

Public Document Pack



CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Mr Richard Parry Jones, BA, MA.
Prif Weithredwr – Chief Executive
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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO	AUDIT COMMITTEE
DYDD MERCHER, 12 RHAGFYR 2012 am 2.00 o'r gloch	WEDNESDAY, 12 DECEMBER 2012 at 2.00 pm
YSTAFELL BWYLLGOR 1, SWYDDFEYDD Y CYNGOR, LLANGFNI	COMMITTEE ROOM 1, COUNCIL OFFICES, LLANGFNI
Swyddog Pwyllgor	Ann Holmes 01248 752518 Committee Officer

AELODAU / MEMBERS

Cynghorwyr / Councillors:-

Annibynnol Gwreiddiol / Original Independent

Jim Evans, Ieuan Williams, G O Jones, Keith Evans and Eric Roberts (Is-Gadeirydd/Vice-Chair)

Llafur / Labour

C LI Everett

Llais i Fôn

T H Jones (Cadeirydd/Chair)

Plaid Cymru / The Party of Wales

Vaughan Hughes and E G Davies

Heb Ymaelodi / Unaffiliated

Alun W Mummery

A G E N D A

1 DECLARATION OF INTEREST

To receive any declaration of interest by any member or officer in respect of any item of business.

2 MINUTES (Pages 1 - 6)

To submit for confirmation and to be signed, the minutes of the previous meeting of the Audit Committee held on 25 September, 2012.

3 CORPORATE RISK REGISTER

To present a verbal update.

4 EXTERNAL AUDIT (Pages 7 - 18)

4.1 Annual Letter in respect of audit year just ended.

4.2 Update on the Regulatory Plan.

4.3 Update on Financial Audit work.

4.4 Verbal update in respect of regulatory reports.

5 INTERNAL AUDIT (Pages 19 - 38)

To submit the Internal Audit progress report.

6 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID YEAR REVIEW 2012/13 (Pages 39 - 48)

To submit the report of the Head of Service (Finance).

AUDIT COMMITTEE

Minutes of the meeting held on 25 September, 2012

- PRESENT:** Councillor Thomas Jones (Chair)
Councillor Eric Roberts (Vice-Chair)
- Councillors Jim Evans, Keith Evans, Cliff Everett,
G.O.Jones, Vaughan Hughes, Alun Mummery, Ieuan Williams
- Lay Members** – Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Chief Executive
Interim Head of Resources & Section 151 Officer
Head of Service (Finance)
Audit Manager (JF)
Senior Internal Auditor (EW)
Programmes & Business Planning Manager (GM) (for item 6.1)
Risk and Insurance Manager (JJ) (for item 5)
Committee Officer (ATH)
- APOLOGIES:** Councillor E.G.Davies
- ALSO PRESENT:** Councillor W.J.Chorlton (Shadow Portfolio Member for Finance & IT), Commissioner Mick Gianassi, Messrs Huw Lloyd Jones, Andy Bruce (Wales Audit Office), Ms Lynn Hine, Mr James Quance (PwC), Mr Tony Furber (Accountant) (for item 3), Mr Barry Eaton (IT Manager) (for item 4.3)
-

The Chair welcomed all those present and he extended a particular welcome to Councillor Alun Mummery to his first meeting of the Audit Committee.

1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES

The minutes of the previous meeting of the Audit Committee held on 24 July, 2012 were submitted and confirmed as correct.

3 STATEMENT OF ACCOUNTS 2011/12 AND ANNUAL GOVERNANCE STATEMENT

3.1 The Statement of Accounts for 2011/12 and Annual Governance Statement 2011/12 along with the Interim Head of Resources & Section 151 Officer's commentary on the accounts were submitted for the Committee's consideration.

The Interim Head of Resources and Section 151 Officer informed Members that the County Council's draft accounts for 2011/12 were presented for audit on 29 June, 2012. The detailed audit was now substantially complete and the Auditor's report had been issued. Subject to the County Council's approval, the accounts will be signed by the Interim Head of Function (Resources) and Section 151 Officer and, on receipt of the Auditor's opinion, they will be published.

The Officer drew particular attention to the quality of the process for publishing the accounts for 2011/12 and she said that she was extremely pleased to be able to present them within the

statutory deadline. She wished to formally put on record that there had been improvements in the audit process this year in terms of liaison, greater clarity around the expectations with regard to the presentation of working papers and better communication of issues arising. There had been improved dialogue throughout the process. She referred Members of the Committee to the main amendments to the accounts a synopsis of which was given in paragraph 3 of the report and which are dealt with in greater detail in the External Auditor's reports as per item 3.2, and to the non adjusted items an explanation of which was given in paragraph 4. Appended to the accounts was the Annual Governance Statement for 2011/12 a draft of which had been presented to the July meeting of the Audit Committee. The Statement has been subsequently updated to reflect the governance implications of the Estyn report on the quality of local authority Education Services for children and Young People in Anglesey which although published in July, 2012, refers back to issues in previous years.

The Officer concluded her presentation by referring to the change this year to the accounts approval process. As a consequence of the changes to the Council's Constitution, the responsibility for approving the accounts now lies with the County Council whilst the Audit Committee remains responsible for scrutinising the accounts.

Members were agreed in welcoming the completion and presentation of the accounts within the statutory deadline and they acknowledged the efforts of the Finance Service and Team in contributing to this achievement. They sought clarification of certain aspects of the accounts in relation to the approach to maintaining balances in the current economic climate and usage of the Performance Management Reserve Fund. A particular issue raised was the Heritage Assets and specifically the Authority's Arts Collection. It was suggested that in a climate of serious budgetary pressures the Authority might consider maximising the potential of the Arts Collection in terms of realising these assets for reinvestment in a short term capital project or for revenue purposes by placing them on loan. The Chief Executive explained why such a course of action could be problematic as regards the legal implications of the terms under which items within the Arts Collection had been entrusted to the Authority and as regards the Authority's stewardship obligations. It would also require significant officer time and resources in detailed examination of the legal terms and conditions. It was subsequently proposed and seconded that the Audit Committee therefore be provided with a report explaining what the Authority can legally do, and cannot do in relation to utilising the Arts Collection. The prevailing view within the Committee was that this was not a route which it wished to follow based on the advice given by the Chief Executive ; the best use of resources and for reasons of heritage preservation. An amendment was put and seconded that officer resources should not be expended in this way and that they would be put to better use by asking the Economic Development Department for example to investigate ways of making optimum use of the Authority's other heritage assets and maximising the income deriving from them. Following a vote, the amendment was carried.

3.2 The External Auditor's report on the audit of the Financial Statements was presented for the Committee's consideration.

Ms Lynn Hine, PwC reported to the Committee on the significant issues arising from the audit as set out in the written report. These related to uncorrected misstatements documented in detail under Appendix 3 to the report; audit risks outlined in tabular form under paragraph 10 of the report; issues in respect of estimates; fixed term valuations, equal pay liabilities, waster provision and the treatment of heritage assets under new requirements by the CIPFA Code of Practice. The Auditor informed members that no other significant issues had arisen from the audit and that there were no concerns regarding the qualitative aspects of the Authority's accounting practices and financial reporting. The Auditors acknowledge that the Council has in 2011/12 made a significant amount of progress in addressing issues with producing the statement of accounts and in meeting the accounts publication deadline of 30 September although the Auditor emphasised the importance of ensuring that these improvements are sustained.

Attached at Appendix 2 to the report was the proposed audit report of the Appointed Auditor to the Members of the Isle of Anglesey County Council. Whilst the Appointed Auditor intends to issue an unqualified audit opinion, Members' attention was drawn to the fact that a certificate of closure will only be issued pending resolution of an objection to the accounts by a member of the public which was received relatively late in the audit process.

The Interim Head of Function (Resources) and Section 15 Officer explained to the Committee the reasoning for not adjusting the accounts in respect of the aftercare provision at Penhesgyn landfill

site. Members asked a number of follow up questions regarding the accounts and related matters as well as regarding the External Auditor's findings to which the Officers responded.

It was resolved –

- **To accept the Statement of Accounts for 2011/12 and accompanying Annual Governance Statement for 2011/12 and to recommend to the County Council that -**
 - **it confirms acceptance of the Statement of Accounts,**
 - **confirms that no further provision be made at this time, in respect of after care at the Penhesgyn waste site,**
 - **confirms that no amendments be made in respect of accounts payable.**
- **To accept the External Auditor's report on the audit of the financial statements and to note its contents.**

ACTIONS :

- **The Interim Head of Function (Resources) and Section 151 Officer to present the Statement of Accounts to the County Council for approval.**
- **That officers investigate ways of making best use of and maximising income from the Authority's heritage assets (other than the Arts Collection).**

4 GOVERNANCE MATTERS

4.1 A report by the Head of Service (Audit) incorporating a draft Local Code of Governance was presented for the Committee's consideration and comment. Members were informed that the Code has been formulated in accordance with the CIPFA/SOLACE Framework Delivering Good Governance in Local Government which requires local authorities seeking to meet best practice to adopt such a Code. The aim of the Code is to bring together the key elements of corporate governance which exist in the Authority.

Members were happy to accept the draft Local Code of Governance with the proviso that it be amended to more accurately reflect the extent and range of the Authority's engagement with communities, local people and stakeholders and its promotion of community participation.

It was resolved to accept the draft Local Code of Governance and to recommend its adoption by the Executive subject to the amendment as noted.

ACTION: Head of Service (Audit) to amend the draft Local Code of Governance to expand on the community engagement element of the Authority's corporate governance arrangements and to subsequently present the Code to the Executive for approval and adoption.

4.2 A report by the Interim Head of Function (Resources) and Section 151 Officer outlining the Management response and approach to addressing issues raised in reports and/or reviews by External and Internal Audit in relation to Information Management/Governance matters was presented for the Committee's information. The main issues covered by the reports were listed under Appendix A to the report.

It was resolved to accept the report for information purposes.

5 RISK MANAGEMENT FRAMEWORK

A report by the Interim Head of Function (Resources) incorporating a draft Risk Management Strategy and accompanying draft Risk Management Guidance was presented for the Committee's consideration. Also attached to the report at Appendix C was an initial version of the Corporate Risk Register.

The Head of Function (Resources) referred to the progress on implementing the Risk Management Framework as documented chronologically in the report encompassing past as well as planned events. The draft Risk Management Strategy and draft Guidance along with Corporate Risk Register have been presented to and adopted by the Senior Leadership Team and forwarded to the Audit Committee for comment. Particular attention was drawn to the Audit Committee's responsibilities with

regard to Risk Management as set out in the Strategy and to the fact that the Committee's Members would receive training in this area jointly with Members of the Corporate Scrutiny Committee in the near future.

The Risk and Insurance Manager reported on the Corporate Risk Register which she informed Members was a work in progress in terms defining risks and mitigating actions.

The Chief Executive emphasised that one of challenges facing the Authority in implementing the requirements of the Corporate Risk Register is to maintain a balance between managing risk and being risk averse. Achieving this balance is key in terms of the Authority's improvement journey.

Members welcomed the Risk Management documentation and in particular the Corporate Risk Register, the format and contents of which they considered in the subsequent brief discussion.

It was resolved -

- **to accept the report and accompanying Risk Management documentation**
- **To recommend the adoption of the draft Risk Management Strategy and Draft Guidance by the Executive at its next meeting.**

ACTION: The Interim Head of Function (Resources) and Section 151 Officer to present the draft Risk Management Strategy and draft Risk Management Guidance to the next meeting of the Executive for its approval and adoption.

6 EXTERNAL AUDIT

6.1 A report by the Interim Head of Function (Resources) in respect of the findings of an audit by PwC of the Council's performance indicators was presented for the Committee's information

The Interim Head of Function (Resources) informed Members that under the National Performance Improvement Framework established in April, 2011, the Local Authority is expected to corporately report each year on a number of key performance indicators to the Welsh Government. Once that information has been gathered, it is audited by PwC for compliance. The details of PwC's findings were set out in Appendix 1 to the report.

The Programmes and Business Planning Manager referred members to section 2.1 of the report which listed the PIs which had been audited in 2011/12 and the reasons for that selection. He drew Members' attention to the fact that three PIs were qualified and that these were in the areas of Education, Waste Management and Visitor Numbers. He explained the reasons why the Auditor had qualified these indicators and the Authority's response in terms of the mitigation measures identified.

It was resolved to accept the information and the mitigation measures identified for information purposes.

6.2 An update report on the External Audit Work Plan and Timetable was presented for the Committee's information.

Mr Andy Bruce, WAO expanded on the activities listed in the report, their status and the form of the output from the perspective both of work relevant to all councils in Wales and Anglesey specific work.

Mr Huw Lloyd Jones referred to one of the outputs in the form of the Auditor General's Improvement Assessment Letter 1 which had been dispatched to the Council on 24 September and he provided the Committee with a verbal summary of the Auditor General's principal conclusions as set out in the Letter as follows –

- The Council has discharged its improvement planning duties under the Local Government (Wales) Measure 2009 and has acted in accordance with the Welsh Government guidance
- Based on and limited to work carried out by the WAO to date and relevant regulators, the Council is likely to comply with the requirements to make arrangements to secure continuous improvement during this financial year
- The Council is making good progress in addressing the Commissioners' 10 corporate governance improvement themes

- The Council's clarity of direction is improving and there has been reasonable progress in addressing the proposals for improvement identified in the last Annual Improvement Report
- The restructuring of senior management adds significantly to the Councils capacity and its capability to deliver further improvement in both corporate and service-specific functions
- The Council is dealing more maturely than before with controversial issues and has taken steps to ensure that the improvement is sustainable
- The Council has improved its engagement with the public and is beginning to address democratic renewal
- The Council has responded constructively and responsibly to the recent highly critical inspection of its education services by Estyn and the WAO

The Letter makes no further proposals for improvement, and based on the findings listed above, the Auditor General concludes that the time is now right to implement the recommendation made in the last Annual Improvement report that Welsh Ministers should promote the gradual transfer of decision making power from the Commissioners to the Shadow Executive and that consequently, the role of the Commissioners should be redefined as more of an oversight role. The Auditor General states that he is in agreement with the Commissioners' evaluation that the conditions have now been created which would enable the Minister to consider a return to democratic control with safeguards.

The Chief Executive explained that the Auditor General's letter had been received too late to be included on the Audit Committee's agenda but would be referred to at the forthcoming meeting of the County Council on 27 September along with the Commissioners' Quarter 5 report to the Welsh Ministers. The Auditor General's Improvement Assessment Letter would also be considered in detail by the Sustainability Board at its meeting on 1 October. A formal announcement by the Minister for Local Government and Communities was expected shortly. He emphasised that while the Auditor General's conclusions provide very welcoming news, the Council continues to face a number of challenges in the future.

Members also welcomed the information and acknowledged that many challenges lay ahead.

It was resolved to note the information presented.

7 PREVENTING FRAUD AND CORRUPTION

7.1 The Annual Report on the Prevention of Fraud and Corruption documenting activity in this service area during 2011/12 was presented for the Committee's information.

It was resolved to accept the Annual Report and to note its contents.

7.2 The following draft policies were presented for the Committee's consideration and comment:

- The draft revised and updated Policy for the Prevention of Fraud and Corruption
- Draft Fraud Response Plan
- Draft Money Laundering Policy

It was resolved to recommend adoption of the following policies by the Executive:

- **The Policy for the Prevention of Fraud and Corruption**
- **Fraud Response Plan**
- **Money Laundering Policy**

ACTION: The Head of Service (Audit) to present the aforementioned policies to the Executive for approval and adoption.

8 INTERNAL AUDIT

A progress report summarising the work of the Internal Audit Section during the period from 1 April, 2012 to 14 September, 2012 was presented for the Committee's consideration.

The Head of Service (Audit) presented the salient points of the report which he informed Members was in an amended format meaning that it now expanded on the key findings from audit reviews.

He highlighted the fact that one report was issued in the period which carried a Red Assurance opinion, the executive summary of which was appended to the report. Whilst performance in terms of the percentage of the Audit Plan completed stood below target at 62% (due mainly to the diversion of resources to carrying out referral reviews), the percentage of High and Medium Term categorised recommendations was above target at 85%. A breakdown of recommendation implementation by service was provided at Appendix A.

It was resolved to accept the report for information purposes.

9 INTERIMS

The Head of Service (Finance) provided the Committee with a brief verbal report on the situation with regard to the engagement of interim staff within the Finance Service in terms of costs and function. There were currently 3 posts within the Service taken up by interim staff (in addition to the post of Section 151 Officer) and these are senior accountancy roles in areas which in the past have proved difficult to fill on a permanent basis at the level advertised. She emphasised the importance of the experience and expertise of the interims in these high level accountancy posts to the accounts preparation process and in particular in ensuring the timely completion and presentation of the 2011/12 accounts. The deployment of the interims was supported by the Improvement Board at the time. The intention from now on following the completion and presentation of the accounts is to move away from dependency on agency staff at a high level and to try to fill these posts on a permanent basis. The officer explained the steps being taken to effect this process.

Members sought further clarification of issues regarding the costs of agency staff. The point was made also that the Council needs to make sure that it obtains optimum return on its investment in professional trainees in terms of their remaining in the employ of the Council after qualifying.

It was resolved to note the information.

**Councillor Thomas Jones
Chair**



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Reference	C12407
Date	29 11 2012
Pages	1 of 3

Dear Mr Jones

Annual Audit Letter

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

On 28 September 2012 I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in my Audit of Financial Statements report on the 25 September 2012.

The Council has made a significant amount of progress in addressing issues with producing the statement of accounts and meeting the accounts publication deadline of 30 September. The Council deserves recognition and praise for the way in which it has approached the improvements required and we would like to take this opportunity to express our appreciation for the assistance we received from officers at the Council during the course of the audit. As welcome as this is, I would additionally like to stress the importance of ensuring these improvements are sustained. At the current time senior accountancy posts continue to be filled by temporary staff. It is essential that sufficient and appropriate resources are dedicated to the production of the statutory accounts going forward in accordance with required timetables.

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure (2009). Overall, I am satisfied that the Council has appropriate arrangements in place. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report. I would like to highlight the following specific areas in this letter:

- the financial outlook for the Council remains very challenging and financial planning and monitoring arrangements are in place to identify the funding gap and facilitate the savings required. Difficult decisions will be required in the short term to secure the savings required;
- the Council has made progress during the year in the development of risk management processes and it is important that this is sustained;
- the external auditor has reported for a number of years that robust business continuity and disaster recovery plans are not in place and this continues to be the case;
- 50% of the grant claims certified by PwC in respect of 2010/11 were subject to a qualification letter (48% in 2009/10). 10% of the grant claims were submitted by the Council after the submission deadline, compared with 66% for 2009/10; and
- we continue to be able to place reliance on the work of Internal Audit.

I have not issued a certificate of completion because I am considering an objection from a local elector.

The financial audit fee for 2011-12 is currently expected to be higher than the agreed fee set out in the Annual Audit Outline because of the additional work required to deal with the objection to the accounts.

Yours sincerely

Lynn Hine (PwC LLP)

For and on behalf of the Appointed Auditor

29 November 2012

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	A	B	D	E	F	G	H	I	J	K	L
2	Work Plan and Timetable Feb 2012 - March 2013		LG Regional Manager					Huw Lloyd Jones			
3			Performance Audit Lead					Andy Bruce			
4			Financial Audit Engagement Lead					Lynn Hine			
5			Financial Audit Manager					James Quance			
6			CSSIW link inspector					Marc Roberts			
7	NAME OF AUTHORITY - Isle of Anglesey County Council		Estyn Link Inspector					Maldwyn Pryse			
8											
9	Position as at December 2012										
10											
11											
12			2012				2013				
13	Activity	Output	Feb-March	April-June	July-Sept	Oct-Dec	Jan-March	Status	Regulator Contact	Council Contact	Comment
14	Work taking place at all councils										
15	Progress check - areas for improvement	IA Letter 1 2012									
16	New CMT							Ongoing	James Quance	Neville Evans	As these are ongoing, there may be further outputs within IA Letter 2 and the Annual Improvement Report
17	Transfer of power to members							Ongoing	Huw Lloyd Jones	Neville Evans	As these are ongoing, there may be further outputs within IA Letter 2 and the Annual Improvement Report
18	Capacity and Capability							Ongoing	James Quance	Neville Evans	As these are ongoing, there may be further outputs within IA Letter 2 and the Annual Improvement Report
19	Measures of success, improvement objectives etc							Completed	John Roberts	Neville Evans	Feedback provided
20	Various other							Ongoing	James Quance	Neville Evans	As these are ongoing, there may be further outputs within IA Letter 2 and the Annual Improvement Report
21	Progress check - other areas for monitoring	IA Letter 1 2012						Completed	Andy Bruce	Neville Evans	Reported to the Council in September 2012
22	Audit of Improvement Plan 2012	IA Letter 1 2012						Completed	Andy Bruce	Neville Evans	Reported to the Council in September 2012
23	Improvement Study - Effectiveness of scrutiny	national report						Ongoing	Andy Bruce	Neville Evans	Project is ongoing. Feedback scheduled between March and September 2013
24	Improvement Study - Preparation of AGS	Local/National feedback						Ongoing	Andy Bruce	Neville Evans	Project commenced 4/12/12 and local feedback due March 2012 with national practice note due May 2013. Shared learning Draft letter being finalised for issue to Council in December 2012.
25	Testing and Audit of Councils Performance Assessment Publication	IA letter 2 2012						Completed	Andy Bruce	Neville Evans	
26	PI Audit	IA letter 2 2012						Completed	James Quance	Neville Evans	
27	Audit of self evaluation mechanisms	AIR 2013						Ongoing	Andy Bruce	Neville Evans	The work forms part of the Annual Improvement Report being conducted in January 2013. The report will be due in February 2013
28	Local Government all Wales study 2011-12 –Financial Challenge	GPX						Completed	John Roberts	Neville Evans	The work will be fed back through the good practice network (GPX) and possibly some seminars in early 2013
29	Inspection of Housing and Council Tax benefit	Feedback to Council						Completed	Andy Bruce	Neville Evans	The work is complete and feedback will be arranged with the Council from the study team. The findings from the review will form part of the Annual Improvement Report (AIR)
30	Local Government all Wales study 2012-13 – NEETS	All Wales report						Not started	Andy Bruce	Neville Evans	The work is planned for March 2013
31	Progress check - areas for improvement	IA Letter 1 2013						Not started	Andy Bruce	Neville Evans	
32	Progress check - other areas for monitoring	IA Letter 1 2013						Not started	Andy Bruce	Neville Evans	
33	Audit of Improvement Plan 2013	IA Letter 1 2013						Not started	Andy Bruce	Neville Evans	
34	Work specific to Anglesey										
35	Various ongoing facilitation							Completed	Chris Bolton	Neville Evans	This work was commissioned in 2011-12

Isle of Anglesey County Council Financial audit progress report to Audit Committee – 12 December 2012

December 2012

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

We perform our audit in accordance with the AGW's Code of Audit Practice (the Code), which was issued in April 2010. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in May 2005. Both documents are available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this statement and in accordance with the Code.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Table of Contents

2011/12 financial audit position statement.....	3
2011/12 Statement of Accounts	3
Grants	3
Liaison arrangements	4

2011/12 financial audit position statement

The purpose of this report is to provide management and the Audit Committee with an update on the financial audit's progress against the final key milestones set out in the 2011/12 Financial audit outline and grant certification work.

	Due date	Progress to date
Accounts		
Financial audit outline 2011/12	February 2012	Presented at the February Audit Committee.
Interim review and planning of the accounts audit	March/April 2012	We undertook two visits to the council, completing controls cycle walkthroughs, and commencing work on all areas of expenditure, accumulated absence accruals, sundry debtors, bank & investment balances, grant & service income and fixed assets, including valuations.
Audit presentation	25 April 2012	We presented to the Council finance team and other relevant officers on 25 April 2012.
Financial statements testing	July - September 2012	Complete.
Final accounts (ISA 260) report	September 2012	Reported to the September Audit Committee meeting.
Audit opinion	September 2012	Provided by the appointed auditor on 28 September 2012
Whole of government accounts	September 2012	Complete and certified on 28 September 2012.
Annual letter	November 2012	Issued to the Council in November. See separate agenda item.
Completion certificate	Anticipated before the end of December	We are currently concluding our work in response to a number of objections made to the accounts by a local elector. The Appointed Auditor is unable to issue a completion certificate until this work is completed.

2011/12 Statement of Accounts

We reported the outcome of our audit of the 2011/12 Statement of Accounts to the Audit Committee meeting in September and the Appointed Auditor provided an unqualified opinion on the accounts on 28 September 2012.

However, the Appointed Auditor did not issue a completion certificate because a local elector had made a number of objections to the accounts which required further information and investigation. We have obtained further information from the Council and the elector and we are in the process of completing testing of the information in order to notify the elector of the outcome.

Grants

2010/11 grants

We have now certified all of the 2010/11 claims with the exception of the Housing Benefit and Council Tax Subsidy which is currently in the process of being reviewed prior to certification.

2011/12 grants

We have certified the majority of the 2011/12 claims with October and November deadlines, with the exception of the Housing Benefit and Council Tax Subsidy and the Porthyfelin Communities First Outcome Fund. Fieldwork is ongoing relating to the former, whilst management are in the process of finalising the claim and working papers for the latter. Good progress has also been made on the 13 grant claims with a deadline of 31 December 2012.

Liaison arrangements

with Internal Audit

We continue to work closely with internal audit to produce an effective audit approach. We have received the internal audit reports that we will use to inform our 2011/12 accounts work in advance of the timetable in previous years. We have also reviewed the draft Internal Audit Operational Plan for 2012/13 in order to ensure that there is no duplication of work between us and internal audit.

with management

We continue to meet regularly with management in order to maintain our understanding of the key issues being faced by the Council in order to assess their impact on our audit approach. We continue to work with management as preparations are made for the implementation of a new accounting system and to continue the momentum of improvement noted during the 2011/12 accounts and audit process.

with the WAO

We continue to work closely with the WAO and support them in their work in respect of the Local Government Measure.

We also attend regular meetings with the Appointed Auditor, Anthony Barrett and with other auditors of local authorities in Wales in the Local Government Practitioners Group which meets quarterly.

In the event of receiving a request for information to which this document may be relevant, the attention of its holder, Isle of Anglesey County Council, is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act. This Code sets out the practice in the handling of requests that is expected of public authorities, such as consultation with relevant third parties. In relation to this document, relevant third parties include PricewaterhouseCoopers LLP and the Auditor General for Wales. For further information, please email infoofficer@wao.gov.uk.

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	12 DECEMBER 2012
TITLE OF REPORT:	PROGRESS REPORT ON INTERNAL AUDIT 01 APRIL 2012 – 16 NOVEMBER 2012
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER - RSM TENON
ACTION:	Decisions / approval as detailed in report

1. INTRODUCTION

- 1.1 The Operational Plan for 2012-13 was agreed by the Audit Committee at its meeting held on 24 May 2012. The Plan was produced in consultation with the External Auditor, the Section 151 Officer and various meetings and communications with Heads of Service.
- 1.2 The following report summarises the work of the Internal Audit Section up to the 16 November 2012 and gives a summary for each of the final reports issued. Executive Summaries of reports issued with a 'Red Assurance' opinion are also provided.
- 1.3 Final reports which result in a 'Red Assurance' opinion will be subject to a Follow Up review which will include an audit opinion on the progress of management in implementing the recommendations categorised as High and Medium within the original final report. The results of the Follow Up review will be presented to the next Audit Committee.
- 1.4 There were two reviews in the period which resulted in a 'Red Assurance' opinion. The Executive Summaries for these reports are provided at Appendix B and C of this report. Five reviews relating to Information Governance, Information Management and Data Security issues have been undertaken by PWC, WAO and Internal Audit in the past twelve months including these two reports. As a number of the findings and recommendations from these reports are of a similar nature it is considered that the reports are best addressed as a whole rather than individually. Therefore the recommendations from all these reports have been collated into a single action plan which is being addressed by an Information Management Group chaired by the Interim Head of Function – Resources. Progress by the Information Management Group will be reported to the next Audit Committee.
- 1.5 The Internal Audit Service uses a Risk Based approach wherever possible but may use System Based, Key Controls, Establishment or Advisory reviews where these approaches are more appropriate.

- 1.6 The individual final reports are available to members of this Committee, in confidence, on request to the Head of Service – Audit.

2. REPORTS ISSUED TO DATE AND WORK IN PROGRESS (WIP)

- 2.1 Table 1 below shows the status of the reviews currently in progress and / or having been completed to final report in this period along with the overall audit opinion.

Table 1

Review Title	Service Area	IA Plan Year	Status	RAG Opinion
<i>Risk Based / System Reviews</i>				
Data Security	ICT/Legal	2012/13	FINAL	RED
Oriel	Leisure	2012/13	FINAL	GREEN/AMBER
Modern Records Management	Lifelong	2012/13	FINAL	RED
BMU Procurement	Housing	2012/13	FINAL	Advisory
Carbon Targets and Energy Efficiency	Property	2012/12	FINAL	GREEN
Follow Up – School Recommendations	Education	2012/13	FINAL	Little Progress
Members' Allowances	Corporate	2012/13	WIP	
Direct Payments – Soc Services	Social Services	2012/13	WIP	
School Transport	Transportation	2012/13	WIP	
Maritime - Income	Highways	2012/13	WIP	
National Fraud Initiative	Corporate	2012/13	WIP	
Risk Management - Implemenation	Corporate	2012/13	WIP	
Council Tax	Finance	2012/13	WIP	
National Non Domestic Rates	Finance	2012/13	WIP	
Housing Benefit	Finance	2012/13	WIP	
Payroll and Overtime	Finance	2012/13	WIP	
Creditors	Finance	2012/13	WIP	
Corporate Procurement	Corporate	2012/13	WIP	
Budget Setting & Monitoring	Corporate	2012/13	WIP	
<i>Schools</i>				
Ysgol Rhosybol	Education	2012/13	FINAL	GREEN/AMBER
Ysgol Bodffordd	Education	2012/13	DRAFT	
<i>Referrals</i>				

Report 09 12-13	Education	2011/12	FINAL
Report 10 12-13	Transportation	2012/13	FINAL
Report 11 12-13	Leisure	2012/13	FINAL

2.2 Key Findings from Reports Issued

2.2.1 Data Security - An audit of Data Security was undertaken as part of the approved internal audit periodic plan for 2012/13. Data Security is the practice of keeping data protected from corruption and unauthorised access. The focus behind data security is to ensure privacy while protecting personal or corporate data.

A key aim of electronic government is for customers to provide personal details possibly via the web, to unlock a set of services sourced from a series of different providers. This is what councils and other government agencies strive to achieve. However, for this to happen requires the confidence of customers that their data is collected, stored, accessed, used and disposed of securely. This requires the effective use and exchange of information both within councils and between councils and other services such as Health and Education. It is therefore crucial that the public has confidence that any data provided is treated with appropriate confidentiality and kept safe from any risk of misuse.

Recent reported losses of personal data such as that from Her Majesty's Revenue and Customs require that all public bodies act to bolster public trust and confidence in the way personal information is handled and kept safe.

The review found that there were a number of weaknesses in the control framework around data security. The main findings from the review were:

Design of control framework

- The Council has not nominated a Senior Information Risk Owner and Information Asset Owners as required by the Local Government Data Handling Guidelines.
- The Council has not produced an Information Management Policy.
- The Council has not provided adequate resources and support to strengthen its information governance arrangements in line with findings and recommendations made by the Welsh Audit Office, the Council's External Auditors and Internal Audit.
- There is no contract in place for the disposal of confidential waste and current arrangements were found to have weak internal control.

Application of and compliance with control framework

- Controls over the granting and removing of logical access to the Council's network for starters and leavers were found to be weak in relation to the communication of new starter and leaver information between Services and ICT.

The review resulted in two High, fifteen Medium and two Low category recommendations being made and in an overall Red audit opinion.

Additional information on the results of this review can be found in the Executive Summary of this report at Appendix B.

2.2.2 Oriel Ynys Môn – An audit of the financial arrangements within Oriel Ynys Môn was undertaken as part of the approved internal audit periodic plan for 2012/13. The Oriel has a gallery shop and cafeteria and records show that visitor numbers for the year ending 31 March 2012 were 98 106. The net running costs for the Oriel for 2011/12 (expenditure less income – including £250k income from the Isle of Anglesey Trust) was £243k which was £33k over budget for the year.

For accounting purposes the market value of the main artwork collections held at the Oriel as at 19 March 2012 is shown in the Asset Register as £1.4m.

Oriel Ynys Môn's collections management procedures are consistent with the Museums Accreditation Standards, which is supervised in Wales by CyMAL (Museums, Libraries and Archives Wales).

The main findings from the review were:

Design of control framework

- At the time of the review Oriel Ynys Môn was in the process of bringing together elements of existing policy and procedure into a comprehensive Collections Management Plan.
- The Oriel is also in the process of introducing a formal stock control system. This will decrease the risk that stock items cannot be adequately accounted for in between annual stock checks.
- The current procedure for the reconciliation of the daily takings requires the weekly totals for income collected and the signing of the banking record to ensure that all income is banked intact to be undertaken by a single officer. This increases the risk of irregularity and error in relation to the income collected and that banked.

Application of and compliance with control framework

- Although the majority of the of the Oriel's collections of artwork were found to be documented examples of non-documentation in relation to two small collections were identified from testing.

The review resulted in one High, two Medium and eight Low category recommendations being made and in an overall GREEN / AMBER audit opinion.

2.2.3 Modern Records Management – An audit of the arrangements for Modern Records Management was undertaken as part of the approved internal audit periodic plan for 2012/13. The review was partly based on the Isle of Anglesey County Council's compliance with records management recommended practices and International Organisation for Standardisation standards (ISO 15489-1:2001). It should be emphasised that the review was concerned with the Council's approach and practices in relation to Modern Records Management and not a review of the new Anglesey Archives facility per se; although the review for completeness included these arrangements.

Records Management is the practice of applying systematic controls to recorded information required in the operation of a business during the various stages of their life cycle: from their creation or receipt, through their processing, distribution, maintenance and use, to their ultimate disposal. The purpose of

records management is to promote efficiencies in record keeping, to assure that useless records are appropriately and systematically destroyed while valuable / useful information is protected and maintained in a manner that facilitates its access and use.

The main findings from the review were:

- **Design of control framework**
- The Council has not produced a Records Management Policy setting out the commitment of the Council to manage records in a systematic manner and to ensure accountability and effective practice throughout the Council.
- The Council has not allocated resources or a budget for records management practices such as the transfer and disposal of records. However it was identified through the reported costs associated with transferring and processing the records to the former Ysgol y Graig and Anglesey Archives since September 2011 that the Council spends thousands of pound annually on the transfer of the records to storage and the disposal of confidential waste.
- The Council has published two retention schedules on the Council's intranet which are conflicting. The Council has not formally adopted either retention policy.
- The Council has limited capacity for relocating and for the transfer of records currently stored in the former Ysgol y Graig to the Anglesey Archives.
- Arrangements for the collection and transfer of the modern records to the storage facilities have not been formalised. There is no formal agreement with the current contractor to provide secure transfer.
- Arrangements for the collection and disposal of confidential waste have not been formalised. There is no formal agreement with the current contractor for the collection and disposal of confidential waste or any requirement for proof of disposal of such waste.

Application of and compliance with control framework

- Current storage arrangements for the Council's modern records outside of the Anglesey Archives are not adequately secure and do not allow for the convenient retrieval of files and / or documents when required.
- It was found that documents and files were being stored beyond their required retention periods. There is a lack of procedures within some services to identify documents that no longer need to be stored and to arrange for their secure disposal. This puts additional unnecessary pressure on already limited storage facilities.
- Where the relevant information is of a personal or sensitive nature and is no longer required for the purpose for which it was collected, continued storage is in breach of the Data Protection Act (Principle 5), which states that 'Personal data processed for any purpose or purposes shall not be kept for longer than is necessary for that purpose or those purposes.'
- Following the review of two suppliers used for the transfer and disposal of records management, it was seen that the Council has procured work on an ad hoc basis and has not followed the Council's Procedure Rules in relation to the corporate aggregate spend. By not aggregating spend the Council may also be spending in excess of the threshold where EU procurement regulations apply.

The review resulted in three High and nine Medium category recommendations being made and in an overall Red audit opinion.

Additional information on the results of this review can be found in the Executive Summary of this report at Appendix C.

2.2.4 Building Maintenance Unit (BMU) Procurement – An audit of Building Maintenance Unit Procurement arrangements was undertaken as part of the approved Internal Audit periodic plan for 2012/13. The review looked at the arrangements in place within the BMU to procure both goods and services.

The review was limited to the BMU's arrangements to ensure compliance with International, National and local procurement directives and especially with the Council's Contract Procedure Rules. Contract Procedure Rules form part of the Council's Constitution and are included at section 4.9 of that document.

Section 4.9.1.3 of the Contract Procedure Rules states that the Rules apply to all 'contracts entered into by or on behalf of the Council and the procedures to be followed by employees of the Council.' Section 4.9.1.5 of the Contract Procedure Rules states that 'contracts' refers to all arrangements made by or on behalf of the Council for the provision or supply of goods, intellectual property, work or services, whether paid for in money or otherwise.' Section 4.9.1.7 of the Rules states that 'the Rules are mandatory requirements.'

The general principles of the Contract Procedure Rules are stated as including:

- Section 4.9.2.1.1 – 'to aim for the best outcome possible for the Council and the people it serves, having regard to the resources available;
- Section 4.9.2.1.2 – 'to ensure that the result is untainted by consideration of benefit to any individual involved in the exercise, or the suspicion of it'; and
- Section 4.9.2.1.3 – 'to ensure compliance with all applicable legislation.'

In 2011/12 the Building Maintenance Unit (BMU) expenditure with external suppliers was £2.55M based on ledger cost code records for codes P0001 to P0999.

Conclusions from Review - The review concluded that the BMU has arrangements in place in relation to the procurement of goods which include discounts negotiated with suppliers of goods and arrangements with sub-contractors based on set hourly rates. The BMU believe that such arrangements are providing value for money for the Council.

However, the review found that the BMU had no procedures in place to ensure that procurement undertaken by the BMU was in line with the Council's Contract Procedure and Financial Procedure Rules. The lack of such procedures was reflected in Audit testing which found that within the samples of goods and services with a combined value of over £30k procured by the BMU there was no evidence of compliance with Contract Procedure Rules in relation to tendering and contracts.

The reason for non compliance with Council CPRs should be investigated to determine if there are any exceptional circumstances of the procurement requirements of the BMU which mean that current CPRs and FPRs are inappropriate or impractical in providing procurement methods that provide value for money.

Internal Audit is to issue a report on Corporate Procurement Arrangements which partly explains a number of the weaknesses found in the BMU arrangements which, we understand are reliant on corporate arrangements. The Corporate Procurement Arrangements report should therefore be read in conjunction with this report.

NB – This review did not include testing of whether value for money was, or was not, being achieved by the BMU via procurement but only whether such procurement complied with International, National and Council procurement directives.

This was an advisory review for which a formal audit opinion is not applicable.

2.2.5 Carbon Targets and Energy Efficiency – (Corporate Risk Reference YM6) -

A review of arrangements in relation to Carbon Targets and Energy Efficiency was undertaken as part of the approved Internal Audit periodic plan for 2012/13. The Carbon Reduction Commitment is a mandatory cap and trade emissions scheme designed to reduce the volume of CO₂ emitted in the UK and promote improvements in energy efficiency.

The scheme was launched in April 2010. Organisations qualify as participants in the scheme based on their electricity usage. An organisation qualifies as a full participant if it has at least one half hourly electricity meter (HHM) and consumed over 6k megawatt-hours (MWh) over the 2008 qualifying year. Full participants are required to monitor their CO₂ emissions and to purchase allowances, which were initially quoted at a price of £12 per tonne of CO₂. From April 2011 participating organisations have been required to buy CO₂ allowances based on their previous years' emissions.

This review was conducted to ascertain what mitigating actions are in place to reduce the risk of not meeting Carbon Reduction Targets, to ensure that the mitigating actions are in place, consistently applied and effective in mitigating the stated risk.

The review found that in fact the Council does not qualify to be a full participant in the Carbon Reduction Commitment Scheme and that therefore the risk can be removed from the Corporate Risk Register.

The main findings from the review were:

Design of control framework

- The review found that controls within this area were suitable designed to allow for the recording and monitoring of CO₂ emissions by the Council and in determining the position of the Council in relation to joining the Carbon Commitment Scheme.

Application of and compliance with control framework

- Minor issues only were identified in relation to the on-going process of entering paper bills onto the DYNAMAT system to maximise the potential from the system and to produce reports.

The review resulted in one Low category recommendation being made and in an overall GREEN audit opinion.

Schools Audits – The objective of the review of schools is to provide assurance on the operation, effectiveness and adequacy of key internal controls relating to

income and expenditure systems, financial and budgetary management and governance arrangements within the school. The following school reviews were completed to final report stage during the period covered by this report:

2.2.6 Follow Up School Recommendations - As part of the approved Internal Audit periodic plan for 2012/13 we have undertaken a review to follow up progress made by the Isle Anglesey County Council's schools to implement previous internal audit recommendations. The recommendations considered as part of the follow up review were from reports relating to the following schools:

- Ysgol Moelfre;
- Ysgol Rhosneigr;
- Ysgol Goronwy Owen;
- Ysgol Bryngwran;
- Ysgol Beaumaris;
- Ysgol Llanfairpwll; and
- Ysgol Uwchradd Bodedern.

Of the 37 recommendations considered in this review 8 were classified as 'Medium' and 29 as 'Low' category recommendations. There were no 'High' recommendations relating to this review.

The Auditor visited all the schools and interviewed the Head Teachers responsible for the implementation of recommendations to determine the status of agreed actions. Where appropriate, audit testing has been completed to assess the level of compliance with this status and the controls in place.

This is an advisory report to Education management on the progress in implementing Internal Audit recommendations by schools. Individual schools have been sent action plans detailing the outstanding recommendations and requested to provide updates on implementation to Internal Audit for update on 4Action.

Conclusions from review - Taking account of the issues identified in the report in our opinion management has demonstrated 'little progress' in implementing actions agreed to address internal audit recommendations.

We understand that the Education Service has on going arrangements in place to follow up Internal Audit recommendations. However, the review found that the schools included in the review have made unsatisfactory progress in implementing recommendations.

Head Teachers should be reminded of the need to respond promptly to regulatory reports, including those from Internal Audit, to ensure that weaknesses in internal controls are addressed and identified risks appropriately mitigated.

We have reiterated recommendations where these have not yet been implemented. In addition, we have made new recommendations where appropriate; these are detailed in the findings section of the report.

This was a Follow Up review which resulted in an overall opinion that 'little progress' has been made in implementing these recommendations relating to schools.

2.2.7 Ysgol Rhosybol – Ysgol Rhosybol is a rural Primary school of approximately 55 pupils. A new Head Teacher was appointed to the school in January 2011. The main findings from the review related to the following identified weaknesses in internal control;

- Policies were in place to support the corporate governance framework. It was found however that the minutes of the Board of Governors' meetings were not sufficiently complete and detailed to allow transparency and compliance with the Government of Maintained Schools (Wales) Regulations 2005.
- Testing undertaken at the school identified some weaknesses in the operation of the procedures relating to ordering goods, works and services; orders were not routinely completed in advance of the purchase.
- It appeared that complete and accurate records were maintained in relation to school lettings and the correct procedures followed when letting the premises; some instances were identified however where there was no lettings agreement form completed for the let and other instances identified where the hirer had not signed the agreement form.

The review resulted in an overall GREEN / AMBER audit opinion.






2.3 Summary of Outcomes of Reports Issued to Date – since the 01 April 2012 we have issued two final reports from the Internal Audit Operational Plan 2011-12; seventeen from the 2012-13 plan and eleven referral reports. To date a total of thirty Final reports has been issued in 2012/13.

A summary of the grades given for the final reports issued is shown in the table below. The summary of grades issued is as follows:

RAG Opinion / Grade	What is meant by the RAG Opinion / Grade	Since Last Audit Committee In Period	April to Nov 2012
Green (A&B Grade)	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.	1	3
Green Amber (C Grade)	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.	2	5
Red Amber (D Grade)	Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.	1 (Little Progress)	2
Red (E Grade)	Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.	2	3
Advisory / Investigation	Advisory review designed to provide best practice advice – No formal opinion.	4	17
Total		10	30

3 PERFORMANCE AGAINST TARGETS FOR PERIOD 01/04/12 – 16/11/12

3.1 The table below shows the Internal Audit Service's performance against agreed targets set out in the Service's Delivery Plan for 2012/13. Reporting progress against these targets is also made to the Quarterly Performance Meetings for Finance.

Performance Measure	Target 2012/13	Actual Adjusted for Period*	Target Status	Direction of Travel since previous period
% of audit reviews completed to draft in year (63 reviews in plan – 1 to Draft in period & 17 Finals– excluding referrals)	90%	46%		↓
Overall customer satisfaction levels from questionnaires	90%	100%		↔
% of High & Medium IA recommendations implemented – from 01-04-10	80%	67%		↓
Number of planned reviews of Identified High Corporate Risk Areas	8	3		↑
Two Audit Committee Training Sessions in period	2	2		↑

3.2 The percentage of Audit Plan completed figure at 46% is below the target of 90%. This is mainly due to the eleven referrals that have been completed and reported on in the period diverting resources from the planned Internal Audit work. An on-going investigation has taken up much of an FTE Auditor's time during the first seven months of this year. This investigation has now been referred to the Police.

The period has also seen a disproportionate amount of annual leave being taken in the summer months.

3.3 The percentage of High and Medium categorised recommendations implemented is below target at 67%. Internal Audit will continue to send out reminders to update in order to ensure that all actions on recommendations are recorded on the system.

4. REFERRALS

4.1 During the course of the year the Internal Audit Section is required to carry out work on matters which come to light during the programmed audit work, or matters which are brought to its attention by other Departments, or work which other Departments request the Internal Audit Section to carry out. Work may also be requested by the External Auditor to provide information or to assist in the provision of information. Some of these referrals result in the issue of formal audit reports whilst others may not (e.g. the allegation / information is found to be incorrect and therefore there is nothing to report, or the amount of work is not sufficient to warrant a full audit report or the matter is covered by an External Auditor's report).

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- 4.2 Eleven reports relating to referrals have been issued in 2012/13 to date. Three of these have been reported on in the period covered by this report (Referral Reports 09; 10 and 11).
 - 4.3 Report 09 related to incidences of late banking of income and resulted in the resignation of the staff member involved. A Final report for decision as to further action was reported to the Interim Section 151 Officer and to the Monitoring Officer.
 - 4.4 Report 10 related to a referral concerning the tendering of Taxi services and a report was issued concluding that there was no evidence of irregularity on the routes subject to the referral.
 - 4.5 Report 11 related to the collection of outstanding debts in relation to hires of at a Council Leisure Centre.

5. RECOMMENDATION TRACKING

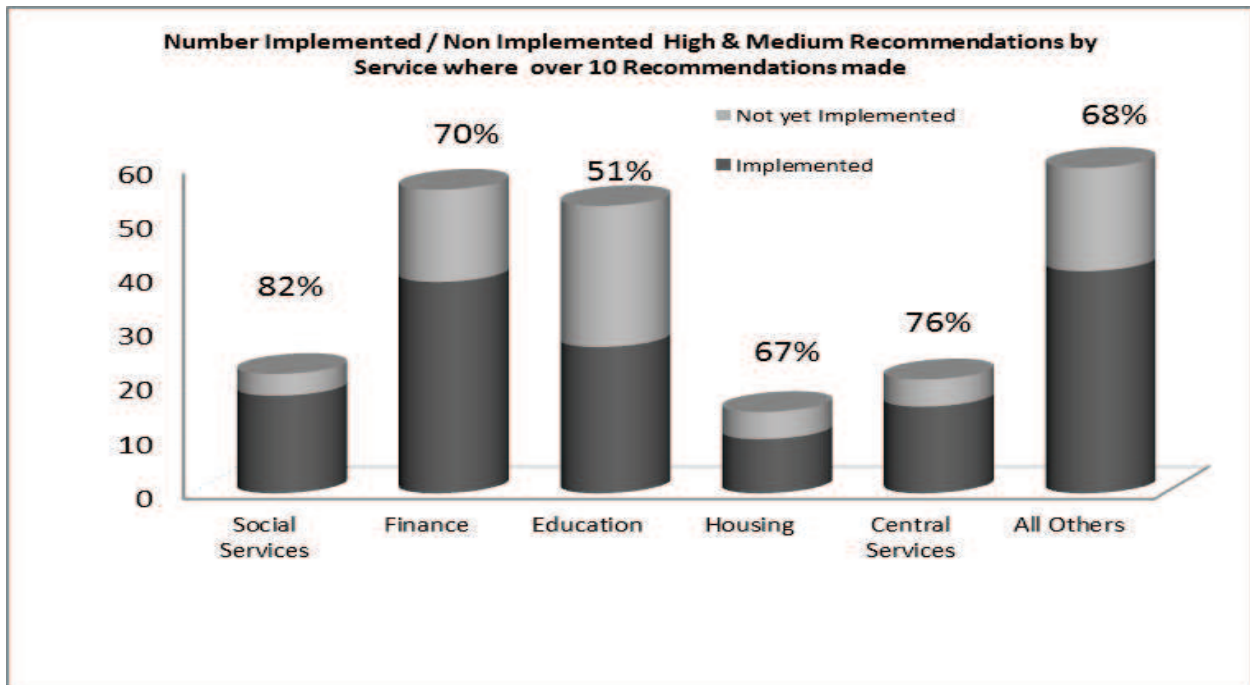
- 5.1 For reporting to this Committee only recommendations made since 01-04-2010 have been included in the recommendation tracking analysis.
- 5.3 The performance in implementing recommendations in the period is below target with 67% of High and Medium recommendations having been recorded as implemented. A graph showing the breakdown of recommendation implementation by Service is provided at Appendix A.

AUDIT MANAGER
12 December 2012

APPENDIX A

Recommendation Tracking Table – All Recommendations Created Since 01-04-2010

Progress Table: % implemented / non implemented of high and medium category recommendations by service where over 10 recommendations made.



In our opinion therefore based on the self assessed data in the Progress Table above the Council has made **'adequate progress'** in the period in implementing High and Medium categorised Internal Audit recommendations. This is based on the percentage of recommendations (excluding those that have not yet reached their agreed implementation date) for which the self assessed status is either, implemented or superseded, which total at the end of the period was **67%** of all such recommendations.

APPENDIX B**Red Assurance Reports****Data Security – Report Ref: 1787.12/13****1 EXECUTIVE SUMMARY****1.1 INTRODUCTION**

An audit of Data Security was undertaken as part of the approved internal audit periodic plan for 2012/13. Data security is the practice of keeping data protected from corruption and unauthorised access. The focus behind data security is to ensure privacy while protecting personal or corporate data.

A key aim of electronic government is for customers to provide personal details possibly via the web, to unlock a set of services sourced from a series of different providers. This is what councils and other government agencies strive to achieve. However, for this to happen requires the confidence of customers that their data is collected, stored, accessed, used and disposed of securely. This requires the effective use and exchange of information both within councils and between councils and other services such as Health and Education. It is therefore crucial that the public has confidence that any data provided is treated with appropriate confidentiality and kept safe from any risk of misuse.

Recent reported losses of personal data such as that from Her Majesty's Revenue and Customs require that all public bodies act to bolster public trust and confidence in the way personal information is handled and kept safe.

The Local Government Data Handling Guidelines produced by the Welsh Local Government Association, Local Government Association, SOCitm and SOLACE are designed as a response to that need for customer confidence. The Guidelines set out the fundamental steps that every council should take to mitigate the ever present risk that personal information is lost or that data protection systems fail. They therefore provide chief executives, senior managers and elected members with a vital aid in discharging their responsibilities and accountability for secure and effective handling of personal information.

The Information Commissioner, Richard Thomas in his introduction to the Guidelines in November 2008 stated that:

'I believe that if councils effectively implement the steps set out in the guidelines, they will significantly reduce the risk of incidents and problems, and in doing so, help build the necessary public trust in the handling of personal information that recent and well publicized incidents can only have eroded.'

This audit has reviewed the Isle of Anglesey County Council's compliance with selected key elements of the Guidelines and found non-compliance in a number of these key areas. Some of these weaknesses have already been reported on by the Welsh Audit Office in its 'Information Management Review Feedback Report' published in March 2012 and the Council's External Auditors' 'Does the Council have suitable arrangements for the effective governance of its information?' report published in May 2011.

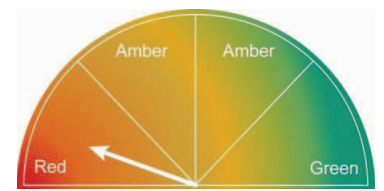
It is intended that following the publication of Internal Audit's reports on Data Security, Records Management and Business Continuity, a consolidated action plan incorporating all related recommendations including those of the WAO and External Auditor will be produced.

The lack of compliance with key Data Security practices amongst staff and members is considered to be a significant risk to the Council's reputation and could result in large fines through unauthorised disclosures of data.

The objectives and main risks considered as part of this audit were as follows:

Objective:	The Council has policies and procedures in place to ensure the integrity and security of the electronic and physical data held.
Risk:	The Council fails to maintain the security and / or integrity of its electronic and physical data leading to unauthorised access / loss of data and / or non-compliance with Data Protection legislation.
Objective:	The Council complies with the requirements of Local Government Data Handling Guidelines.
Risk:	The Council fails to comply with legislation through failure to provide adequate responsibility and accountability for the secure and effective handling of personal information.

1.2 CONCLUSION



Taking account of the issues identified, the Council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Action needs to be taken to ensure this risk is managed.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- The Council has not nominated a Senior Information Risk Owner Officer and Information Asset Owners as required by the Local Government Data Handling Guidelines. Overall accountability for the management and security of the Council's information has therefore not been assigned. The Guidelines require that: *'there should be clear lines of accountability throughout the organisation together with a programme of staff awareness raising, starting at induction but continually updated, which clearly sets out the expectations of staff.'*
- The Council has not produced an Information Management Policy setting out the commitment of the Council to manage information in a professional manner, so as to ensure that the Council's knowledge base is fully and efficiently exploited, whilst providing the necessary accountability and assurance. Therefore staff, Members and the public do not know how the Council manages its information.
- The Council has not produced an Information Charter as required by the Local Government Data Handling Guidelines setting out how the Council handles information and how members of the public can address any concerns that they have.
- Controls over the granting and removing of logical access to the Council's network for starters and leavers were found to be weak in relation to the communication of new starter and leaver information between Services and ICT. Testing found that some leavers' access to the network was still active after the date that the employees had left the employment of the authority.
- There is no procedure in place for the review of the Council's applications which collect and store personal, sensitive and confidential information to ensure that security over those systems meets the requirements of the Council's ICT Security Policy and the Information Security Standards (BS ISO/IEC 27002:2005).
- There are no procedures in place to identify what data is being processed and held by the Council. Data classification standards have not been defined to specify how sensitive, personal and business confidential data should be handled and transmitted.

- The Council has not undertaken a data mapping exercise to identify and control the key risk areas where information is transferred between itself and other organisations.
- The Council has not implemented a clear desk policy to ensure that staff do not leave documents and / or files containing personal, sensitive or confidential information on their desks unattended. There is an increased risk of unauthorised access to data where cleaning staff have access to offices after the normal staff working hours.
- The Council has not provided data security awareness raising or training sessions to staff. The Local Government Data Handling Guidelines (LGDHG) require that councils: *'ensure awareness raising and training is conducted at the appropriate level and monitor understanding and ability periodically; regular updates should be scheduled for all employees.'*
- The Council does not have formal written procedures for the reporting of data incidents and other information or data security issues. This increases the risk that incidents go unreported to the relevant staff and therefore that no action is taken to ensure that the incident does not reoccur.
- The Council does not have formal written procedures for the recovery from information risk incidents including the Council's media and legal response and the responsibilities of staff dealing with such incidents, including responsibility for reporting to the Information Commissioner's Office as appropriate.
- Arrangements for the collection and disposal of confidential waste have not been formalised. There is no formal agreement with the current contractor for the collection and disposal of confidential waste or any requirement for proof of disposal of such waste. Current informal procedures result in confidential waste sacks being stored insecurely within offices and corridors prior to collection.
- There are no policies in place for the review of data security procedures.
- There is no central inventory / asset register of ICT equipment and therefore no regular check that ICT equipment containing personal, sensitive or confidential data can be accounted for.

Application of and compliance with control framework

- Current storage arrangements for the Council's modern records are not adequately secure and do not allow for the convenient retrieval of files and / or documents when required. A separate review and report on the management of the Council's Modern Records is being undertaken by Internal Audit.
- The Council has published two separate document retention policies on its Intranet, one from Zurich and one from the Records Management Society of Britain. The Council has not determined which should be adopted by Council staff. A corporate approach to document retention is required if the new Modern Records storage facility is to be utilised effectively.
- In practice it was found that documents and files were being stored beyond their required retention periods. There is a lack of procedures within some services to identify documents that no longer need to be stored and to arrange for their secure disposal. This puts additional unnecessary pressure on already limited storage facilities.
- Where the relevant information is of a personal or sensitive nature and is no longer required for the purpose for which it was collected, continued storage is in breach of Data Protection Act (Principle 5), which states that 'Personal data processed for any purpose or purposes shall not be kept for longer than is necessary for that purpose or those purposes.'
- Security parameters were found not to have been applied to the appropriate Information Security Standards (BS ISO/IEC 27002:2005) or the Council's ICT Security Policy in relation to two Council systems during the review. These systems were the TOREX system for Leisure Centres and the CALM system to be used for recording of Modern Record storage.
- The Council's Main Office building is open for 24 hours a day, seven days a week for staff with access swipe cards. Testing of staff leavers against their swipe card status on the HFX / Win Time system showed that some cards had not been made inactive, therefore those staff could still gain access to the Council's Main Office. Such weaknesses in controls increase the risk of unauthorised access to personal, sensitive or confidential information. The LGDHG require that:

'all councils should ensure the security of their information through the physical security of their buildings, premises and systems.'

- Testing of a sample of leavers to network access status found that access status was still active for five out of six leavers tested. This increases the risk of unauthorised access to information and data held.

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- The review will take the form of a high level desk-based review of the Council's Data Security arrangements for electronic and physical data.
- The review will include an assessment of the Council's compliance with a selection of key requirements of the SOCITM Local Government Data Handling Guidelines.
- The work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

APPENDIX C**Red Assurance Reports****Modern Records Management – Report Ref: 1808.12/13****1 EXECUTIVE SUMMARY****1.1 INTRODUCTION**

An audit of Modern Records Management was undertaken as part of the approved internal audit periodic plan for 2012/13. The review was partly based on the Isle of Anglesey County Council's compliance with records management recommended practices and International Organisation for Standardisation standards (ISO 15489-1:2001). It should be emphasised that the review was concerned with the Council's approach and practices in relation to Modern Records Management and not a review of the new Anglesey Archives facility per se; although the review for completeness included these arrangements.

Records Management is the practice of applying systematic controls to recorded information required in the operation of a business during the various stages of their life cycle: from their creation or receipt, through their processing, distribution, maintenance and use, to their ultimate disposal. The purpose of records management is to promote efficiencies in record keeping, to assure that useless records are appropriately and systematically destroyed while valuable/useful information is protected and maintained in a manner that facilitates its access and use.

Records Management is often seen as an unnecessary or low priority administrative task that can be performed at the lowest levels; however with new compliance regulations, emphasis on privacy and data protection, records management has become a highly regarded concern within organisations with a greater focus to implement appropriate records retention and destruction schedules.

This review has concentrated solely on the management of paper records and has not included a review of arrangements in place for the management of electronic records.

The audit found that the Council has made a significant amount of investment in the Anglesey Archives facility that is fit for the purpose of records depository, the facility has also been evaluated as the solution to the provision of a depository service for all the Council's semi-current modern records. The facility has already begun to accept records from Services and is concentrating efforts on transferring those records currently at greatest risk due to their present storage arrangements. From September 2011 to the time of the review (September 2012) work between Services and the Anglesey Archives has resulted in the transfer of 500 boxes of modern records to the facility from the following services; Adult Services; Human Resources; Education and the Economic Development Unit. This process has demonstrated that arrangements to provide a site for secure records deposit are effective and appropriate. The intention now is to expand the service to all of the Council's semi-current modern records and this is considered to be significant progress from where the Council was just two years ago.

At present the facility's main service is to provide a place for archived records. The National Archive's approval awarded to Anglesey Archives this year confirms that the building and archive operations meet the requirements of the Standard in respects such as flood and damp prevention, fire protection, storage arrangements, security etc. If Anglesey Archives is to continue to expand services beyond the storage of archives into the storage of all the Council's semi-current records, further appropriate resources and standards need to be employed; for example adequate staffing levels and production of policies on the type of records that can/cannot be accepted at the facility (i.e. all records must be pest and damp free).

However, away from the Anglesey Archives, the audit found non-compliance in a number of key areas of the Council's Modern Records Management arrangements. Some of these weaknesses have already been reported by the Welsh Audit Office in its 'Information Management Review Feedback

Report' published in March 2012 and the Council's External Auditors', 'Does the Council have suitable arrangements for the effective governance of its information?' report published in May 2011.

It is intended that following the publication of Internal Audit's reports on Data Security, Records Management and Business Continuity, a consolidated action plan incorporating all related recommendations including those of the WAO and External Auditor will be produced.

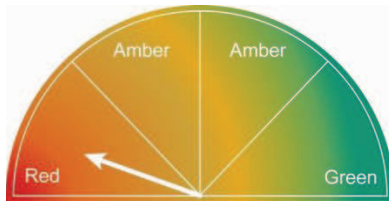
The lack of compliance with key Modern Record Management practices and several breaches to the Data Protection Act amongst staff and members is considered to be a significant risk to the Council's reputation and could result in large fines.

The latest fine from the Information Commissioners Office imposed on a local authority was £250,000 after employee records were found in a supermarket car park recycle bin. The Council had employed an outside company to digitise the records, but failed to seek appropriate guarantees on how the personal data would be kept secure.

The objectives and main risks considered as part of this audit were as follows:

Objective	Ensure that appropriate arrangements are in place for management of corporate modern records.
Risks	Inadequate modern records management arrangements to ensure the accessibility, security and integrity of corporate records. The records management system/database is not appropriately backed up to ensure that the system can be promptly restored following a disaster scenario.
Objective	Ensure that data stored is secure and cannot be inappropriately accessed or disclosed in relation to Data Protection Act.
Risks	Inappropriate accessing and/or disclosure of stored data in breach of Data Protection Act. Unauthorised access to the modern records management database through ineffective logical access controls.
Objective	Arrangements are in place for the secure disposal of stored modern corporate records when they reach the end of their required retention period.
Risks	Data is stored unnecessarily incurring storage costs beyond those necessary and creating space issues at the archiving facility. Personal and sensitive data is stored beyond the period for which it was collected in breach of Data Protection Act.
Objective	Departments have adequate procedures and resources in place for the processing of modern records for transfer to Anglesey Archives.
Risks	Departments do not transfer modern records to the Anglesey Archives facility due to lack of process and resources; Current inadequate modern records storage arrangements continue.

1.2 CONCLUSION



Taking account of the issues identified, the Council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

Action needs to be taken to ensure this risk is managed.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- The Council has not produced a Records Management Policy setting out the commitment of the Council to manage records in a systematic manner and to ensure accountability and effective practice throughout the Council. The policy should outline the roles and responsibilities of the services and Anglesey Archives and on a corporate level.
- The Council has not allocated resources or a budget for records management practices such as the transfer and disposal of records. However it was identified through the reported costs associated with transferring and processing the records to the former Ysgol y Graig and Anglesey Archives since September 2011 that the Council spends thousands of pound annually on the transfer of the records to storage and the disposal of confidential waste
- The Council has published two retention schedules on the Council's intranet which are conflicting. The Council has not formally adopted either retention policy.
- The Council has limited capacity for relocating and the transfer of records currently stored in the former Ysgol y Graig to Anglesey Archives.
- Arrangements for the collection and transfer of the modern records to the storage facilities have not been formalised. There is no formal agreement with the current contractor to provide secure transfer.
- Arrangements for the collection and disposal of confidential waste have not been formalised. There is no formal agreement with the current contractor for the collection and disposal of confidential waste or any requirement for proof of disposal of such waste. Current informal procedures result in confidential waste sacks being stored insecurely within offices and corridors prior to collection.

Application of and compliance with control framework

- Current storage arrangements for the Council's modern records are not adequately secure and do not allow for the convenient retrieval of files and / or documents when required.
- It was found that documents and files were being stored beyond their required retention periods. There is a lack of procedures within some services to identify documents that no longer need to be stored and to arrange for their secure disposal. This puts additional unnecessary pressure on already limited storage facilities.
- Where the relevant information is of a personal or sensitive nature and is no longer required for the purpose for which it was collected, continued storage is in breach of the Data Protection Act (Principle 5), which states that 'Personal data processed for any purpose or purposes shall not be kept for longer than is necessary for that purpose or those purposes.'
- Following the review of two suppliers used for the transfer and disposal of records management, it was seen that the Council has procured work on an ad hoc basis and has not followed the Council's Procedure Rules in relation to the corporate aggregate spend. By not aggregating spend the Council may also be spending in excess of the threshold where EU procurement regulations apply.

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- The review will concentrate on the Council's approach and practices in relation to Modern Records Management.
- The review will not cover the Council's project for Electronic Records Management.
- The work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

NB – Archives were not considered as part of this review as a separate review of this area was undertaken by the National Archives which resulted in the formal appointment of 'Anglesey Archives as a place of deposit and to award TNA approval to the service.' (TNA Inspection of Anglesey Archives – July 2012) This appointment was the result of considerable work by Lifelong Learning and any arrangements for further storage must ensure that they meet the same standards to ensure that this achievement is maintained.

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to	Audit Committee
Date	12 December 2012
Subject	Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review Report 2012/13
Lead Officer	Head of Service (Finance)
Contact Officer	Einir Wyn Thomas (Tel: 2605)
Nature and reason for reporting	
For scrutiny - consistent with professional guidance.	

1. Background

One of the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management is the receipt by the full council of a mid-year review report on treasury management activity. This report will fulfill that requirement, and covers the following:

- An economic update for the first six months, and looking forward to the second half, of 2012/13;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2012/13;
- A review of the Council's borrowing strategy for 2012/13;
- A review of any debt rescheduling undertaken during 2012/13;
- A summary of activity since quarter 2;
- A look ahead to next year; and
- A review of compliance with Treasury and Prudential Limits for 2012/13.

The County Council has resolved that the Audit Committee should take the role of scrutinising the reports on Treasury Management.

2. Economic Update

The Council's Treasury Advisers have recently provided a summary of the economic background and a short term outlook (Appendix 1) and also the following forecasts.

	Dec 2012	Mar 2013	Jun 2013	Sep 2013	Dec 2013	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015
Bank Rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
5yr PWLB rate (%)	1.50	1.50	1.50	1.60	1.60	1.70	1.70	1.80	2.00	2.20
10yr PWLB rate (%)	2.50	2.50	2.50	2.60	2.60	2.70	2.70	2.80	3.00	3.20
25yr PWLB rate (%)	3.70	3.80	3.80	3.80	3.80	3.90	3.90	4.00	4.10	4.30
50yr PWLB rate (%)	3.90	4.00	4.00	4.00	4.00	4.10	4.10	4.20	4.30	4.50

During the quarter HM Treasury launched a discounted borrowing rate to provide cheaper PWLB borrowing to local authorities, effective from 1 November 2012. In order to be eligible for this 'certainty rate', which is 0.2% below the current standard rate, local authorities were required to submit specified information by a deadline of mid September 2012. This Authority complied with the requirements and is now eligible for this discounted rate, which is on a rolling annual basis. The above forecasts for PWLB rates incorporate this discount.

3. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2012/13 was approved by this Council on 6 March 2012. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2012/13 Original Estimate £m	Position as at 30 September 2012 £m	2012/13 Current Estimate £m
Council Fund	18,000	4,483	18,000
HRA	9,800	4,664	9,800
Total	27,800	9,147	27,800

4.2 Changes to the Financing of the Capital Programme

There are no changes to the financing of the capital programme to report. The revenue contributions to the programme remain flexible and have been identified as a potential source of additional funding for the revenue budget.

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to be within the original forecast Capital Financing Requirement.

Prudential Indicator – External Debt / the Operational Boundary

	2012/13 Original Estimate £m	Position as at 30 September 2012 £m	2012/13 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – Council Fund	85,300	76,162	82,078
CFR – HRA	28,400	21,421	26,755
Total CFR	113,700	97,584	108,833
Net movement in CFR	13,034	(16,116)	8,167
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	118,000	96,100	96,096
Other long term liabilities	2,000	Nil	Nil
Total debt 31 March	120,000	96,100	96,096

4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2012/13 Original Estimate £m	Position as at 30 September 2012 £m
Gross borrowing	113,717	96,100
Plus other long term liabilities	Nil	Nil
Less investments	25,932	22,100
Net borrowing	87,785	74,000
CFR	113,700	97,584

By the end of the year the CFR is projected to be £109m, and there is a borrowing requirement of £13m as a result. The option to internalise is still available, but it is likely the PWLB borrowing is a more attractive route as a result of the new Certainty Rate. Borrowing at year end will therefore be in the range £96m to £109m.

The Chief Financial Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2012/13 Original Indicator (£m)	Position as at 30 September 2012 (£m)
Borrowing	123,000	96,100
Other long term liabilities	2,000	Nil
Total	125,000	96,100

5. Investment Portfolio 2012/13

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return when balanced with the associated risk. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

The Council held £22m of investments as at 30 September 2012 (£16m at 31 March 2012) and the investment portfolio yield for the first six months of the year is 0.96%.

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2012/13.

The Council's budgeted investment return for 2012/13 is £0.4m. As indicated in the strategy, some borrowing has been internalised and so, during the year, the projected investment returns are below those budgeted for. However, there have been corresponding savings on loan interest and the forecast net outturn is within budget.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function although it is becoming more difficult to place funds as the credit quality of counterparties continues to be reduced.

During the year the list of counterparties with suitable credit ratings continued to reduce substantially, with credit ratings across the board continuing to suffer and opportunities for investment continuing to narrow.

Deposits continue to be made with Santander UK plc consistent with the decision made by the County Council in March 2012 and endorsed by the Audit Committee. The current position is the short term ratings for two of the three agencies have fallen to one category below the normal approved list level. Long term ratings continue to be below the level of the approved list.

6. Borrowing

The increase in the Council's capital financing requirement (CFR) for 2012/13 is £8.2m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table at paragraph 4.4 shows the Council has borrowings of £96m and has utilised £1.5m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

As outlined below, the general trend has been a reduction in interest rates during the six months, across all maturity bands.

We are currently internalising our borrowing due to current market conditions and interest rates and we are not intending talking out any new PWLB during the year. However, this strategy is flexible to market conditions, which continue to be monitored on a regular basis.

7. Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2012/13.

8. Activity Since Quarter Two

Since the end of the quarter a 6 month, £5m, fixed term investment with the Royal Bank of Scotland matured and this was re-invested with the bank for 364 days at a rate of 1.58%. No other fixed term investments were made and no new borrowing nor debt rescheduling has taken place. In October Member training on treasury management issues was undertaken in order to support the scrutiny role of members of the Audit Committee.

9. Plans for next year

At its next meeting in February, the Audit Committee will consider the plans for borrowing and investment for the forthcoming period. The initial plans, according to the current strategy are:

- to use the available general supported borrowing allocation of £2.142m (£2.689m in 2012/13) plus any unused current year allocation;
- to use the Local Government Borrowing Initiative supported borrowing in full; and
- to consider a proposal to borrow £5m a year in unsupported borrowing to enable the asset rationalisation programme including 21st Century Schools.

10. Recommendation

To consider the content of the report and to pass the report onto the next meeting of the County Council together with any comments.

Rhagolygon Economaidd / Economic Update

Economic Performance to date

Economic sentiment, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative sentiment in that area would inevitably permeate into the UK's economic performance.

With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East/China.

In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (CPI @ 2.6% in July), UK GDP fell by 0.5% in the quarter to 30 June, the third quarterly fall in succession. This means that the UK's recovery from the initial 2008 recession has been the worst and slowest of any G7 country apart from Italy (G7 = US, Japan, Germany, France, Canada, Italy and UK). It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.

This weak recovery has caused social security payments to remain elevated and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public sector borrowing deficit has been pushed back further into the future. The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the ECB bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

Outlook for the second half of 2012/13

The risks in economic forecasts continue unabated from the previous treasury strategy. Concern has been escalating that the Chinese economy is heading for a hard landing, rather than a gentle slowdown, while America is hamstrung by political deadlock which prevents a positive approach to countering weak growth. Whether the presidential election in November will remedy this deadlock is debatable but urgent action will be required early in 2013 to address the US debt position. However, on 13 September the Fed. announced an aggressive stimulus programme for the economy with a third round of quantitative easing focused on boosting the stubbornly weak growth in job creation, and this time with no time limit. They also announced that it was unlikely that there would be any increase in interest rates until at least mid 2015.

Eurozone growth will remain weak as austerity programmes in various countries curtail

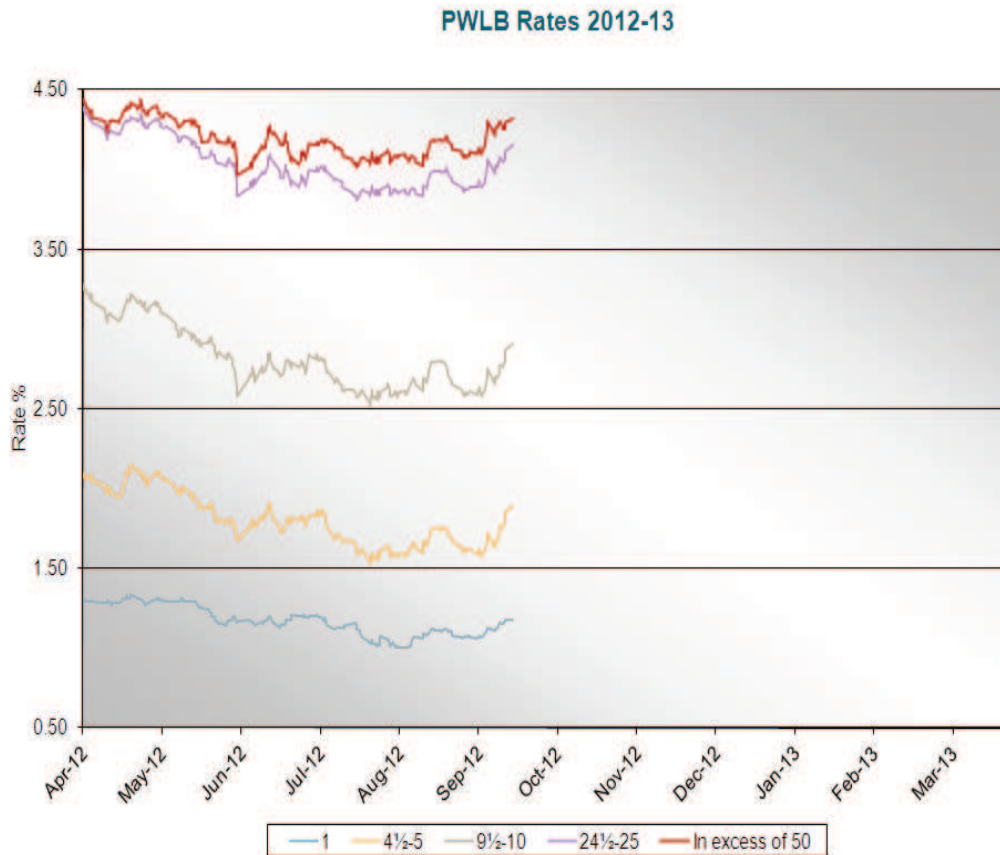
economic recovery. A crunch situation is rapidly developing in Greece as it has failed yet again to achieve deficit reduction targets and so may require yet another (third) bail out. There is the distinct possibility that some of the northern European countries could push for the ejection of Greece from the Eurozone unless its financial prospects improve, which does not seem likely at this juncture. A financial crisis was also rapidly escalating over the situation in Spain. However, in early September the ECB announced that it would purchase unlimited amounts of shorter term bonds of Eurozone countries which have formally agreed the terms for a bailout. Importantly, this support would be subject to conditions (which have yet to be set) and include supervision from the International Monetary Fund. This resulted in a surge in confidence that the Eurozone has at last put in place the framework for adequate defences to protect the Euro. However, it remains to be seen whether the politicians in charge of Spain and Italy will accept such loss of sovereignty in the light of the verdicts that voters have delivered to the politicians in other peripheral countries which have accepted such supervision and austerity programmes. The Eurozone crisis is therefore far from being resolved as yet. The immediate aftermath of this announcement was a rise in bond yields in safe haven countries, including the UK. Nevertheless, this could prove to be as short lived as previous “solutions” to the Eurozone crisis.

The Bank of England Quarterly Inflation Report in August pushed back the timing of the return to trend growth and also lowered its inflation expectations. Nevertheless, concern remains that the Bank’s forecasts of a weaker and delayed robust recovery may still prove to be over optimistic given the world headwinds the UK economy faces. Weak export markets will remain a drag on the economy and consumer expenditure will continue to be depressed due to a focus on paying down debt, negative economic sentiment and job fears. The Coalition Government, meanwhile, is likely to be hampered in promoting growth by the requirement of maintaining austerity measures to tackle the budget deficit.

The overall balance of risks is, therefore, weighted to the downside:

- We expect low growth in the UK to continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.
- The expected longer run trend for PWLB borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increases in yield.
- This interest rate forecast is based on an assumption that growth starts to recover in the next three years to a near trend rate (2.5%). However, if the Eurozone debt crisis worsens as a result of one or more countries having to leave the Euro, or low growth in the UK continues longer, then Bank Rate is likely to be depressed for even longer than in this forecast.

The graph and table above show the movement in PWLB rates for the first six months of the year (to 10 September 2012).



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	GBR 1mth	
High	1.330%	1.400%	1.690%	1.910%	2.150%	3.250%	4.370%	4.430%	1.500%	High
Dates	20/04/2012	20/04/2012	20/04/2012	20/04/2012	20/04/2012	02/04/2012	02/04/2012	24/04/2012	18/04/2012	Dates
Low	1.000%	1.030%	1.170%	1.320%	1.520%	2.520%	3.810%	3.960%	1.450%	Low
Dates	02/08/2012	02/08/2012	23/07/2012	23/07/2012	23/07/2012	23/07/2012	18/07/2012	01/06/2012	01/08/2012	Dates
Average	1.171%	1.211%	1.410%	1.592%	1.801%	2.816%	4.032%	4.190%	1.478%	Average
Spread	0.330%	0.370%	0.520%	0.590%	0.630%	0.730%	0.560%	0.470%	0.050%	Spread

Allan gan / From SECTOR Ltd

APPENDIX 3

Borrowing and Investment Summary – Quarters 1 and 2 2012/13

	30 Sept 2012		30 June 2012	
	£m	%	£m	%
Borrowing – fixed rate	96.1	5.53	96.1	5.53
Borrowing – variable rate	-	-	Nil	-
Deposits – Call to 30 days	12.1	0.76	14.0	0.76
Deposits – Fixed Term < 1 year	10.0	1.42	10.0	1.42
Deposits – Fixed Term 1 year +	-	-	Nil	-
Total Deposits	22.1	1.06	24.0	1.03
Average Deposits in the Quarter	27.9	-	26.8	-

Prudential and Treasury Indicators – Quarter 2 2012/13

Prudential / Treasury Indicator	2012/13 Indicator £m	Quarter 2 - Actual £m
Capital Financing Requirement (CFR)	113.7	n/a
Gross borrowing	n/a	96.1
Investments	n/a	22.1
Net borrowing	n/a	74.0
Authorised limit for external debt	123	Within limit
Operational boundary for external debt	118	Within limit
Limit of fixed interest rates based on net debt	105	Within limit
Limit of variable interest rates based on net debt	20	Nil
Principal sums invested > 364 days	15	Nil
Maturity structure of borrowing limits		
Under 12 months	20%	0%
12 months to 2 years	20%	7%
2 years to 5 years	50%	6%
5 years to 10 years	75%	15%
10 years and above	100%	72%

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