ORG0011	Community Cohesion. There is a risk that high profile local issues may adversely affect community cohesion	Moderate	Andrea Pope-Smith	●	<p>To understand and engage with local community dynamics and identify potential for actual tensions</p> <p>Rosina Ottewell</p> <ul style="list-style-type: none"> Minimise potential negative effects of tension, prevent escalation and reduce conflict <p>Rosina Ottewell</p> <ul style="list-style-type: none"> Implementation of Hate Crime Strategy <p>Rosina Ottewell</p> <ul style="list-style-type: none"> Regular monitoring via Community Cohesion Tension Executive <p>Geoff Thomas</p>

					<ul style="list-style-type: none"> Support and promote community cohesion Rosina Ottewell Consider and plan interventions short, medium and long term Rosina Ottewell Initiatives to prevent gang activity within the borough via Gang Prevention Working group Rosina Ottewell
ORG0013	Information Governance. The Council may fail to assess the importance of information and may be unaware of the potential impact on the organisation should confidentiality, integrity or availability of information be compromised	Significant	Iain Newman	●	<p>Information asset owners identified /named for each information asset Lewis Bourne</p> <ul style="list-style-type: none"> Key information assets across the organisation identified and classified with Protective Marking System Lewis Bourne A structure consisting of a Board level Senior Information Risk Owner (SIRO) in place. Lewis Bourne Information asset owners responsible for completion of a self assessment Data Protection Compliance checklist Lewis Bourne
ORG0017	Cumulative impact of legislation on citizens of the borough	Significant	John Polychronakis	●	<p>Ensure the council fulfils its legal obligations resulting from the Localism Act. Phil Tart</p> <p>Provide advice & guidance on the implications of Localism Act 2011, the major measures to come into effect in April 2012 Andy Wright</p> <p>Ensure the council oversees/guides the changes the council will undergo as a result of responding to community activity. Phil Tart</p>
ORG0019	The Council acknowledges that there is a risk of fraud across all areas of its operations and is working internally and	Significant	Iain Newman	●	<p>Detailed fraud risk register is held within Audit Services which is reviewed on a quarterly basis. Les Bradshaw</p> <ul style="list-style-type: none">

	with external partners to prevent and reduce this risk				<p>Audit staff are aware of the risk register and utilise the information before completing audits in any specific areas mentioned</p> <p>Les Bradshaw</p> <ul style="list-style-type: none"> • Data matching exercises undertaken of work as detailed below <p>Les Bradshaw</p> <ul style="list-style-type: none"> • Networking within the West Midlands Anti Fraud Group and exchanges of intelligence. <p>Les Bradshaw</p> <ul style="list-style-type: none"> • Audit Services have a fraud strategy action plan - the progress of this is monitored on a quarterly basis at Divisional Management <p>Les Bradshaw</p> <ul style="list-style-type: none"> • Audit Services have a programme of work as detailed below <p>Les Bradshaw</p>
ORG0020	Transfer of Public Health responsibilities to the Council	Significant	Val Little		<p>Public Health Transition Group established</p> <p>Brendan Clifford</p> <p>Due Diligence Group in operation</p> <p>Jo Evans, Paul Bengé & Jane Hartley</p>

Key

-  Status = Stable
-  Status - Worsening

Note:

It is important to note that the Treasury Strategy Statement is adopted by the Council, based upon advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

Audit and Standards Committee – 14th February 2013

Report of the Treasurer

Treasury Management

Purpose of Report

1. The purpose of this report is:
 - to outline treasury activity in the year 2012/13 up to the end of December;
 - to seek approval of the Treasury Strategy Statement 2013/14

Background

2. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks
3. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund (*WMDAF*). We are responsible for administering capital funding of £759m on our own account and another £198m on behalf of the *WMDAF*. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.
4. Our borrowing and investment activities in the current year have been undertaken in the context of historically low interest rates. The Bank Rate has remained at 0.5% since March 2009 and is considered likely to stay at that level in the medium term.

Treasury Activity 2012/13 - Dudley fund

5. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2012/13 approved by Audit Committee and Full Council in February 2012. In that document we anticipated that long term borrowing would be required in the next 12 months due to cashflow need.
6. Our investments up to the middle of January have averaged £36.9 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.61%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2012/13. The performance of our investments is largely dependent on movements in short-term (up to one year) rates. The average 7-day LIBID¹ for the year to the end of December has been 0.50%. Our investment activity for 2012/13 (to date) is set out in more detail in **Appendix 1**.
7. The returns outlined above have been achieved without compromising on the security of the Council's investments. We have maintained and continue to maintain an approved investment list that sets the highest rating standards. We have an account with the Government's Debt Management Office which provides maximum security but low returns. We are only using this account where we cannot place funds with a bank that meets our strict criteria. The majority of short-term investments are in variable rate call accounts with approved counterparties, which offer a relatively good rate of return compared to fixed term deposit accounts as well as higher liquidity.
8. The Council set up a custody account with the city investment firm King & Shaxson in September 2012. This enables the Council to use a number of approved investment instruments as outlined in the Treasury Strategy and diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Corporate Bonds and Supranational Bonds. By establishing custody arrangements, the Council will be better placed to consider the use of alternative investment instruments in response to evolving credit conditions. Up to the middle of January, this account had been used once to invest in a Certificate of Deposit of £3m with Nationwide Building Society for one month at an interest rate of 0.40%.
9. The average value of long-term borrowings up to the end of December 2012 was £543.9 million. The average rate of interest on these borrowings was 4.10% and they were due to mature on dates ranging from the current year to 2061.
10. The rate for a 50-year loan from the Public Works Loan Board (PWLB) has fluctuated during 2012-13 from 3.96% to 4.44% and was standing at 4.32% in early January.
11. From 1 November 2012, the Government reduced by 20 basis points (0.2%) the interest rates on loans from PWLB to local authorities who provided the required information on their plans for long-term borrowing and associated capital spending (the certainty rates). Dudley is eligible to apply for these certainty rates at 0.2% below the rates quoted in paragraph 9.

¹ 7-day LIBID is a measure of the average return from a 7-day investment on the London money market.

12. In December 2012 the Government announced the introduction of the “Project Rate” for PWLB borrowing from November 2013. It has been set at 40 basis points below standard PWLB rates. The amount offered at this discounted rate will be capped at £1.5bn (outside London) and is linked to single projects identified by Local Enterprise Partnerships (LEPs).
13. It has not as yet been necessary to undertake any new long-term borrowing due to favourable cash flow, but we are monitoring interest rates and cash flow closely.
14. It has not been necessary to undertake any short-term borrowing in the current year to date. Daily cash flow has been managed through the use of call accounts.

Treasury activity 2012/13 - WMDAF

15. Having consulted with our advisors at Arlingclose, we did not identify any opportunities to improve our position by restructuring of debt. The latest estimate of interest payable by members of the WMDAF in 2012/13 is 6.5%.

Treasury Strategy Statement 2013/14

16. The Treasury Strategy Statement covers our latest capital funding requirements, our view of interest rate movements and our strategy for borrowing and investment in the light of that view. As such, it needs to be reviewed annually. The proposed Treasury Strategy Statement for 2013/14 is attached as **Appendix 2**.
17. Our expectations for interest rates over the next twelve months, which will be subject to continuous review with our treasury advisors, are as follows (standard PWLB rates are generally about 1% above Government gilts while certainty rates are about 0.8% above gilts):
 - **Short-term rates.** The Bank Rate will remain at 0.5% through 2013/14 and probably until the end of 2015/16.
 - **Long-term rates.** 20-year Government gilt rates will rise in 2013/14 from 2.80% to 2.90%
 - **Very long- term rates.** 50-year Government gilt rates will rise in 2013/14 from 3.30% to 3.40%
18. The Local Government Act 2003 introduced a system of “prudential borrowing” allowing councils to set their own borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code which specifically requires us to set a number of prudential indicators. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

19. Councils' investment activities are regulated by government guidance issued under Section 15(1)(a) of the Local Government Act 2003. Section 5 of the Treasury Strategy Statement constitutes an "Annual Investment Strategy" produced in accordance with the government guidance and revised CIPFA Code of Practice on Treasury Management in the Public Services 2011.
20. In order to protect the Council's position if an individual or organisation were to act upon the views expressed in this report, we have deemed it necessary to produce a disclaimer which is shown as a note at the head of the report and Appendix 2.

Finance

21. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates. Budgets were amended in October to reflect a surplus of £1.8m compared to the original budget for 2011/12. This surplus was mainly due to variations in cash flow. .

Law

22. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

Equality Impact

23. The treasury management activities considered in this report have no direct impact on issues of equality.

Recommendation

24. That the Committee:
 - notes the treasury activities in 2012/13 outlined in this report;
 - approves the Treasury Strategy 2013/14 attached as Appendix 2;
 - authorises the Treasurer to effect such borrowings, repayments and investments as are appropriate and consistent with the approved Treasury Strategy and relevant guidance;
 - refers all of the above for approval by full Council at its meeting on 25th February



.....
Iain Newman
Treasurer

Contact Officer: Amarjit Uppal

Telephone: 01384 812425
Email: amarjit.uppal@dudley.gov.uk

List of Background Papers

- Treasury Policy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.
- The Local Government Act 2003
- The Prudential Code for Capital Finance in Local Authorities (CIPFA)
- Guidance on Local Government Investments Issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003
- Code of Practice for Treasury Management in the Public Services (CIPFA)

Investment Activity 2012/13 to 7th January 2013

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Treasury Direct	18	5.5	0.41	20
Debt Management Office	61	8.4	0.25	11
Nationwide Building Society	7	3.2	0.40	23
Bank of Scotland Call Account	N/A	9.3	0.75	Call
Yorkshire Bank Call Account	N/A	0.01	0.50	Call
Santander Call Account	N/A	0.7	0.80	Call
Nat West Call Account	N/A	1.6	0.80	Call
HSBC Call Account	N/A	7.7	0.32	Call
Salford City Council *	1	0.5	11.25	Matures in 2020

The table above includes investments that commenced during 2011/12 and were due to mature in the current financial year.

* This is a fixed term deposit that was made in 1985 and is due to mature in 2020.

Appendix 2

Note:

It is important to note that the Treasury Strategy Statement is adopted by the Council, based on advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

DUDLEY METROPOLITAN BOROUGH COUNCIL TREASURY STRATEGY STATEMENT 2013/14

1.0 Introduction

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2013/14. The suggested strategy is based upon officers' views of interest rates as advised by external advisors, supplemented with leading market forecasts. It should be noted that the use of expert external advisors does not remove the responsibility of Members and officers for treasury management functions and that those functions cannot be delegated to any outside organisation. The strategy covers:

- the current portfolio position
- prudential and treasury indicators
- prospects for interest rates
- temporary investment strategy
- requirements and strategy for long-term borrowing
- debt rescheduling and premature repayment opportunities
- treasury implications of HRA Self Financing

2.0 Current Portfolio Position

2.1 The Council's estimated debt position as at 1st April 2013 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	535.0
- PWLB variable rate	13.0
- Market fixed rate	6.8
- Market LOBO ²	10.0
Short-term debt	50.2
Total debt	<u>615.0</u>

2.2 The average rate of interest on the above debt is expected to be 3.81%.

² Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2009 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

- 2.3 The average level of investments held by the Council during 2012/13 to early January 2013 was £36.91m. Cash flow monitoring indicates that long term borrowing may be required in the next 12 months.
- 2.4 The Council also administers the debt of the former West Midlands County Council on behalf of the West Midlands districts. The estimated debt position at 1st April 2013 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	177.7
- Market fixed rate	6.8
- Market LOBO ³	10.0
Short-term debt	0
Total debt	<u>194.5</u>

- 2.5 The average rate of interest charged to the West Midlands fund is expected to be 6.5%.

3.0 Prudential & Treasury Indicators

- 3.1 Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable. The Prudential Code sets out a number of indicators that enable the authority to assess affordability and prudence. The following indicators are relevant for the purposes of setting an integrated treasury management strategy.

3.2 Treasury Indicators in the Prudential Code

- 3.3 The Prudential Code requires that the total external debt does not exceed the Authorised Limit for external debt and only exceeds the Operational Boundary for external debt temporarily on occasions due to variation in cash flow.

These external debt indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. It has been calculated to take account of the Council's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. The operational boundary for external debt has also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant. Actual external debt represents the closing balance for borrowing and other long-term liabilities.

³ Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2007 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

	2011/12	2012/13	2013/14	2014/15	2015/16
		Revised	Revised	Revised	
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	946	951	935	914
Other long term liabilities	n/a	37	45	48	51
Total	n/a	983	996	983	965
Operational boundary:					
Borrowing	n/a	839	842	830	822
Other long term liabilities	n/a	37	45	48	51
Total	n/a	876	887	878	873
Actual External Debt:					
Borrowing	750	n/a	n/a	n/a	n/a
Other long term liabilities	36	n/a	n/a	n/a	n/a
Total	786	n/a	n/a	n/a	n/a

Gross Debt and the Capital Financing Requirement:

This is a new key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Council has met this requirement in 2012/13, and expects to do so in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3.4 Treasury Indicators in the Treasury Management Code

CIPFA Code of Practice for Treasury Management in the Public Services

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Interest rate exposures

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments.

	2012/13	2013/14	2014/15	2015/16
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	10	10	10	10

Maturity structure of borrowing and investments

The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

	Upper limit	Lower limit
	%	%
under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	15	0
5 years and within 10 years	25	0
10 years and above	100	40

Upper Limit for total principal sums invested over 364 days

The purpose of the limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is £10m.

4.0 Prospects for Interest Rates

- 4.1 The Council has appointed Arlingclose as its treasury advisor and has made use of their services in formulating a view on interest rates.
- 4.2 Our expectations interest rates over the next twelve months, which will be subject to continuous review with our treasury advisors, are as follows (standard PWLB

rates are generally about 1% above Government gilts while certainty rates are about 0.8% above gilts):

- **Short-term rates.** The Bank Rate will remain at 0.5% through 2013/14 and probably until the end of 2015/16.
- **Long-term rates.** 20-year Government gilt rates will rise in 2013/14 from 2.80% to 2.90%
- **Very long-term rates.** 50-year Government gilt rates will rise in 2013/14 from 3.30% to 3.40%

5.0 Economic Background

- UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum is unlikely to be sustained in Q4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.
- Consumer Price Inflation has fallen to 2.7 % from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated. Real wage growth (i.e. after inflation) is forecast to remain weak.
- The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining in its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.
- In the absence of large, unexpected decline in growth, Quantitative Easing (QE) is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.
- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.
- The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.
- In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.
- A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning to haunt the European peripheral nations – could inject renewed volatility into gilts and sovereign bonds.

Our overall strategy will be based on the projections above. However, we will maintain flexibility to take account of unexpected variations from our forecast.

6.0 Annual Investment Strategy

- 6.1 Our investment activities are subject to government guidance issued under Section 15(1) (a) of the Local Government Act 2003. This section of the Treasury Strategy Statement constitutes an “Annual Investment Strategy” produced in accordance with the guidance.
- 6.2 In accordance with Investment Guidance issued by the Department of Communities and Local Government (DCLG) and best practice the Council’s primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council’s investments followed by the yields earned on investments is important but are secondary considerations.
- 6.3 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some countries the extent and implications of national debt built up have lead to a sovereign debt crisis and a banking crisis, with the outcome still largely unknown. It is against this backdrop of uncertainty that the Council’s investment strategy is framed.
- 6.4 *Strategy for “specified investments”*
- 6.4.1 The Council will make use of specified investments (as defined within the terms of the government guidance). These are investments that satisfy the following conditions:
- a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
 - b) The Council may require that the investment be repaid or redeemed within 12 months of the date on which the investment was made.
 - c) The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003.
 - d) The investment satisfies *either* of the following conditions:
 - I. The investment is made with the UK government, a local authority, a parish council or a community council. or
 - II. The investment is made with a body or in an investment scheme of high credit quality
- 6.4.2 For the purpose of this strategy a body or investment scheme is deemed to be of high credit quality if it has minimum short-term ratings of F1 (Fitch), P1 (Moody’s), and A1 (Standard and Poors), and a support rating of 1 from Fitch.

6.4.3 As well as credit ratings the Council and its advisors (Arlingclose Ltd) analyse and constantly monitor the following factors in determining high credit quality when selecting countries and financial institutions for suitable investment :

- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

6.4.4 Due to the current period of stress in financial markets, the Council's investments must also satisfy all the following more stringent conditions:

- The Council will not invest in non-UK institutions
- Investments of a maximum duration of 3 months are permitted with UK institutions which have the highest short term credit rating from all three main credit rating agencies
- Investments of a maximum duration of 1 month are permitted with UK institutions which meet the criteria of 6.4.2 above but do not have the highest short term credit rating from all three main credit rating agencies

6.4.5 If conditions in the financial markets worsen during 2013-14 or other factors indicate that increased security of Council funds is required, the Treasurer may impose tighter restrictions on the type of investments and institutions used by the Council, than those detailed in this strategy.

6.4.6 The Council banks with HSBC. At the current time, it does meet the minimum credit criteria and has the highest credit rating for a UK bank. Even if the credit rating falls below the Council's minimum criteria HSBC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

6.5 *Strategy for "non-specified investments"*

6.5.1 Non-specified investments are those that do not meet the criteria in 6.4.1 above.

6.5.2 In determining which categories of non-specified investments may prudently be used, we will take account of:

- Advice from our treasury management consultants at Arlingclose.

- The views of experts at other councils.
- To the extent that investments are for a duration of 12 months or more, long-term credit ratings as determined by Fitch.

6.5.3 Due to the current period of stress in financial markets, the Council will not place its funds in non-specified investments.

6.6 *Liquidity of investments*

6.6.1 In determining the maximum period for which investments may be held, we will have regard to our most recent cash-flow forecast. We will not enter into an investment where our cash-flow forecast indicates that, as a result of that investment, we would be forced to borrow money in a future year that we would not otherwise have had to borrow.

6.6.2 We will ensure that, at the time of making a new investment, long-term investments (investments of one year's duration or more) constitute no more than 50% of our total pool of investments.

6.7 *Limit on investments with a single institution*

6.7.1 Investments with a single institution or group of banks should not exceed 20% of our total pool of investments or £5million (whichever is greater).

6.8 *Policy on the use of external service providers*

The Council uses Arlingclose Ltd as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

7.0 Policy on the Use of Financial Derivatives

7.1 A financial derivative is a contract whose value is based on, or "derived" from, an underlying financial instrument such as a loan. Local authorities have previously been able to make use of financial derivatives embedded into loans and investments, both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

7.2 The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

7.3 The Council does not intend to use standalone financial derivatives such as (swaps, forwards, futures and options). Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but no change in strategy will be made without full Council approval.

8.0 Requirements and Strategy for Long-Term Borrowing

8.1 The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. Due to the current period of stress in financial markets, we will seek to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity.

8.2 Our interest rate expectations (outlined in 4.2) provide a variety of options:

- that short-term variable rates will be good value compared to long-term rates, and are likely to remain so for potentially at least the next couple of years. Best value will therefore be achieved by borrowing short term at variable rates in order to minimise borrowing costs in the short term.
- that the risks intrinsic in the shorter term variable rates are such, when compared to historically relatively low long term fixed funding, which may be achievable in 2013/14, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding at a marginally higher rate than short term rates.

8.3 Against this background caution will be adopted with the 2013/14 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. In conjunction with the treasury advisers, we will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap
- If it were felt that there was a significant risk of a sharp fall in long and short term rates, due to growth rates remaining low or weakening, then long term borrowings will be postponed

8.4 With respect to the West Midlands Debt, variances due to timing differences between the maturity profile of the debt and repayments from authorities can be managed by short term borrowing in 2013-14. As a result, we do not anticipate that further long-term borrowing will be needed during 2013/14. We shall take

out long term borrowing on West Midlands debt when it is economically advantageous to do so.

9.0 Debt Rescheduling and Premature Repayment Opportunities

9.1 We may consider rescheduling or premature repayment with the following aims:

- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in 8 above;
- in order to enhance the balance of the long-term portfolio (*by amending the maturity profile and/or the balance of volatility*).

9.2 Any rescheduling or premature repayment will be reported to an appropriate committee at the meeting following its implementation.

10.0 HRA Self Financing

10.1 Central Government completed its reform of the Housing Revenue Account Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

10.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their TMSS.

10.3 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

10.4 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. An average of this notional balance will be calculated annually and interest transferred between the General Fund and HRA at an internally determined rate of interest.

11. Training

11.1 CIPFA's Code of Practice requires the Treasurer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Relevant training is provided by Arlingclose to the members of the Audit Committee.

- 11.2 The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Treasurer will recommend and implement the necessary arrangements.

12 Treasury Management Advisors

- 12.1 The Authority uses Arlingclose as Treasury Management Advisors and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events for officers and members

The Authority maintains the quality of the service with its advisors by holding regular meetings and tendering periodically for the provision of treasury management advice