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CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

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ERHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO	AUDIT COMMITTEE
DYDD MAWRTH, 5 CHWEFROR am 2 o'r gloch y prynhawn	TUESDAY, 5 FEBRUARY 2013 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, Eric Roberts (Is-Gadeirydd / Vice-Chair)

Llafur / Labour

C. Ll. 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

Aelodau Lleyg / Lay Members: Mr Richard Barker, Mrs Sharon Warnes

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 - 4)

To submit for confirmation and to be signed, the minutes of the previous meeting of the Audit Committee held on 12 December, 2012.

3 CORPORATE RISK REGISTER (Pages 5 - 10)

To submit a report in respect of the above.

**4 EXTERNAL AUDIT - UPDATE ON PERFORMANCE WORK PROGRAMME
(Pages 11 - 12)**

Update on performance work programme.

5 EXTERNAL AUDIT - UPDATE ON WORK PLAN AND TIMETABLE (Pages 13 - 14)

External Audit - Update on Work Plan and Timetable February, 2012 to March, 2013.

6 EXTERNAL AUDIT - UPDATE ON FINANCIAL AUDIT WORK (Pages 15 - 20)

Update on Financial Audit Work

7 EXTERNAL AUDIT - ANNUAL FINANCIAL AUDIT OUTLINE (Pages 21 - 34)

Annual Financial Audit Outline

8 EXTERNAL AUDIT - IMPROVEMENT ASSESSMENT LETTER (Pages 35 - 40)

Improvement Assessment Letter

9 INTERNAL AUDIT (Pages 41 - 46)

To submit the Internal Audit Progress report.

10 ENHANCING THE AUDIT COMMITTEE (Pages 47 - 58)

To submit a report in respect of the above.

11 ANNUAL REPORT OF THE AUDIT COMMITTEE 2012/13 (Pages 59 - 66)

To submit the draft Annual Report of the Audit Committee.

12 TREASURY MANAGEMENT (Pages 67 - 100)

12.1 To submit the Quarter 3 Treasury Management Report.

12.2 To submit the draft Treasury Management Strategy Statement 2013/14.

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AUDIT COMMITTEE

Minutes of the meeting held on 12 December, 2012

- PRESENT:** Councillor Thomas Jones (Chair)
Councillor Eric Roberts (Vice-Chair)
- Councillors Jim Evans, E.G.Davies, Keith Evans, Cliff Everett, G.O.Jones,
Alun Mummery
- Lay Members – Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Interim Head of Function (Resources) & Section 151 Officer
Head of Service (Finance)
Audit Manager (JF)
Committee Officer (ATH)
- APOLOGIES:** Councillors Vaughan Hughes, Ieuan Williams
- ALSO PRESENT:** Mr Patrick Green (RSM Tenon), Mrs Lynn Pamment, Joe Hargreaves (PwC),
Andy Bruce (WAO)
-

The Chair welcomed all those present to this meeting of the Audit Committee. On behalf of the Committee's Members, he extended his congratulations and best wishes to Mrs Lynn Pamment, PwC on her marriage recently.

1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES

The minutes of the previous meeting of the Audit Committee held on 25th September, 2012 were presented and confirmed as correct.

3 CORPORATE RISK REGISTER

The Interim Head of Function (Resources) and Section 151 Officer updated the Committee verbally on developments with regard to the Corporate Risk Register.

The Interim Head of Function (Resources) and Section 151 Officer informed Members that significant work in terms of developing a Transformation Plan for Anglesey is currently being undertaken and various other issues regarding the way forward are also under consideration by the Senior Leadership Team. Accompanying this work is an overall review of what are the main corporate risks. The Senior Leadership Team is in the process of reviewing the Corporate Risk Register with the aim of streamlining it down to the ten primary corporate risks that need to be managed. A thorough review of how the Corporate Risk Register is managed is therefore in process with the aim of ensuring that the focus is on the main risks, meaning that certain items are being taken out whilst others are being accommodated as sub-headings. That in turn is feeding into the work carried out in relation to developing an operating model, and subsequently into the Transformation Plan that is being developed to carry matters forward in the next six months. The Risk Register, Strategy and accompanying guidance have been approved and a project group to manage the risk strategy has been established and an initial meeting arranged. Given that there is a great deal of work currently around the Corporate Risk register and the register is in a state of flux it was deemed of little benefit to present it to this meeting of the Audit Committee as it would have been the same version as submitted to the last meeting. It is

anticipated that the renewed Register will be presented to the February, 2013 meeting of the Audit Committee.

It was resolved to note the information.

ACTION ARISING: The Interim Head of Function (Resources) to present the Corporate Risk Register to the Audit Committee's next scheduled meeting in February, 2013.

4 EXTERNAL AUDIT

4.1 The Annual Audit Letter for 2011/12 was presented for the Committee's consideration.

Mrs Lynn Pamment, PwC highlighted the key messages from the Annual Letter as follows –

- An unqualified audit opinion on the accounting statements was issued on 28 September, 2012 confirming that they present a true and fair view of the Council's financial position and transactions.
- 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 30th September.
- The External Auditor emphasises the importance of ensuring these improvements are sustained and that sufficient and appropriate resources are dedicated to the production of the statutory accounts going forward in accordance with required timescales.
- The External Auditor overall is satisfied that the Council has in place appropriate arrangements to secure economy, efficiency and effectiveness. Areas where the effectiveness of these arrangements have yet to be demonstrated or where improvements could be made are noted in the Letter and will be highlighted in the Auditor General's Annual Improvement Report.
- A certificate of completion on the accounting statements is yet to be issued pending resolution of an objection to the accounts form a local elector.

Members acknowledged the improvements and efforts made by the Finance Service in delivering the statement of accounts on time in line with the statutory timetable. In the subsequent discussion on the Audit Letter they raised the following matters –

- The staff position and the progress being made to fill key senior accountancy posts on a permanent basis which they regarded as a risk area in view of the need to consolidate the position in readiness for the 2012/13 accounts preparation and production process. The Interim Head of Function (Resources) explained the restructuring steps being taken to address the issue including filling knowledge and skills gaps within the context of other developments including the introduction of a new Financial Ledger System and its implications for how the Council conducts its business.
- The progress being made in developing business continuity and disaster recovery plans the absence of which has been highlighted in external audit reports for a number of years.

It was resolved to accept the Annual Audit Letter for 2011/12 and to note its contents.

4.2 The External Audit Work Plan and Timetable for the period from February 2012 to March, 2013 was presented for the Committee's information.

Mr Andy Bruce, WAO Performance Audit Lead updated Members on the status of current regulatory activity both on an all Wales and Anglesey specific bases along with the process and timescale for reporting back to the Council in respect of each piece of work as relevant.

Clarification of the following issues was sought –

- Whether External Audit feedback on the Annual Governance Statement for 2011/12 will be available in time to inform good practice as regards the preparation of the 2012/13 Statement. Mr Andy Bruce confirmed that whilst he would be happy to provide local feedback in respect of Anglesey's AGS he could not give assurance that feedback from the overall evaluation of the 22 Welsh authorities' AGS would be available.
- The way in which the activity of the Estyn Education Recovery Board and the accompanying Post Inspection Action Plan fits in with the mainstream Regulatory Programme as presented. It was noted that it was expected that the Audit Committee would be kept informed and up to

date regarding the Estyn Post Inspection Action Plan as part of its general oversight role of regulatory activity across the Council.

It was resolved to accept the update on the Regulatory Plan as information.

ACTION ARISING: WAO to clarify how the Estyn Post Inspection Action Plan and Education Recovery Board dovetail with the Regulatory Work Plan.

4.3 The Financial Audit Progress report was presented for the Committee's information. The report outlined the position in respect of progress against the key milestones set out in the 2011/12 Financial Audit outline and grant certification work.

Mrs Lynn Pamment, PwC updated the Committee on progress in relation to grant certification work for 2011/12 grants and also for 2010/11 grants all of which claims for that year had now been certified excepting the Housing Benefit and Council Tax Subsidy which was in the process of being reviewed prior to certification.

It was resolved to accept the report and to note the information.

5 INTERNAL AUDIT

A progress report on the work of Internal Audit for the period from 1 April to 16 November, 2012 was presented for the Committee's consideration.

The Audit Manager drew attention to the primary points of the report as follows –

- There were two reviews in the period which resulted in a "Red Assurance" opinion – Data Security and Modern Records Management the executive summaries of which were provided as appendices B and C to the report. The recommendation from several reviews of Information Governance/Management and Data Security conducted by Internal Audit, PwC and WAO over the course of the past year have been collated into a single Action Plan which is being addressed by an Information Management Group led by the Interim Head of Function (Resources).
- The number of advisory/investigative reports undertaken during the period (17). Referral work has diverted resources from Planned Internal Audit work meaning that only 46% of audit reviews have been completed to draft stage which is below the 90% target.
- The performance in implementing internal audit recommendations in the period is below target with 67% of High and Medium recommendations having been recorded as implemented.

In the ensuing discussion, Members raised the following matters –

- Concern regarding the income position of Oriel Ynys Môn given that the net running costs for the Oriel for 2011/12 (expenditure less income – including £250k income from the Isle of Anglesey Charitable Trust) were £33k over budget for the year. Members were of the view that the issue of the income history of the Oriel merited further investigation. It was agreed that the matter should be raised in the first instance at the next meeting of the Isle of Anglesey Charitable Trust.
- The potential and opportunities for linking internal audit review work with the savings agenda and specifically the value for money aspect of those areas reviewed. Mr Patrick Green RSM Tenon acknowledged the point made and said that the scoping of audit reviews to accommodate that dimension would be discussed with Officers next year should that be the direction of travel favoured by the Committee.
- Clarification around the follow up action to the audit review of Building Maintenance Unit Procurement arrangements. The Officers explained what had been the prompt for the initial review instigated with the WAO in order to obtain an overall view of the BMU in terms of operation and value for money and what had taken place as follow up developments. The matter is being considered by the SLT.
- Follow up review of school recommendations and the unsatisfactory progress deemed to have been made by those schools covered by the review in terms of implementing previous internal audit recommendations in relation to governance issues. The Officers outlined the measures being taken to develop a system to facilitate and ensure compliance by schools with governance and control requirements.

It was resolved to accept the report and to note its contents.

ACTION ARISING: The Interim Head of Function (Resources) to arrange for a report from the Information Management Group to be made available to the next meeting of the Audit Committee.

6 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID YEAR REVIEW REPORT 2012/13

A report by the Head of Service (Finance) incorporating a mid-year review statement in relation to the Treasury Management Strategy and Investment Strategy was presented for the Committee's consideration and comment.

The Head of Service (Finance) referred to the following matters –

- The economic background, short term outlook (as expanded upon in Appendix 1 to the report) and forecasts.
- The Council's capital position as documented in section 4 of the report
- The Council's Investment portfolio for 2012/13 and performance thereof along with the investment counterparty criteria.
- Borrowing arrangements and activity
- Initial plans for 2013/14

The Head of Service (Finance) also drew Members' attention to an impending change in relation to treasury management and borrowing in the form of the expectation that the arrangement for the Housing Revenue Account will come to an end for the eleven remaining authorities in Wales which have retained their stock. This will be done by buying out debt or by transferring debt, and she outlined what was being done to prepare for the change pending receipt of definitive information from the Welsh Government. The Officer said that the Audit Committee would be provided with information on this matter as soon as that can be made available.

It was resolved to accept the Treasury Management Strategy and Investment Strategy mid-year report and to refer it to the County Council.

**Councillor T.H.Jones
Chair**

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	5 FEBRUARY 2013
TITLE OF REPORT:	RISK MANAGEMENT
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	HEAD OF FUNCTION (RESOURCES)
ACTION:	FOR INFORMATION / CONSIDER THE CORPORATE RISK REGISTER

1. INTRODUCTION

- 1.1 The Council's Risk Management Strategy requires the Audit Committee to review the Risk Management framework and review and challenge the Corporate Risk Register and resultant action plans for the top corporate risks.
- 1.2 The initial Corporate Risk Register was presented to the Audit Committee in September 2012.

2. PROGRESS ON IMPLEMENTATION OF RISK MANAGEMENT FRAMEWORK

- 2.1 The Risk Management Strategy and Risk Management Guidance were endorsed by the Executive on 15th October 2012.
- 2.2 Risk Management training was delivered to Members of the Audit Committee, Scrutiny Committee and the Executive on 6th November 2012.
- 2.3 Membership of the Risk Management Group was confirmed in November 2012 and the Group held an initial meeting on 18th December 2012.
- 2.4 SLT met on 23rd January 2013 to review the Corporate Risk Register. It should be noted that this meeting was initially scheduled for the 18th January 2013 but was postponed due to the snow.
- 2.5 The Risk & Insurance Manager continues to support Heads of Service to develop their Service Risk Registers.

3. CORPORATE RISK REGISTER

- 3.1 The revised Corporate Risk Register is attached to this report at Appendix A.

- 3.2 The risk definitions (the Vulnerability), Triggers and Consequences have all been reviewed by SLT as have the Risk Levels. Unfortunately, due to the limited time available during the meeting of the 23rd January 2013, the Control Measures have not been reviewed. SLT have been requested to review and update the Control Measures by the end of February 2013.
- 3.3 The SLT review has identified the following as the Council top five risks:-
- YM33 Failing to provide services within the budget provided
 - YM36 Failing to plan for the impact of the health sector reforms
 - YM2 Failing to sustain the improvements made in terms of Governance
 - YM7 Not managing information effectively or efficiently
 - YM38 Failure to plan affordable and suitable housing to meet the needs of the population
- 3.4 The Corporate Risk Register will always be a living and developing document and, as such, both the SLT and the Risk Management Group will continue to review and update the document as required.

4. RECOMMENDATIONS

- 4.1 The Committee is requested to consider the Corporate Risk Register.

CORPORATE RISK REGISTER

Risk Reference	Risk Owner / Lead Officer	Date Identified or Amended	Risk Identified			Risk Level			Additional Control Measures / Treatment Required			Residual Risk Level			Review Date / Frequency
			Vulnerability / Hazard	Trigger	Consequences / What or who will be effected and how / Outcome / Effect on objectives	Likelihood	Severity	Score	Action	Responsible Officer	Target Date	Likelihood	Severity	Score	
YM2	Chief Executive	10/2011	Failing to sustain the improvements made in terms of Governance	<ul style="list-style-type: none"> Elections and Introduction of new multi – member wards etc Political instability 	<ul style="list-style-type: none"> Objectives not met Reputational damage Further intervention Uncertainty Low morale 	3	5	15							
YM1	Chief Executive	10/2011	Failing to work collaboratively with others to benefit the Council, or continuing to work collaboratively where there are no benefits for the Council in doing so	<ul style="list-style-type: none"> Budgetary Pressures WG Agenda Poor relationships Lack of trust in the Council Lack of planning Lack of consultation Political barriers 	<ul style="list-style-type: none"> Reputational damage Less efficient services Objectives not met Lack of improvement in key areas External intervention (not collaborating) Loss of local decision making (when collaborating) Loss of funding (not collaborating) 	4	3	12							
YM8	HoF (Resource)	10/2011	Failing to plan for reduced funding	<ul style="list-style-type: none"> Reduced settlement from WG Reduced income Ineligible to apply for certain funding streams Inflationary & interest rate effects Affordable priorities – savings not achieved 	<ul style="list-style-type: none"> Objectives not met Reduction in services provided Lower quality services provided Reputational damage Lack of improvement in key areas External intervention 	3	4	12							
YM33	HoF (Resource)	01/2013	Failing to provide services within the provided budget	<ul style="list-style-type: none"> Declining budgets Increased demand for service Lack of timely financial management / budgetary control information 	<ul style="list-style-type: none"> Reduction in services provided in future years Reputational damage Lack of improvement in key areas 	5	4	20							
YM9	Deputy Chief Executive	10/2011	Lack of Capacity and / or capability to undertake the Council's workload	<ul style="list-style-type: none"> Increased or additional duties Small Authority Lack of joined up systems Weak workforce planning arrangements External requirements Large Projects (e.g. Wylfa, Energy Island) 	<ul style="list-style-type: none"> Objectives not met Delays Reduction in services provided Lower quality services provided Reputational damage Low staff morale Increased accident and sickness levels Difficulties retaining staff Increased dependency on temporary and agency staff Uncertainty 	3	4	12							
YM32	DCE / HoF (Resource)	10/2011	Failing to complete the Job Evaluation review	<ul style="list-style-type: none"> Statutory requirement to undertake Salary and Grading Review Time taken to date to undertake Salary and Grading Review (>10 years) 	<ul style="list-style-type: none"> Low staff morale Uncompetitive pay levels Increased risk of perpetuating pay inequality 	3	2	6							
YM34	Deputy Chief Executive	01/2013	Failing to reach agreement in relation to equal pay claims	<ul style="list-style-type: none"> Delays in completing JE 	<ul style="list-style-type: none"> Reputational damage Increased financial costs 	3	4	12							
YM3	Deputy Chief Executive	10/2011	Weak Business Planning, Risk Management and Performance Management arrangements	<ul style="list-style-type: none"> Lack of capacity Not fully embedded Disjointed functions Lack of appreciation for the need and requirement to plan Impact of large projects (e.g. Wylfa, Energy Island) Performance targets not seen as important within the Council 	<ul style="list-style-type: none"> Uncertainty Inappropriate decision making Ineffective use of resources Criticism from regulators Lack of accountability, compliance and assurance Failure to achieve key targets Financial impact 	3	4	12							

CORPORATE RISK REGISTER

Risk Reference	Risk Owner / Lead Officer	Date Identified or Amended	Risk Identified			Risk Level			Additional Control Measures / Treatment Required			Residual Risk Level			Review Date / Frequency
			Vulnerability / Hazard	Trigger	Consequences / What or who will be effected and how / Outcome / Effect on objectives	Likelihood	Severity	Score	Action	Responsible Officer	Target Date	Likelihood	Severity	Score	
YM13	Deputy Chief Executive	10/2011	Inadequate and ineffective internal communications	<ul style="list-style-type: none"> Poor communications Lack of appreciation of the need to consult 	<ul style="list-style-type: none"> Reputational damage Time and cost of dealing with complaints Inappropriate decision making Duplication Less efficient service provision 	3	2	6							
YM22	Director of Sustainable Development	10/2011	Failure to manage Buildings and Land effectively	<ul style="list-style-type: none"> Budgetary constraints Legislative requirements Historical lack of investment Continually evolving needs of the Council Economic downturn 	<ul style="list-style-type: none"> Loss of / reduced income Increased repair and maintenance costs Need for emergency repairs Staff working in inappropriate conditions (e.g. temporary buildings, lack of space) Excess space capacity in pockets Breach of health and safety legislation Empty buildings a drain on resources 	3	4	12							
YM7	Head of Function - Resources	10/2011	Risk of not managing information efficiently or effectively	<ul style="list-style-type: none"> Major IT systems which are not fit for purpose Lack of investment in IT systems Budgetary constraints Legislative requirements Continually evolving needs of the Council 	<ul style="list-style-type: none"> Inability to comply with legal / statutory / contractual requirements Correct and up to date data not available impacting decision making Duplication Less efficient services Loss of / reduced income 	5	3	15							
YM31	HoF Legal and Administration / HoF Resources	08/2012	Risk of not being Data compliant	<ul style="list-style-type: none"> Insecure systems Human error Inadequate storage / disposal arrangements Lack of corporate leadership 	<ul style="list-style-type: none"> Damage to reputation Financial Penalties 	4	3	12							
YM20	Director of Sustainable Development	10/2011	Not having adequate or robust Business Continuity Management arrangements in place	<ul style="list-style-type: none"> BCM not effective Lack of appreciation of the statutory requirements and consequences Lack of capacity 	<ul style="list-style-type: none"> Unable to respond appropriately Service disruption Council not fulfilling it's role under the Civil Contingencies Act Damage to reputation Recovery prolonged 	2	4	8							
YM28	Director of Sustainable Development	10/2011	Failure to meet energy efficiency targets	<ul style="list-style-type: none"> Increasing market prices Failure to secure / renew favourable contract terms More stringent targets Lack of stakeholder involvement Lack of funding available 	<ul style="list-style-type: none"> Increased costs Impact on funding available 	3	3	9							

Page 8

CORPORATE RISK REGISTER

Risk Reference	Risk Owner / Lead Officer	Date Identified or Amended	Risk Identified			Risk Level			Additional Control Measures / Treatment Required			Residual Risk Level			Review Date / Frequency
			Vulnerability / Hazard	Trigger	Consequences / What or who will be effected and how / Outcome / Effect on objectives	Likelihood	Severity	Score	Action	Responsible Officer	Target Date	Likelihood	Severity	Score	
YM15	Head of Function (Resources)	10/2011	Failure to plan for the effects of Welfare Benefits Reforms	<ul style="list-style-type: none"> Changes to the Welfare Benefits system nationally Social Fund reform Lack of detail provided from Central and Welsh Governments 	<ul style="list-style-type: none"> Exacerbation of financial inclusion Increase in anti-social behaviour and criminal activities including fraud Substantial increase in Council Tax and rent arrears – potential £1m shortfall in Council Tax Loss of income for Housing Services, affecting viability of 30 year business plan Increase in homelessness and individual debt Reduced income as ability to pay for certain services diminishes Increased costs Increased demand for service, including additional support and advice services Additional time to assess applications 	2	4	8							
YM23	Director of Lifelong Learning	08/2012	Failing to implement the contents of the post Estyn inspection plan and improve performance against key indicators	<ul style="list-style-type: none"> Estyn inspection found performance and prospects for improvement unsatisfactory Minister of Education and Skills' expectation Expectation on Council to deliver improvements 	<ul style="list-style-type: none"> Further external intervention Dire consequences for Education services on Anglesey 	2	4	8							
YM24	Director of Lifelong Learning	08/2012	Not dealing with surplus places in the Council's primary and secondary schools	<ul style="list-style-type: none"> Demand and supply imbalance WG and external regulators expectations Need for more efficient use of resources Lack of funding to maintain school buildings Leadership capacity 	<ul style="list-style-type: none"> Longer term financial consequences Increased cost of service delivery External regulators' perception of Council 	2	5	10							
YM25	Director of Lifelong Learning	08/2012	Failing to respond to the Estyn report in relation to Ysgol Uwchradd Caergybi, in particular the budget deficit	<ul style="list-style-type: none"> Estyn expectations Authority expectations of the school 	<ul style="list-style-type: none"> School could be placed in special measures, which would influence Estyn's perception of the Authority Damage both school and Council's reputation Reduction in the number of pupils choosing the school. 	4	3	12							
YM27	Director of Lifelong Learning	08/2012	A regional school improvement service not being established	<ul style="list-style-type: none"> Collaboration agenda – WG expectations Efficiency savings 	<ul style="list-style-type: none"> Uncertainty and impact on support capacity at a time when this is a priority Reduction in quality of service and response time 	2	3	6							
YM5	Director of Community	10/2011	Failing to meet the needs of the adult population, particularly those eligible for support	<ul style="list-style-type: none"> Demographic changes Increased prevalence of dementia Change in funding from Health Service and WG Changes to Welfare Benefits Recent Judgment in relation to fee setting for Independent Residential / Nursing homes 	<ul style="list-style-type: none"> Increased demand for services in the future Reduced income Increasing costs, especially in relation to available budgets Reduced quality of service External intervention Reputation damage Customers' needs and expectations not met 	3	3	9							

CORPORATE RISK REGISTER

Risk Reference	Risk Owner / Lead Officer	Date Identified or Amended	Risk Identified			Risk Level			Additional Control Measures / Treatment Required			Residual Risk Level			Review Date / Frequency
			Vulnerability / Hazard	Trigger	Consequences / What or who will be effected and how / Outcome / Effect on objectives	Likelihood	Severity	Score	Action	Responsible Officer	Target Date	Likelihood	Severity	Score	
YM16	Director of Community	10/2011	Failing to meet the needs of the Children of Anglesey, particularly those eligible for support and protection	<ul style="list-style-type: none"> Inadequate assessments and monitoring Lack of documentation Lack of appropriate guidance and training Poor communication High turnover of staff Lack of capacity Increasing demand for services 	<ul style="list-style-type: none"> Interventions to safeguard and promote children's welfare is compromised Achievement of good outcomes for children is compromised Key objectives and targets not met External intervention Customers' needs and expectations not met Decisions taken in isolation of stakeholders views / interests Less efficient service Increase in complaints, claims and liability Increased pressure on budgets Low staff morale and high sickness levels Lack of alternative provision, including out of County 	3	4	12							
YM38	Director of Community	11/2011	Failure to plan affordable and suitable housing to meet the needs of the population.	<ul style="list-style-type: none"> Lack of input / progress Lack of capacity 	<ul style="list-style-type: none"> Targets not met Loss of grant money from WG for the Authority (Outcome Agreement) Increase in demand for other services (homeless, social services etc) 	3	5	15							
YM37	Director of Community	08/2012	Failure to plan for access to leisure services to meet the needs of the population.	<ul style="list-style-type: none"> Lack of corporate decision making Lack of suitable facilities and service provision Historical lack of investment 	<ul style="list-style-type: none"> Further deterioration in the facilities (buildings) and services available Lack of provision for community care activities Increase in demand for other services (anti-social behaviour etc) 	2	3	6							
YM29	Director of Sustainable Development	10/2011	Failure to meet Waste Management targets	<ul style="list-style-type: none"> More stringent targets Lack of stakeholder involvement 	<ul style="list-style-type: none"> Impact on funding available Financial penalties 	3	4	12							
YM35	Director of Sustainable Development	10/2011	Not having adequate or robust Emergency Planning arrangements in place	<ul style="list-style-type: none"> Lack of appreciation of the statutory requirements and consequences Lack of capacity 	<ul style="list-style-type: none"> Unable to respond appropriately Council not fulfilling it's role under the Civil Contingencies Act Damage to reputation 	4	2	8							
YM36	Director of Community	01/2013	Failing to plan for the impact of the effects reforms in the health sector	<ul style="list-style-type: none"> Lack of information from WG and Health Trust Lack of capacity 	<ul style="list-style-type: none"> Additional burdens in terms of service provision Additional costs Unbudgeted costs 	4	4	16							



Performance work programme update for Audit Committee 5 February 2013 **Isle of Anglesey County Council**

Improvement Study – Effectiveness of Scrutiny

This project is ongoing involving our central review team. Anglesey's peer learning exchange team will be visiting two committees in Conwy over the next couple of months, while Gwynedd's team will be visiting two committees in Anglesey. Feedback is scheduled between March and September 2013 supported by a national report.

Improvement Study – Preparation of Annual Governance Statement

The fieldwork for the project is complete. Local feedback for Anglesey will be provided in February, however we would suggest a common format for local feedback. A suggestion is to feed back to the 'practitioners' first, and then summarise with the CE and DCE at a subsequent meeting. The Audit Committee may wish to hear our findings at a future date. National feedback across Wales is due in May 2013 and the Wales Audit Office is planning several shared learning events for Council officers and members in July 2013.

Testing and Audit of Council's Performance Assessment Publication

This work is complete and forms part of the Improvement Assessment Letter 2 (IA Letter 2) under the Measure. This is a review of how well the Council has reported on its performance in the last year. The letter has been issued and is on the agenda of the Audit Committee.

Audit of Self-evaluation Mechanisms

This work forms part of the Annual Improvement Report (AIR) scheduled for February 2013. It looks at how robust the Council self-evaluates itself.

Inspection of Housing and Council Tax Benefit

The work is complete and feedback has been provided directly by the central review team. The findings from the review will form part of the Annual Improvement Report (AIR) planned for completion at the end of February 2013.

Collaboration

This study will take place towards the end of this financial year and early in 2013-14. It will focus on the extent to which local authorities in North Wales and the BCU Local Health Board are working together to prevent falls among older people. The prevention of falls is likely to reduce future costs to both social service and the NHS, as well as improving the quality of life for older people.

Work specific to Anglesey

Homelessness

The review is nearing completion and the findings will be reported later this year and be included in the Improvement Assessment Letter 1 (IA Letter 1).

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	A	B	D	E	F	G	H	I	J	K	L	
2			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 February 2013										
10												
11			2012				2013					
12												
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	This project is ongoing involving our central review team. Anglesey's peer learning exchange team will be visiting two
24		Improvement Study - Preparation of AGS	Local/National feedback						Ongoing	Andy Bruce	Neville Evans	The fieldwork for the project is complete. Local feedback for Anglesey will be provided in February, however we would
25		Testing and Audit of Councils Performance Assessment Publication	IA letter 2 2012						Completed	Andy Bruce	Neville Evans	Final letter issued to Council on 7/1/13.
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 has been provided directly by the central review team.
30		Local Government all Wales study 2012-13 – NEETS	All Wales report					tbc	Not started	Andy Bruce	Neville Evans	The findings from the review will form part of the Annual Improvement Report. 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										

Isle of Anglesey County Council Financial audit progress report to Audit Committee – 5 February 2013

February 2013

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

2012/13 financial audit position statement	3
2011/12 Statement of Accounts	3
Grants	3
Liaison arrangements	3

2012/13 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 2012/13 Financial audit outline and in respect of grant certification work.

	Due date	Progress to date
Accounts		
Financial audit outline 2012/13	February 2013	Presented at the February Audit Committee.
Interim review and planning of the accounts audit	March/April 2013	Arrangements to be agreed with management.
Financial statements testing	July - September 2013	To be undertaken from the beginning of July.
Final accounts (ISA 260) report	September 2013	Reported to the September 2013 Audit Committee meeting.
Audit opinion and completion certificate	September 2013	Provided by the appointed auditor before the end of September 2013
Whole of government accounts	September 2013	To be completed and certified before the end of September 2013.
Annual letter	November 2013	To be issued to the Council before the end of November 2013.

2011/12 Statement of Accounts

We reported to the previous meeting of the Audit Committee that 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 have undertaken audit fieldwork to validate the evidence provided by the Council. We are following up on a small number of queries in order to conclude on this matter.

Grants

2010/11 grants

We have now certified all of the 2010/11 claims.

2011/12 grants

We have certified the majority of the 2011/12 claims with October, November and December deadlines, with the exception of the Housing Benefit and Council Tax Subsidy, the Porthyfelin Communities First Outcome Fund and the Schools Effectiveness Grant. Fieldwork is ongoing for all of these claims. Good progress has also been made on the Social Care Workforce Development Programme grant claim with a deadline of 31 January 2013.

Liaison arrangements

with Internal Audit

We continue to work closely with internal audit to produce an effective audit approach. We have reviewed the Internal Audit Operational Plan which contains the areas of work on core financial systems that we will use to inform our 2012/13 accounts work.

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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WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Annual Financial Audit Outline

Isle of Anglesey County Council

Audit year: 2012-13

Issued: January 2013

Document reference: C13111

Status of document

This document has been prepared for the internal use of the Isle of Anglesey County Council as part of work performed/to be performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

To the maximum extent permitted by law, the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor do not accept any liability for losses incurred by any member, officer or other employee in their individual capacity, or any third party arising from use of this document.

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In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

This document was produced by PwC.

Contents

Annual Financial Audit Outline

Roles and responsibilities	4
The audit approach	5
Reporting	8
Audit fee	9

Appendices

Key elements of the audit engagement	10
Financial audit team	11

Annual Financial Audit Outline

Roles and responsibilities

1. This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Isle of Anglesey County Council (the Authority) with an outline of the financial audit work required for the 2012-13 financial statements.
2. Under the provisions of the Public Audit (Wales) Act 2004, the Auditor General is responsible for appointing external auditors (appointed auditors) to local government bodies.
3. As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Authority. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Authority's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:
 - that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
 - that the accounts comply with the requirements of all other statutory provisions applicable to them;
 - that proper practices have been observed in the compilation of the accounts; and
 - that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
4. I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Authority of its responsibility to:
 - establish systems of internal control 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.
6. The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Authority's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key elements of the audit are set out in [Appendix 1](#).
8. A separate document, *the Auditor General's Regulatory Programme for Performance Audit*, will be issued setting out the work to be delivered by the Auditor General under the Local Government (Wales) Measure 2009.

-
9. The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.

The audit approach

The audit team

10. Information regarding the financial audit team is provided in [Appendix 2](#).

Audit of financial statements

11. I understand that internal controls are designed, implemented and maintained by the Authority to address identified business risks that threaten the achievement of an audited body's objectives regarding:
- the reliability of its financial reporting;
 - the effectiveness and efficiency of its operations; and
 - its compliance with applicable laws and regulations.
12. I will:
- assess the effectiveness of high-level internal controls and key system-level internal controls in preventing and detecting material errors in the accounting statements;
 - assess the effectiveness of Internal Audit;
 - review and seek to place reliance upon work undertaken by Internal Audit, as appropriate; and
 - develop substantive procedures to respond to risks of material misstatement in the accounting statements.
13. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt the concept of materiality. Therefore in planning and conducting the audit, I seek to identify material misstatements in the accounting statements and related notes, that is, those that might result in a reader of the accounts being misled.
14. The levels at which I judge such misstatements to be material will be reported in my report to the Audit Committee prior to completion of the audit.

Risks of material misstatement in the accounting statements

15. **Exhibit 1** provides information regarding the main operational and financial risks faced by the Authority that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Summary of main audit risks and proposed responses

Significant risks	Action proposed
Financial statements risks	
<p>Revenue and expenditure recognition</p> <ul style="list-style-type: none"> There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the Comprehensive Income & Expenditure Statement. 	<ul style="list-style-type: none"> We will understand and evaluate the controls in place to mitigate this risk and: <ul style="list-style-type: none"> test key controls to confirm they are operating effectively. test key reconciliations. test non-standard income and expenditure to ensure that it is appropriately included in the accounts. test that transactions that occur around year-end are appropriately classified within the financial year to which they relate. We will consider the accounting policies adopted by the Council and subject income and expenditure to the appropriate level of testing to identify any material misstatement.
<p>Management override of controls</p> <ul style="list-style-type: none"> In any organisation, management may be in a position to override the financial controls that you have in place. A breach of controls of this nature may result in a material misstatement. 	<ul style="list-style-type: none"> We will understand and evaluate internal control processes and procedures as part of our planning work and will seek to place reliance on internal audit work on key controls and/or perform testing of relevant controls as part of the audit visit. We will review the appropriateness of journals processed during the year. We will also look carefully at any management estimations and consider if they are subject to bias. We will design and perform procedures in relation to the business rationale for

	<p>significant transactions.</p> <ul style="list-style-type: none"> Our audit procedures are also planned to include an unpredictable element that varies year on year.
<p>Management's estimates</p> <ul style="list-style-type: none"> There are a number of management estimates in the financial statements that, given their judgmental nature, may be materially misstated. These may include the Equal Pay / Single Status provision, general provisions such as for bad debts, holiday pay accruals, or the Penhesgyn provision. <p>We have previously proposed adjustments in respect of the Penhesgyn and Equal Pay / Single Status provisions approaching our materiality threshold, and there is therefore a risk that any such adjustments proposed in future could be material.</p>	<ul style="list-style-type: none"> We will work management to prioritise the audit work on the key judgement areas to ensure that any issues arising are considered as early as possible.

Elevated risks	Action proposed
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Control environment risks	
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<p>Accounts preparation</p> <ul style="list-style-type: none"> Difficulties in filling positions permanently in the Finance Team had an adverse effect on the Council's accounts production process in 2009/10 and 2010/11. Experienced interim staff were successful in meeting all deadlines in 2011/12. Some key accounting roles continue to be undertaken by interim staff but the position of s151 officer has now been substantively filled. It is essential that the performance of 2011/12 is continued and that sufficient and appropriate resources are dedicated to the production of the statutory accounts in accordance with required timetables. 	<ul style="list-style-type: none"> We will work closely with management in order to monitor the progress made in the preparation and production of the 2012/13 accounts. We will report to the Audit Committee on our views regarding the Council's arrangements for producing the 2012/13 accounts. We will liaise with management throughout the accounts and audit process and report any issues arising regarding the quality and timeliness of the accounts and underlying evidence to the Head of Function (Resources) and Audit Committee.
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Financial systems risks	
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Property, plant and equipment	We will consider the Council's proposed approach to assessing and justifying
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<ul style="list-style-type: none"> The Council is required to ensure that its PPE held on the Balance Sheet is valued sufficiently regularly to ensure that the carrying amount is not materially different to the fair value of these assets at the year end. <p>We have previously identified audit adjustments around assets not formally valued in year which have not been adjusted on the basis of immateriality. There is a risk that any such adjustments proposed in future could be material.</p>	<p>valuation of its PPE at 31 March 2013 and consider whether it is sufficient and appropriate.</p>
<p>New housing rent and general ledger system</p> <ul style="list-style-type: none"> The Council implemented a new housing rent system in November 2012, and will be implementing a new general ledger system in April 2013. There is a risk that the transition process may give rise to potential issues, such as data transfer being inaccurate or incomplete. 	<p>The Council's internal auditors have reviewed the transfer process from the old housing rent system to the new and have tested the accuracy of records transferred, noting no issues. They intend to undertake a similar process on the transfer to the new general ledger system in April.</p> <p>We will review and seek to place reliance on the work undertaken by the Council's internal auditors in respect of the transfers to new systems.</p>

Use of resources

16. To discharge my responsibilities regarding the arrangements that the Authority has established to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
 - the Authority's system of internal control, as reported in the Annual Governance Statement and my report thereon;
 - the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009, certification of claims and returns, and data-matching exercises;
 - the results of the work of other external review bodies where relevant to my responsibilities; and
 - any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

Reporting

17. The Code of Audit Practice issued by the Auditor General requires appointed auditors to comply with relevant auditing and ethical standards. These standards require formal reporting at various stages during the audit to those charged with governance.
18. In particular, auditors must report:
 - relationships that may affect the auditor's independence;
 - audit planning information; and
 - certain matters to those charged with governance (as distinct from management) before they give an opinion on the financial statements.
19. [Appendix 1](#) highlights the key elements of the audit engagement at the Authority, and I confirm that there are no known threats to my independence as Appointed Auditor or on the independence of staff or contractors working for me.
20. This document provides information regarding the planning of the audit.
21. I will submit reports to the Audit Committee, and where necessary, to the Cabinet/Council in a timely manner.
22. I will provide other reports or output as agreed. The key milestones are set out in [Exhibit 2](#).

Exhibit 2: Key milestones

Planned output	Planned start date	Report finalised
Annual Financial Audit Outline	January 2013	February 2013
Audit of Financial Statements (ISA260) Report	September 2013	September 2013
Audit Opinion on the 2012-13 Financial Statements	September 2013	September 2013
Annual Audit Letter	November 2013	November 2013

Audit fee

23. The proposed fee for 2012-13 financial audit work is still subject to moderation at the Wales Audit Office. The fee (plus VAT) will be charged in equal instalments between November 2012 and October 2013.
24. In previous years, there have been few formal objections to the Authority's financial statements. However, I do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time has

been included within the fee to deal with minor queries, as part of the overall management of the audit.

- 25.** Any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, but will be discussed with the Authority, prior to undertaking the work.
- 26.** The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken. Grant and return certification work is charged on a daily basis in line with the skill-related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.
- 27.** Although grant certification work fluctuates from year to year, based on past experience and initial indications of changes in grant schemes and conditions, I estimate that the total fee for grant work will be in the range of £120,000 to £140,000.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at the Authority
Engagement activities		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of appointed auditors are outlined above and in this appendix. The full Statement of Responsibilities can be found at: http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors and engagement leads	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement lead.	Details of the Appointed Auditor and the Engagement Lead are provided in Appendix 2 of this document.
Discretionary work by agreement	The Auditor General has set out clear criteria for approval of any discretionary work requested by audited bodies.	No discretionary agreement work has been requested or is proposed.
Ethical considerations		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> • threats to auditor independence (including litigation); • family and other personal relationships; • long association with the audited body (see Wales Audit Office rotation of audits policy); and • contentious or difficult issues. 	I can confirm that there are no known threats to my independence as the Appointed Auditor or to the independence of staff or contractors working for me, and I have complied with the Wales Audit Office rotation policy.
Engagement performance	Engagement leads need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for the audit, and the Engagement Lead has established appropriate review levels based on the experience of the staff undertaking the audit work.

Appendix 2

Financial audit team

Name	Role	Contact tel #	E-mail address
Anthony Barrett	Appointed Auditor	029 2032 0500 / 012 4452 5970	anthony.barrett@wao.gov.uk
Lynn Pamment	Engagement Partner	029 2080 2390	lynn.pamment@uk.pwc.com
James Quance	Audit Senior Manager	029 2080 2654	james.quance@uk.pwc.com
Joe Hargreaves	Audit Manager	029 2080 2198	joe.hargreaves@uk.pwc.com
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Richard Parry Jones
Chief Executive
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LL77 7TW

Reference	619A2012
Date	4 December 2012
Pages	1 of 6

Dear Richard

Improvement Assessment Letter

This letter summarises the key conclusions arising from my work in respect of improvement reporting under the Local Government (Wales) Measure 2009 (the Measure). I am required to report my audit and assessment work in relation to whether the Isle of Anglesey County Council (the Council) has discharged its duties and met the requirements of the Measure.

Further to my Improvement Assessment letter of 24 September 2012, this letter summarises:

- my views on whether the Council has discharged its statutory duties in respect of improvement reporting;
- my views, and the views of relevant regulators, on the reliability of the Council's self-evaluation;
- my further proposals for improvement and/or recommendations.

Further to this I will undertake more detailed work on the arrangements that support the Council's performance management and reporting over the following months.

I shall summarise all of my work and that of relevant regulators during 2012-13 and publish an Annual Improvement Report for the Council by the end of February 2013.

The Council has discharged its improvement reporting duties under the Measure but it should ensure that it acts more in accordance with Welsh Government guidance

I have reached this conclusion because:

- the Council has complied in full with its improvement reporting duties under the Measure; but
- the content and structure of the Council's Performance Report could include more qualitative information to provide a more rounded evidence base.

The Council has complied in full with its improvement reporting duties under the Measure

The Council published its 2011-12 Performance Report (the Report) on 30 October 2012, and therefore met the statutory deadline for doing so.

The Report includes all the required elements. In particular, the Report:

- explains how its contents contribute to the Council's statutory duty to make arrangements to secure continuous improvement and be accountable;
- summarises, in a balanced way, the main successes and failures in the delivery of key projects supporting the Council's improvement objectives and other strategic priorities;
- sets out the Council's performance against all statutory performance indicators in 2011-12 and includes current and prior year performance figures;
- includes information that enables readers to compare the Council's performance against its targets, with all Welsh councils, and with the other councils in North Wales;
- highlights various examples of collaborative activity with other North Wales councils, public and private sector bodies, although it does not consistently articulate the aims of the collaboration or whether they achieved their intended outcomes; and
- provides important information about: the Council's recent history of Welsh Government intervention; its progress in addressing the Commissioners' 10 corporate governance improvement themes; and the outcomes of regulatory activity by Estyn, the Care and Social Services Inspectorate Wales (the CSSIW) and the Wales Audit Office.

The content and structure of the Council's Performance Report could include more qualitative information to provide a more rounded evidence base

The Council has used a balanced blend of progress against key actions and quantitative measures of performance as evidence to determine its success or otherwise in achieving its strategic priorities and improvement objectives. The Report summarises progress and performance using a Red, Amber, Green colour-coding system which provides a useful summary evaluation. Some sections explain well what caused the rating to be green, amber or red. However, some other priorities are not well-enough supported with information to enable readers to understand the reasons for the Council's assessment of its progress, or the level of benefit to the public. There is scope to include more qualitative information to provide a more rounded evidence base to enable it to assess its performance.

The Report is available bilingually and is clearly signposted on the Council's website, and performance information is available in the local community newspaper with links to the website and the Report. The newspaper has been delivered to all households in Anglesey. The Report is available in hard copy at the Council's main public buildings and, on request, in Braille, large print, on tape or CD.

The Report is 73 pages long, which is shorter than a number of other Councils' Performance Reports. A summary version of the Report has been produced and is available on the Council website. However, there is some variation within the Report in terms of the style and clarity of its content. For example, the financial performance section is thorough and realistic but it is difficult to follow in places and may not fully be understood by readers. In contrast, the section on Homelessness, empty housing and re-letting empty business units is well explained and shows clearly the benefits to the public of the Council's work.

The Report could be improved by a thorough editorial screening to ensure that technical jargon and more complex paragraphs are simplified. This would increase the Report's readability and ensure that basic typographical errors are eliminated.

External assessments provide a picture of inconsistent reliability in the Council's self-evaluation of its performance during 2011-12

In our Annual Improvement Report in January 2012, we emphasised that the Measure requires councils to be more self-critical and evaluative about how they deliver their services and that they should focus much more clearly on the impact of services upon citizens and the outcomes for citizens.

In October 2012, the Council entered Phase 2 of the Welsh Government intervention with the return of decision-making powers from the Commissioners to the Executive. During this period, it will be particularly important that the Council demonstrates clearly its ability:

to plan and deliver change; to assess its strengths and weaknesses accurately and consistently across services; and to learn from projects that have gone well and from those that have been less successful. The Council's track record in self-evaluation during the past year has been an inconsistent one.

Estyn and the Wales Audit Office were critical of the Council's evaluation of its education services for children and young people

In May 2012, Estyn and the Wales Audit Office concluded that the Council's education services were unsatisfactory and that they had unsatisfactory prospects for improvement. In reaching these conclusions, they judged that:

- business planning and risk-assessment processes have not been robust enough to identify and address the slow pace of progress in education services and schools; and
- self-evaluation processes have been patchy and progress against recommendations made in previous inspections has been limited.

As a result of the inspection, Estyn recommended that the Council required special measures and the Welsh Government has established a Recovery Board to oversee its progress in addressing the seven recommendations in the inspection report. It is likely that Estyn will revisit during 2013 in order to monitor progress.

The CSSIW has judged that the Council's annual evaluation of its social services was balanced and supported by evidence

In its Annual Review and Evaluation of Performance in 2011-12, the CSSIW reports that 2011-12 was a year of significant change for the Council's social services department. The Council appointed a new interim Director at the end of January 2012 and a permanent appointment took up post in September. The new post, created following the restructuring of senior management, combines the statutory duties of Director of Social Services within the broader role of Corporate Director of Community Services and Leisure.

The CSSIW judged that the interim Director's self-evaluation report provides a concise overview of performance within social services. The findings were balanced and supported by reports from both adults' and children's services. The evidence supporting the self-evaluation was wide-ranging and helpful in assessing the Council's performance. The CSSIW nevertheless stresses that continued corporate determination is needed to improve social services, particularly in the light of the financial challenges facing the Council. We shall report in more detail on the CSSIW's report in our Annual Improvement Report early in 2013.

The Council's Performance Report for 2011-12 provides a balanced assessment of its performance but it lacks sufficient information to support the Council's evaluation against some of its Improvement Objectives

As I have noted earlier in this letter, the Report is generally balanced and highlights what has been achieved, what has not been achieved and where improvements can be made. There is no impression the Council is overstating its strengths or underestimating its weaknesses. Our audit of a small sample of the Council's performance indicators this year suggests that the quality of the data contained in the Report is generally robust.

However, the quality of the evaluation within the Report is inconsistent. Some sections lack sufficient information to justify the assessment as to whether or not the Council has achieved a particular Improvement Objective. Sections such as that on 'promoting healthy and active lifestyles across all age groups' include specific performance indicators and targets that support the wider evaluation. In contrast, the Council's evaluation of its 'collaboration to promote community safety' refers only to the tasks undertaken, without reference to the benefits or otherwise of collaboration or analysis of its impact on community safety.

Further proposals for improvement

Some new proposals for improvement are being suggested in this letter. We will continue to monitor and report on the progress made by the Council in implementing the proposals set out in my previous reports and letters.

Proposals for improvement

P1 The Council should promote greater consistency across services in the quality of self-evaluation.

P2 The Council should apply stronger editorial control to its performance report in order to improve its readability and eliminate typographical errors.

Yours sincerely

HUW VAUGHAN THOMAS

AUDITOR GENERAL FOR WALES

CC: Carl Sargeant, Minister for Local Government and Communities

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	5 FEBRUARY 2013
TITLE OF REPORT:	PROGRESS REPORT ON INTERNAL AUDIT 1 APRIL 2012 – 31 DECEMBER 2012
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	HEAD OF SERVICE (AUDIT)
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 31 December 2012 and gives a summary for each of the final reports issued.
- 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 no reviews in the period which resulted in a 'Red Assurance' opinion. Executive Summaries for 'Red Assurance' reports are provided as Appendices where applicable.
- 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>				
Corporate Procurement	Corporate	2012/13	FINAL	ADVISORY
Direct Payments – Soc Services	Social Services	2012/13	FINAL	RED/AMBER
School Thematic Review	Education	2012/13	FINAL	ADVISORY
National Fraud Initiative	Corporate	2012/13	WIP	
Budget Setting & Monitoring	Corporate	2012/13	DRAFT	
Members' Allowances	Corporate	2012/13	DRAFT	
School Transport	Transportation	2012/13	DRAFT	
Car Park Income	Highways	2012/13	DRAFT	
Maritime - Income	Highways	2012/13	WIP	
Risk Management – Implementation`	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	
Sundry Debtors	Finance	2012/13	WIP	
<i>Schools</i>				
Ysgol Bodffordd	Education	2012/13	DRAFT as last period	

2.2 Key Findings from Reports Issued

2.2.1 Corporate Procurement - An audit of Corporate Procurement arrangements was undertaken as part of the approved Internal Audit periodic plan for 2012/13.

The review found that there are a number of areas in which the current procurement framework can be strengthened. Recommendations were included in the report to address the weaknesses identified.

Acknowledgement is given that within the Finance Service a number of these areas are currently being addressed, for example, a review of Contract Procedure Rules, compilation of a central register of contracts, development of procurement strategy and policy, provision of procurement awareness training.

However, it is important that actions continue to be taken to ensure that risks in this area are managed.

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

2.2.2 Direct Payments (Social Services) - An audit of Direct Payments was undertaken as part of the approved Internal Audit periodic plan for 2012/13.

The Direct Payments scheme involves the Local Authority paying Service users directly in order for them to purchase their own care and support. Direct Payments enable individuals to purchase the assistance or services that the Local Authority would otherwise have arranged to provide. The Direct Payments scheme supports independent living by enabling users to make their own decisions and have real control over their own lives.

There are currently 31 Direct Payment Service users. The total expenditure relating to the scheme of Direct Payments in 2011/12 was £213,024.

The key findings from this review are as follows:

Design of control framework

- There was not a clear policy and procedural guidance available in relation to ensuring that Direct Payment Service users were obtaining the necessary CRB checks where appropriate.

Application of and compliance with control framework

- In some cases Care Plans had not been reviewed on an annual basis or by the date noted on the Care Plan for 'next review'.
- Instances were identified where a new Direct Payments agreement form had not been completed on the occasion of a change to a Service User Care Plan and a copy of the new Care Plan provided to the Direct Payments Officer.
- There was no reconciliation of Direct Payments to the Financial Ledger to ensure that only valid and correct payments are made.
- Some weaknesses were identified in relation to the administration of Direct Payments including the monitoring and obtaining of proof of appropriate insurance; consistent use of monitoring checklists; the retention of Financial Assessment documentation on the Direct Payments file and issue of quarterly monitoring forms.
- Minor errors were identified relating to historical Direct Payment arrangements; in one instance Direct Payments had not been reviewed in accordance with a Care Plan relating to a previous period and the client contribution seen to be paid to two long standing Service Users had not been reviewed since the commencement of the Direct Payment arrangements.

The review resulted in two High, one Medium and seven Low category recommendations being made and in an overall RED / AMBER audit opinion. It should be noted that a number of control weaknesses and associated recommendations relate to activities outside of Direct Payments – Client Finance and over which Client Finance has no control. The overall opinion, therefore, reflects on all related activities and not just those within Client Finance.

2.2.3 Schools Thematic Review - The Internal Audit Team has a three year rolling program of auditing the key financial and governance controls within schools. As a result of this process, the Audit Team identifies certain common areas where controls are weak, or are not being consistently applied.

This report was designed to bring together these areas of identified control weakness and to make recommendations which, if implemented, will assist schools in strengthening the internal control framework in these areas.

The report was based on the weaknesses in the internal control system identified in reviews of schools carried out in 2011/12 and 2012/13 to date. The report was issued to the Education Service with the recommendation that it should be circulated to all primary schools to inform them of issues identified and to initiate a review of systems in these areas as appropriate.

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

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; twenty from the 2012-13 plan and eleven referral reports. To date, a total of thirty three final reports have 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.	0	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.	0	5
Red Amber (D Grade) Inc Little Progress	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	3
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.	0	3
Advisory/ Investigation	Advisory review designed to provide best practice advice – No formal opinion.	2	19
Total		10	33

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.

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 – 5 to Draft in period & 20 Finals– excluding referrals)	90%	53%	☹	↑
Overall customer satisfaction levels from questionnaires	90%	100%	☺	↔
% of High & Medium IA recommendations implemented – from 01-04-10	80%	68%	☹	↑
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 is up from 46% to 53% but is still well 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 a FTE Auditor's time during the first seven months of this year. This investigation has now been referred back from the Police to Audit for additional information.

There are also a number of reviews shown as work in progress which are well advanced and will be reported on before the end of 2012-13.

- 3.3** The percentage of High and Medium categorised recommendations implemented is below target at 68% which compares with the 67% reported to the last Committee. Internal Audit will continue to send out reminders to update progress on implementation 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).

- 4.2** Eleven reports relating to referrals have been issued in previous periods to date in 2012/13.

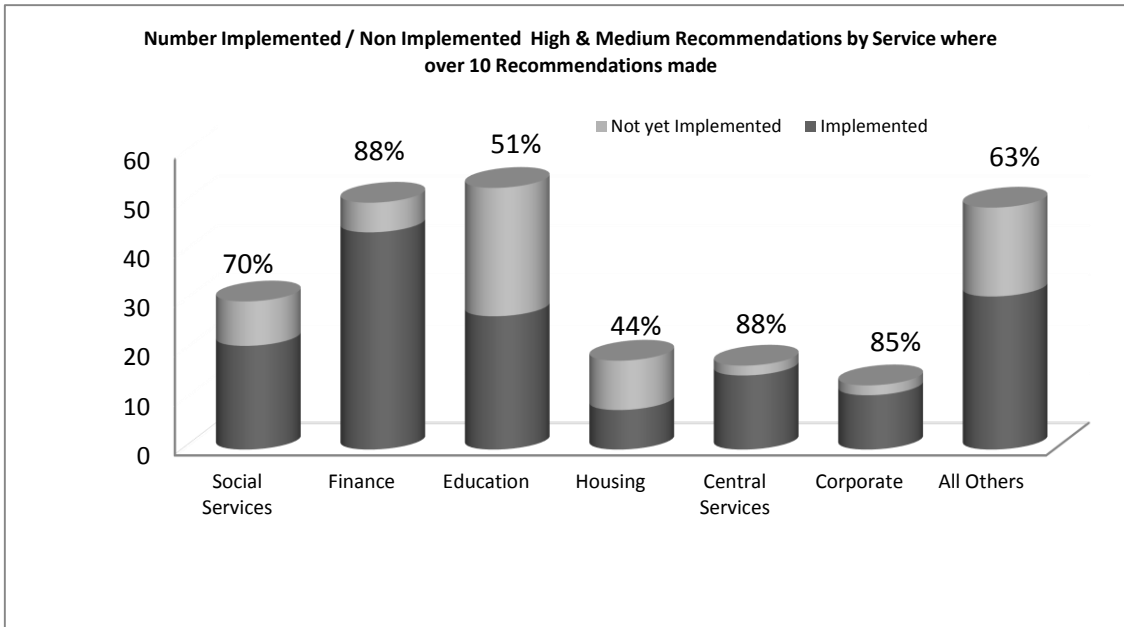
5. RECOMMENDATION TRACKING

- 5.1** For reporting to this Committee only recommendations made since 1 April 2010 have been included in the recommendation tracking analysis.

- 5.3** The performance in implementing recommendations in the period remains below target with 68% 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.

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 **68%** of all such recommendations.

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	05 FEBRUARY 2013
TITLE OF REPORT:	ENHANCING THE AUDIT COMMITTEE
REPORT BY:	HEAD OF SERVICE – AUDIT
ACTION:	AGREE IMPROVEMENT ACTION PLANS FOR 2013-14

1. INTRODUCTION

- 1.1 The Audit Committee carries out a formal review of its effectiveness annually in line with the good practice set out in the CIPFA Audit Committees: Practical Guidance for Local Authorities. The first such self-assessment by this committee was adopted in January 2010.
- 1.2 The CIPFA Audit Committees: Practical Guidance for Local Authorities provides a good framework for this work, and includes a self-assessment questionnaire/checklist.
- 1.3 In order to facilitate the measurement of effectiveness and improvement year to year ‘spider charts’ are produced annually summarising the outcome of the workshops in a visible manner. The charts are used to determine the direction of travel between years regarding compliance with the best practice set out in the questionnaire/checklist. (See Appendix A).
- 1.4 Much of the guidance emphasises the specialist knowledge required by Audit Committee Members. Training sessions have been provided during the year on Risk Management, Treasury Management and on the role of Members in relation to the review of the Statement of Accounts. An induction session for new Members of the Audit Committee was also held this year.

2. OUTCOME OF 2013 EFFECTIVENESS SELF-ASSESSMENT

- 2.1 A workshop was held on 16 January 2013 with the Head of Function – Resources, Heads of Service – Finance, Head of Service - Audit and the Benefit Investigator and was also attended by seven members of the Audit Committee.
- 2.2 Areas for improvement identified at this workshop included enhancing induction training and individual training needs analysis for Members. Other areas identified were the clarification of the roles and responsibilities of the Audit and Scrutiny Committees; especially in relation to Risk Management and the need to adopt Counter Fraud and Corruption guidelines against which to measure the effectiveness of the Council’s existing arrangements. Member also expressed a desire to have increased liaison in relation to the External Audit planning process (including on fees) and being appraised of External Audit performance on a regular basis.

3. COUNTER FRAUD ARRANGEMENTS

3.1 In 2012-13 there was a revision of the Prevention of Fraud and Corruption Policy which was recommended for approval by the Audit Committee to the Executive at its meeting held on 25 September 2012. Also recommended for approval by this meeting were the Fraud Response Plan and the Money Laundering Policy.

3.2 The January 2013 workshop included a presentation from the Benefit Investigator on Benefit counter fraud arrangements and performance in 2012-13.

3.3 The CIPFA Audit Committees: Practical Guidance for Local Authorities includes reference to the role of the Audit Committee in ensuring that actions to counter fraud and corruption are being implemented. The Terms of Reference of the Audit Committee reflect this and paragraph 3.4.8.1.3 of the Constitution states that

'The Committee will also advise on the Council's policy for the Prevention of Fraud and Corruption including:

(i) Reviewing the effectiveness of the policy;

(ii) To receive an annual report from the Corporate Director – Finance on the implementation of the policy.'

3.4 The CIPFA Audit Committees: Practical Guidance for Local Authorities includes the adoption of "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" and for the Committee to ensure that the included actions are being implemented. In April 2012 the Head of Service – Audit and the Benefits Investigator, on behalf of the Audit Committee, reviewed the Council's Counter Fraud arrangements against similar guidance contained in the CIPFA Fraud Risk Evaluation Diagnostic (FRED1). The review found significant gaps in current arrangements. This is an area, therefore, that requires some action by the Committee to obtain assurance that the current arrangements are effective and are being implemented.

3.5 Before formally adopting the CIPFA "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" the Committee is advised to undertake a short fraud awareness session including how this CIPFA guidance can best be utilised. In this respect the CIPFA Red Book 2 'Managing the Risk of Fraud' can be used to benchmark the Council's counter-fraud capability and governance arrangements. By adopting its guidance, the Committee will be showing a commitment to a comprehensive approach to reducing fraud losses within the Council to a minimum.

3.6 It is recommended, therefore, that a short Fraud Awareness session is produced for Members of the Audit Committee to provide a background to current arrangements and issues and to include the requirements of the Managing the Risk of Fraud guidance and how it can be used to meet the Audit Committee's responsibilities in relation to countering fraud and corruption within and against the Council.

4. FURTHER ACTION

4.1 Enhancing the Committee is an ongoing process, with review of processes and the results of self-assessment leading to continual review, update and improvement. The 2013 assessments, while demonstrating improvement on 2012, also show a number of opportunities for further development in the workings of the Committee.

4.2 The table at Appendix B gives the outcome of the January 2013 workshop against the self-assessment questions compared with the results for 2011-12. The Committee is requested to consider the outcome of the workshop, to amend if thought necessary, then to endorse it formally.

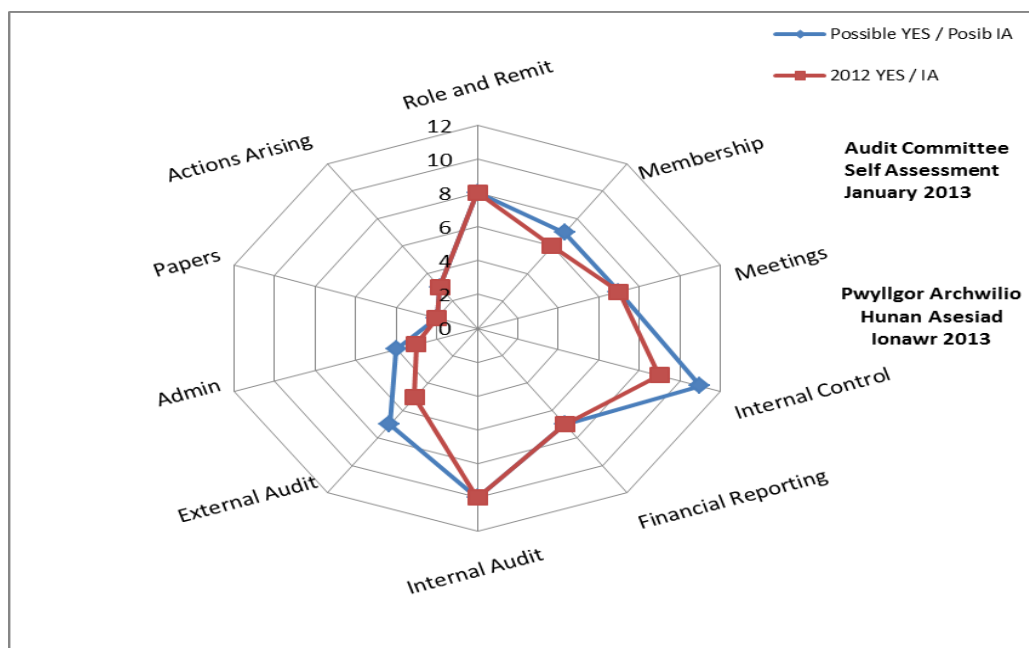
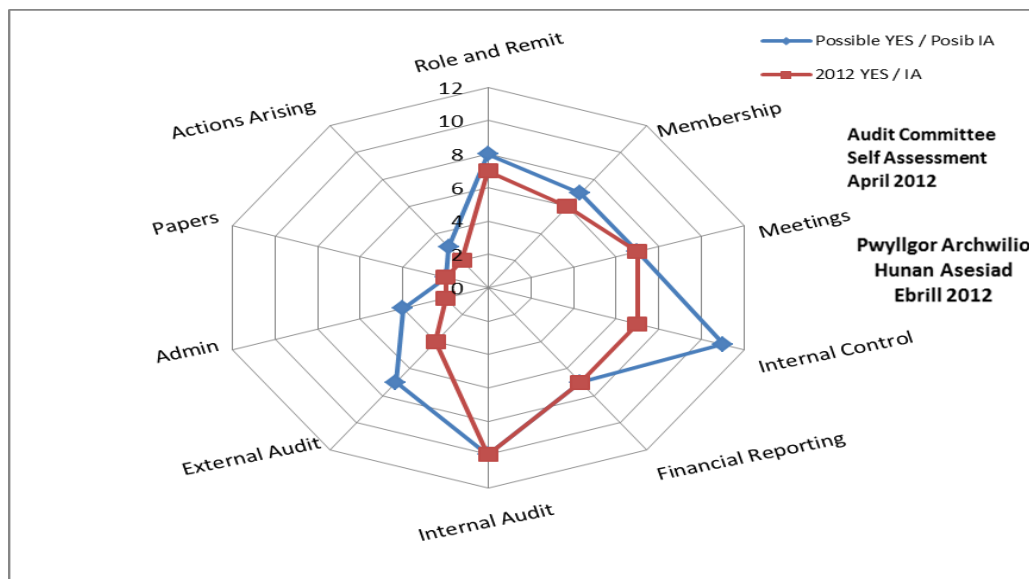
4.3 The Table at Appendix C shows the Improvement Action Plan for 2013-14 resulting from the work of the Committee at the January 3013 Workshop.

5. CONCLUSIONS AND RECOMMENDATIONS

It is recommended that the Committee:-

- 5.1** adopt the outcome of the self-assessment of the Committee's effectiveness including the Improvement Action Plan at Appendix C;
- 5.2** includes a fraud awareness training session in its Training schedule for 2013-14 to inform its opinion on the effectiveness of the Council's existing Counter Fraud and Corruption arrangements; and
- 5.3** includes in its work plan for 2013-14 revised self-assessment on the Committee's effectiveness.

‘SPIDER GRAPHS’ OF OUTCOME FROM SELF-ASSESSMENTS IN APRIL 2012 AND JANUARY 2013



NB – If all areas of the self-assessment were met the inside line would meet the outside line. The greater the divergence between the lines the less compliant the Committee is with the Self –Assessment best practice.

The graphs show a direction of travel towards the Committee improving its position against best practice. The areas identified above for initial further work are Self-Assessment areas 2, 4 and 7 which relate to:

Area 2 – Membership – enhancement of the TNA of Audit Committee Members.

Area 4 – Internal Control –Need to adopt the “Managing the Risk of Fraud – Actions to Counter Fraud and Corruption” guidance, or equivalent, in order to provide assurance on the arrangements in place within the Council and to be able to monitor the effectiveness of such arrangements.

Area 7 – External Audit – enhanced information on EA planning of work, performance monitoring and fees.

The Improvement Action Plan at Appendix C sets out how improvement is to be continued.

AUDIT COMMITTEE SELF-ASSESSMENT CHECKLIST
REVISED – 16 January 2013

ESTABLISHMENT, OPERATION AND DUTIES			
1 Role and Remit			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
1.1	Does the Audit Committee have written terms of reference?	Yes – in Constitution	Yes – in the Constitution - However, need to clarify relationship and responsibility for similar TORs for other Committees - e.g. Corporate Scrutiny in areas such as Risk Management.
1.2	Do the terms of reference cover the core functions of an Audit Committee as identified in the CIPFA guidance?	Yes – But need to be updated	Yes – have been updated and now include requirements of the Local Measure.
1.3	Are the terms of reference approved by the Council and reviewed periodically?	No – needs to be reviewed and updated in 2012-13	Yes- have been in 2012-13 and updated.
1.4	Has the Audit Committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Yes – But lateness of papers has been a serious weakness in 2011-12 – Needs to be addressed	Yes
1.5	Can the Audit Committee access other Committees and full Council as necessary?	Yes - In theory, but rarely exercised	Yes – But some discussion on how this would be undertaken in practice – to be looked at as part of response to 1.1 above.
1.6	Does the Authority's Statement on Internal Control include a description of the Audit Committee's establishment and activities?	Yes –included in Annual Governance Statement	Yes – Now also have the Local Code of Governance.
1.7	Does the Audit Committee periodically assess its own effectiveness?	Yes – Annually - since December 2009 – latest April 2012.	Yes – again in January 2013.
1.8	Does the Audit Committee make a formal annual report on its work and performance during the year to full Council?	Yes – started to do so in 2011	Yes – annual report from the Chair.
1.7	Does the Audit Committee periodically assess its own effectiveness?	Yes – Annually - since December 2009 – latest April 2012.	Yes – again in January 2013.
1.8	Does the Audit Committee make a formal annual report on its work and performance during the year to full Council?	Yes – started to do so in 2011	Yes – annual report from the Chair.
2 Membership, Induction and Training			
2.1	Has the membership of the Audit Committee been formally agreed and a quorum set?	Yes - in constitution	Yes – in TORs in the Constitution.
2.2	Is the Chair independent of the Executive function?	Yes - The Chair is not a member of groups represented on the Executive.	Yes
2.3	Has the Audit Committee Chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	Yes – ex portfolio holder for Finance – ex company director – plus internal training during the year.	Yes – there was discussion on the form such training should take – Requested that further training on SofA be undertaken prior to review this year.
2.4	Are new Audit Committee Members provided with an appropriate induction?	No – need to produce an induction pack – supported by initial induction meeting with Section 151 Officer and Head of Audit – needs to be in place for any new members in May. Could adopt induction material from other Council we could use?	Yes – an induction session for new and existing Members of the Committee was held this year. However, it was felt by Members that the induction for Members of the Committee following the election of the new Council in May was especially relevant and should be more comprehensive.
2.5	Have all Members' skills and experiences been assessed and training given for identified gaps?	Yes but – formal TNA questionnaire to be introduced for all Members.	NO – Members felt that although there is a Corporate process of TNA based on Peer Review and undertaken by HR, more could be done to identify the training needs of Committee Members themselves.

2 Membership, Induction and Training			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
			Comment was also made that in some instances identifying needs could be achieved but the resources/skills were not always available to meet them. A specific TNA for AC Members was needed with links to induction and peer assessments.
2.6	Has each Member declared his or her business interests?	Yes - Constitutional requirement for all Members.	Yes – as required by the Constitution.
2.7	Are Members sufficiently independent of the other key committees of the Council?	Yes – within the limits of the Constitution	Yes – Members did comment that with a reduction of numbers after May 2013 this may need to be revisited.
3 Meetings			
3.1	Does the Audit Committee meet regularly?	Yes	Yes
3.2	Do the terms of reference set out the frequency of meetings?	Yes – although in practice the Committee met more frequently in 2011-12.	Yes
3.3	Does the Audit Committee calendar meet the Authority's business needs, governance needs and the financial calendar?	Yes – AC has produced a timetable of agenda items – But needs updating in 2012-13.	Yes – But some discussion on timing of the Committee to review SofA which has in past limited the amount of time between issuing of papers and the meeting. It was agreed that this issue would be taken into account in the on-going review of the Committee's calendar.
3.4	Are Members attending meetings on a regular basis and, if not, is appropriate action taken?	Yes – no issues identified with Audit Committee Members in 2012-13.	Yes – However, it was not clear to Members where this information could be found. Who records; monitors and reports when and where? The Chair would like to include Member attendance in his annual report to the Committee.
3.5	Are meetings free and open without political influences being displayed?	Yes - no issues identified with Audit Committee Members in 2011-12.	Yes – There was some discussion on the wording here and the fact that the Council is by its nature a political institution. Wording to be reviewed for next self-assessment.
3.6	Does the Authority's S151 Officer or deputy attend all meetings?	Yes	Yes
3.7	Does the Audit Committee have the benefit of attendance of appropriate officers at its meetings?	Yes	Yes
4 Internal Control			
4.1	Does the Audit Committee consider the findings of the annual review of the effectiveness of the System of Internal Control (as required by the Accounts and Audit Regulations) including the review of the effectiveness of the system of Internal Audit?	Yes - as part of the Annual Governance Statement	Yes - as part of the Annual Governance Statement
4.2	Does the Audit Committee have responsibility for review and approval of the SIC and does it consider it separately from the accounts?	Yes	Yes - as part of the Annual Governance Statement
4.3	Does the Audit Committee consider how meaningful the SIC is?	Yes - as part of the Annual Governance Statement.	Yes - as part of the Annual Governance Statement

4 Internal Control			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
4.4	Does the Audit Committee satisfy itself that the System of Internal Control has operated effectively throughout the reporting period?	Yes - IA Progress Reports give this - recent recommendation to provide score between 1-10 to reinforce this.	Yes - again this year IA Progress reports built up a picture of the IC system and all Red Assurance reports and significant control weaknesses identified were reported to the AC.
4.5	Has the Audit Committee considered how it integrates with other Committees that may have responsibility for risk management?	Yes - to be included in joint workshop / training on Risk Management framework with Corporate Scrutiny Committee.	Yes - There was discussion on the similarity of some roles and responsibilities of the Corporate Scrutiny and Audit Committees. The Chairs of both Committees had met to discuss the issue but it was felt that more clarification of role such as that relating to Risk Management was needed.
4.6	Has the Audit Committee (with delegated responsibility) or the full Council adopted "Managing the Risk of Fraud - Actions to Counter Fraud and Corruption?"	No - but following April's workshop a paper will be prepared for adoption at the Committee in 2012-13.	No - Will be in 2013-14.
4.7	Does the Audit Committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?	No - But checklist to be completed and action plan produced in 2012-13.	No - Will be in 2013-14 following adoption.
4.8	Is the Audit Committee made aware of the role of Risk Management in the preparation of the Internal Audit Plan?	Yes - part of the introduction to the Plan.	Yes - Corporate Risk Register increasingly linked to and cross referenced to IA Operational Plan.
4.9	Does the Audit Committee review the Authority's strategic risk register at least annually?	No - But will do in 2012-13 - draft Corporate Risk Register has now been produced.	Yes - draft Corporate Risk Register (CRR) has been presented to the AC in 2012-13 and revised CRR is on the agenda for the AC meeting to be held on 05-02-13.
4.10	Does the Audit Committee monitor how the Authority assesses its risk?	No - But will do so in 2012-13.	Yes - Risk Management Strategy and Guidance was presented for Committee approval in 2012-13.
4.11	Do the Audit Committee's Terms of Reference include oversight of the Risk Management process?	Yes	Yes - TOR have been updated with Local Government Measure guidance on Audit Committee role.
5 Financial Reporting and Regulatory Matters			
5.1	Is the Audit Committee's role in the consideration and/or approval of the annual accounts clearly defined?	Yes - in terms of reference.	Yes
5.2	Does the Audit Committee consider specifically:- <ul style="list-style-type: none"> • The suitability of accounting policies and treatments; • Major judgements made; • Large write-offs; • Changes in accounting treatment; • The reasonableness of accounting estimates; The narrative aspects of reporting?	Yes - AC training is ongoing - External Audit reports and Finance briefings assist - However, timing a consideration - e.g. after the event?	Yes - Members requested to see policy on write offs.
5.3	Is an Audit Committee meeting scheduled to receive the External Auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	Yes	Yes
5.4	Does the Audit Committee review management's letter of representation?	Yes	Yes

5 Financial Reporting and Regulatory Matters			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
5.5	Does the Audit Committee annually review the accounting policies of the Authority?	Yes	Yes
5.6	Does the Audit Committee gain an understanding of management's procedures for preparing the Authority's annual accounts?	Yes – via Finance reporting.	Yes
5.7	Does the Audit Committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Yes – Officer reports to Committee - But could improve with issuing of regular circulars and topical training.	Yes
6 Internal Audit			
6.1	Does the Audit Committee approve, annually and in detail, the Internal Audit strategic and annual plans including consideration of whether the scope of Internal Audit work addresses the Authority's significant risks?	Yes –Now the IA Operational Plan is cross referenced where appropriate to the Corporate Risks in the Corporate Risk Register.	Yes - concern was expressed over the number of investigations impacting on the Plan.
6.2	Does Internal Audit have an appropriate reporting line to the Audit Committee.	Yes	Yes
6.3	Does the Audit Committee receive periodic reports from the Internal Audit Service including an annual report from the Head of Internal Audit?	Yes - IA Progress reports to each meeting and an Annual Report at the first meeting following end of March.	Yes
6.4	Are follow-up audits by Internal Audit monitored by the Audit Committee and does the Committee consider the adequacy of implementation of recommendations?	Yes - at each meeting as part of the IA Progress Reporting.	Yes
6.5	Does the Audit Committee hold periodic private discussions with the Head of Internal Audit?	Yes - But a conscious decision that this is not required; however was established that an opportunity is there when required by either party.	Yes - as per last year – do not feel the need to do so but can do so if considered necessary.
6.6	Is there appropriate co-operation between the Internal and External Auditors?	Yes - but room for improvement on planning.	Yes - but again room for improvement on planning.
6.7	Does the Audit Committee review the adequacy of Internal Audit staffing and other resources?	Yes - part of IA Operational Plan each year.	Yes
6.8	Has the Audit Committee evaluated whether its Internal Audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom?	Yes - external review by External Audit.	Yes
6.9	Are Internal Audit performance measures monitored by the Audit Committee?	Yes - as part of the IA Progress Report linked to Business Plan.	Yes
6.10	Has the Audit Committee considered the information it wishes to receive from Internal Audit?	Yes - on-going – Request for an example full IA report to be presented so that Members can see methodology in practice and identify any additional reporting requirements.	Yes - a new format has been developed for 2012-13 with additional information on results of each review.
7 External Audit			
7.1	Do the External Auditors present and discuss their audit plans and strategy with the Audit Committee (recognising the statutory duties of External Audit)?	Yes	Yes – but could strengthen in this area.
7.2	Does the Audit Committee hold periodic private discussions with the External Auditor?	Yes – But a conscious decision that this is not required; however, was established that an opportunity is there when required by either party.	Yes – as per last year.
7.3	Does the Audit Committee review the External Auditor's annual report to those charged with governance?	Yes	Yes

7 External Audit			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
7.4	Does the Audit Committee ensure that officers are monitoring action taken to implement External Audit recommendations?	No – But IA has produced a report on the Follow Up of Non IA Recommendations including the need for a central register of all recommendations and reporting to relevant Committees.	Yes
7.5	Are reports on the work of External Audit and other inspection agencies presented to the Committee, including the Audit Commission's Annual Audit and Inspection Letter?	Yes - External Audit Yes - Others may go elsewhere.	Yes
7.6	Does the Audit Committee assess the performance of External Audit?	No – need to look at adopting relevant KPIs to be reported against as part of EA progress reports to Committee.	No - Members considered this a priority area for improvement and links with 7.7 below.
7.7	Does the Audit Committee consider and approve the External Audit fee?	No - EA fee set for Statement of Accounts – additional work relating to intervention should be considered and justified.	No - Members would like more involvement in the EA planning process and in approving fees as part of this process. This would best be achieved by joint meetings of Audit and Scrutiny with regulators. Members considered this a priority area for improvement.
ADMINISTRATION			
8 Agenda Management			
8.1	Does the Audit Committee have a designated secretary from Committee/Member Services?	Yes	Yes
8.2	Are agenda papers circulated in advance of meetings to allow adequate preparation by Audit Committee Members.	No - There were issues relating to late papers in 2011-12 - need to be addressed.	Yes
8.3	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	Yes - per calendar.	Yes
8.4	Are inputs for Any Other Business formally requested in advance from Committee Members, relevant officers, Internal and External Audit?	N/A - AOB not current practice to allow at formal Committee meetings.	N/A – as last year
9 Papers			
9.1	Do reports to the Audit Committee communicate relevant information at the right frequency, time, and in a format that is effective?	Yes – but some Members queried the amount of time they are given to consider long and / or detailed papers - including Statement of Accounts.	Yes
9.2	Does the Audit Committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	Yes – Corporate Committee reporting format.	Yes
10 Actions arising			
10.1	Are minutes prepared and circulated promptly to the appropriate people?	Yes – But timing is an issue - minutes to the Chair could be more prompt. Corporate policy is that Chairs do not receive draft minutes but get final versions at same time as everyone else – Need to see if Corporate policy can be reviewed if necessary. Chairs to receive draft minutes have been approved.	Yes – But Members would like to see the draft minutes and be consulted on them prior to the next meeting of the Committee.

10 Actions arising			
Ref	Issue	AC Response 24-04-12	Self-assessment January 2013
10.2	Is a report on matters arising made and minuted at the Audit Committee's next meeting?	Yes - under minutes on next agenda - But no formal follow up of actions in previous minutes is routinely provided.	Yes
10.3	Do action points indicate who is to perform what and by when?	No - Action points do not include who or by when for follow up at next meeting.	Yes - Minutes do include who is to do what - need to ensure that this is more consistent and includes by when.

END OF CHECKLIST

AUDIT COMMITTEE EFFECTIVENESS SELF-ASSESSMENT CHECKLIST
IMPROVEMENT ACTION PLAN - 16 JANUARY 2013

Ref	Issue	Improvement Action Needed	Action By & Date
1.1 & 4.5	It is not clear in some areas what the roles of the Audit and Scrutiny Committees are. This is especially true in relation to role and responsibility for Risk Management.	Need to clarify the roles of Audit and Scrutiny Committees especially in relation to Risk Management. Discuss with Legal and Administration.	Head of Service - Audit By Audit Committee - May 2013
1.5	How in practice can the Audit Committee access other Committees and the Full Council as necessary?	Need to ascertain what procedures are available to facilitate this. Discuss with Legal and Administration.	Head of Service - Audit By Audit Committee - May 2013
2.3	Further training on Statement of Accounts is requested by Members prior to review this year.	Need to ensure that a training session on the Statement of Accounts takes place again this year prior to the review of the 2012-13 Accounts. Need to liaise with Members on content of such training to ensure that it covers their needs in this area.	Head of Service - Finance Prior to SofA review 2013
2.4	Induction arrangements for new Members of the Audit Committee need to be improved. This is considered especially important for new Members following the elections in May 2013	Review of current arrangements is required with the provision of an induction session and appropriate material for Members.	Head of Service - Audit and Head of Service - Finance For May 2013
2.5	Members felt that, although there is a Corporate process of TNA based on Peer Review and undertaken by HR more could be done to identify the training needs of Committee Members themselves.	A specific TNA for AC Members was needed with links to induction and peer assessments. A training needs analysis/skills audit questionnaire be introduced to be completed annually by Members.	Head of Service - Audit For May 2013
3.4	It was not clear who was responsible for recording; monitoring and reporting on Member attendance at Committee or when reporting was undertaken or to whom. The Chair expressed a desire to include Member attendance in his annual report to Committee.	Need to ascertain who has responsibility for recording and monitoring attendance at Audit Committee and to provide the Chair with attendance figures for 2012-13.	Head of Service - Audit By Audit Committee - February 2013.
3.5	There was some discussion on the wording here and the fact that the Council is by its nature a political institution.	Wording to be reviewed for next self-assessment.	Head of Service - Audit By next self-assessment.
4.6 & 4.7	The Audit Committee has not arranged for the adoption of "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" or an equivalent.	Need to arrange for adoption of Counter Fraud guidance and best practice.	Head of Service - Audit For May 2013
5.2	In relation to accounting policy and financial procedures Members asked to see the policy on large write offs.	Members to be provided with a copy of Write Off policy.	Head of Service - Finance For May 2013
6.6	Planning arrangements between Internal and External Audit.	Need to enhance arrangements for consultation and liaison on annual plans.	Head of Service - Audit For May 2013
7.1	External Audit presentation and discussion of their audit plans and strategy with the Audit Committee.	Members asked for strengthening in this area.	Head of Service - Finance For May 2013
7.6 & 7.7	Audit Committee consultation on EA planning, performance and fee.	Members would like more involvement in the EA planning process and in approving fees as part of this process. This would best be achieved by joint meetings of Audit and Scrutiny with regulators. Members considered this a priority area for improvement.	Head of Service – Finance For May 2013

END OF ACTION PLAN

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	5 FEBRUARY 2013
TITLE OF REPORT:	ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE MUNICIPAL YEAR 2012/13
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT COMMITTEE CHAIR
ACTION:	ENDORSE REPORT FOR PRESENTATION TO MAY FULL COUNCIL

Introduction

The Audit Committee is a statutory Committee of the Council and has ten elected members and, since May 2012, has two Lay Members. The role of the Audit Committee is to provide independent assurance of the adequacy of the Council's governance arrangements, the associated control environment and the adequacy of the risk management framework. The Committee is also responsible for independent scrutiny of the Authority's financial and non financial performance (to the extent that it affects the Authority's exposure to risks and weakens the control environment), and to oversee the financial reporting process and annual accounts review and approval to Council.

The Chair of the Audit Committee is Councillor Tom Jones and the Vice Chair is Councillor Eric Roberts.

Meetings

During the municipal year, the Committee has met five times, with an additional meeting being held to elect the Chair of the Committee. The original meeting to elect the Chair held on 28th May 2012 and the scheduled meeting of the Committee held on 24th May 2012 were later determined to have been invalid as neither meeting was attended by a Lay Member, as required by the Local Government (Wales) Measure 2011. The decisions of the meeting held on 24th May 2012 were later ratified by Full Council and the first appropriately confined Audit Committee of the year was held on 24 July 2012, duly attended by our newly appointed Lay Members.

Attendance figures for the five regular meetings are provided for information at Appendix A.

The regular meetings followed the Audit Committee calendar and considered among the regular Committee business: progress reports from the internal and external auditors, the statement of accounts and the external auditor's report on the statement. The Committee also reviewed progress reports on Treasury Management and the Treasury Management Annual Report, strategic risk management framework report, progress reports on the National Fraud Initiative, the Corporate Governance Statement, Review of the Council's Fraud and Corruption Policy and the Wales Audit Office Improvement Assessment. The Committee also received the draft of the Corporate Risk Register at its September meeting. The Corporate Risk Register will be presented on a regular basis to future Audit Committees from now on.

The Committee also received one-off reports on the Code of Local Governance, the use of interims, Information Management, the Buildings Maintenance Unit, Enhancing the Audit Committee, Estimates and Adjustments and Adjustments on the Accounts 2011/12, and Performance Indicators.

The completion of the audited Statement of Accounts for 2011/12 was completed by the 30 September 2012 deadline and recommended by the Committee for approval by the Council. The Committee has continued to support management in measures to strengthen the Finance function further and to ensure current progress in this area is sustainable going forward.

Governance Statement

The Committee adopted an annual Governance Statement for 2011/12 as statutorily required. The Annual Governance Statement was produced as a result of widespread consultation and review of governance processes in year. As with the 2010/11 Statement, much of the 2011/12 Statement was consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and included, where appropriate, reference to the improvement processes implemented by the Commissioners.

The Annual Governance Statement continued to report some weaknesses in governance arrangements. An Action Plan has been produced in order that these weaknesses can be addressed.

The Audit Committee

The role of the Audit Committee has again developed during 2012/13. Development includes taking on board the Local Government (Wales) Measure 2011 reference to the role of Audit Committees in relation to Risk Management, Governance and Internal Control. The Local Government (Wales) Measure 2011 has now been enshrined within revised terms of reference for the Committee which have been incorporated into the Council's Constitution.

The Audit Committee welcomed two Lay Members to its membership during the year and the Committee has benefited from their knowledge, skills and experience during meetings. This 'outside' view of Council issues is to be particularly welcomed.

The Committee has again this year undertaken a self-assessment of effectiveness using a checklist derived from CIPFA's 'Audit Committees: Practical Guidance for Local Authorities,' and the outcome of this self assessment has guided the training programme and actions for the Committee.

Training

During the year, training was arranged for Audit Committee Members, linked to their responsibilities and the Member development programme, on:-

- The Statement of Accounts;
- Treasury Management; and
- Risk Management Framework (joint training with Scrutiny Members).

These training events were well-attended and well received by Members. A list of attendees is shown at **Appendix B**.

Effectiveness

Audit Committee Members take their role in respect of governance and stewardship extremely seriously. They acknowledge that this is a non-political Committee and as such the Committee's role is to hold regulators and officers to account and to discharge the duty of regulating the risk management, governance and assurance framework within the Council.

The Committee takes reports regularly to gain assurance over key areas of activity and also completes a self-assessment on its own effectiveness.

A self-assessment of the Committee's effectiveness, as described earlier, was undertaken in January 2013 to review progress in 2012/13 against the checklist based upon CIPFA best practice for Audit Committees. As the spider graphs at **Appendix C** illustrate, some progress has been achieved since the same self-assessment was undertaken for 2011/12.

Discussion at the workshop has highlighted a number of areas where further improvement can be made and an improvement action plan has been produced for consideration and ongoing monitoring by the Committee in 2013/14.

External Audit

The Council is audited externally by the Wales Audit Office (WAO) although part of the work, covering the financial aspects of the audit and some performance work is covered by PwC working to the Appointed auditor in the WAO. Regular reports from PwC have been considered by the Audit Committee and an update is considered at each meeting.

The Audit Committee has been taking regular updates from the WAO on the Regulatory Plan, which includes all the work of the regulators. This is an important aspect of the Committee's business to ensure that all external reports are being considered, either by the Audit Committee or one of the Scrutiny Committees, and that appropriate action is being taken.

As well as updates on the Regulatory Plan, the Committee also receives updates from PwC on the financial audit work being undertaken. Updates this year have included both the workplan and timetabling of work.

Internal Audit

The Council has an in-house Internal Audit Team managed under a contract with RSM Tenon Plc. The Committee approved the Internal Audit Strategic and Operational Plan 2012/13 at its meeting held in May 2012. Performance against the Internal Audit Operational Plan is reported by the Head of Service Audit to each of the Committee's regular meetings as part of the Internal Audit Progress report. Progress reports also include performance against a number of agreed performance indicators as well as the progress of services in implementing Internal Audit recommendations.

Reports of completed Internal Audit reviews, along with the assurance levels given, is also provided in Progress reports and builds over the year into a picture of the assessed strength of the Council's internal control framework. During this year, the Internal Audit Progress reports have contained additional information on each review undertaken, including details of the background and scope of reviews and the key findings arising from the work undertaken.

An overall statement on internal control is provided in the Head of Service Audit's annual report and in the Annual Governance statement.

Risk Management

The Local Government Measure (Wales) 2011 includes a requirement for local authorities to appoint a Committee with responsibility to review and assess the risk management, internal control and corporate governance arrangements of the Authority. The Terms of Reference of the Audit Committee have been amended to reflect the requirements of the Local Measure.

During the year the Committee received the Risk Management Strategy and Guidance documents and recommended them for adoption by the Executive.

The Committee has continued to support the development of the Risk Management framework within the Council during the year, and consideration of Risk Management and the receiving of the Corporate Risk Register is to be a standing agenda item from now on.

The Committee sees its key role in the Risk Management process as satisfying itself as to the adequacy of the structures, processes and responsibilities for identifying and managing the key risks facing the organisation.

Counter Fraud

The Audit Committee received the annual Policy for the Prevention of Fraud and Corruption: Report for 2011/12 in September 2012. The report included an update on the Council's participation in the National Fraud Initiative (NFI) 2010/11 (results issued 2011).

A background to counter fraud and a presentation of the work of the Benefits Fraud Team was included in the January 2013 Audit Committee Workshop. The outcome of the January workshop include an action to hold a fraud awareness session for Members in 2013/14 and to consider the formal adoption of the 'Managing the Risk of Fraud' guidelines against which to benchmark the Council's current counter fraud and corruption processes.

The Internal Audit progress report includes reference to the number of referrals resulting in formal reports during the year.

Plans for the Future

As well as its regular business, the Committee will continue its development programme, informed by the self-assessment of effectiveness and outcome of the fraud awareness session and review of the Council's counter fraud arrangements. This will, again, include relevant training events geared to its activities in 2013/14.

The Committee will continue to develop its role in relation to Risk Management during 2013/14 and will look to adopt a method of being able to assess the adequacy of the Council's fraud and corruption on an on-going basis.

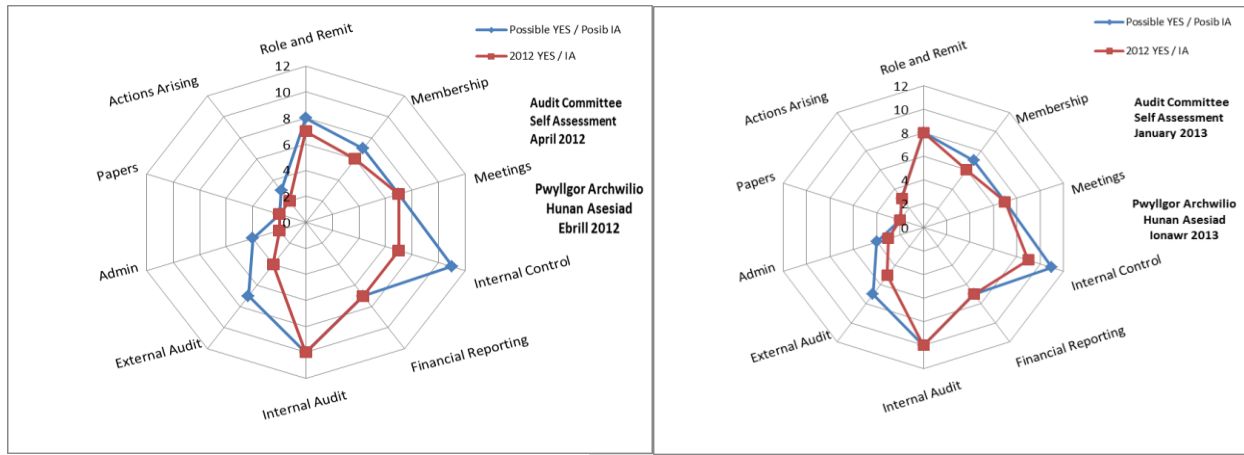
AUDIT COMMITTEE - ANALYSIS ON REGULAR MEETING ATTENDANCE - 2012-13

Members	% Attendance Scheduled Meetings	Meeting Held on	Attended	Meeting Held on	Attended	Meeting Held on	Attended	Meeting Held on	Attended	Meeting Held on	Attended	Number of Meetings Attended
Cllr. Alun Wyn Mummery	67%	24/05/2012	Ineligible	24/07/2012	Ineligible	25/09/2012	✓	12/12/2012	✓	05/02/2013		2
Cllr. Eric Roberts	80%	24/05/2012	✓	24/07/2012	✓	25/09/2012	✓	12/12/2012	✓	05/02/2013		4
Cllr. Vaughan Hughes	50%	24/05/2012	Ineligible	24/07/2012	✓	25/09/2012	✓	12/12/2012	x	05/02/2013		2
Cllr. Thomas H Jones	80%	24/05/2012	✓	24/07/2012	✓	25/09/2012	✓	12/12/2012	✓	05/02/2013		4
Cllr. Eurfryn Griffith Davies	60%	24/05/2012	✓	24/07/2012	✓	25/09/2012	x	12/12/2012	✓	05/02/2013		3
Cllr. Jim Evans	80%	24/05/2012	✓	24/07/2012	✓	25/09/2012	✓	12/12/2012	✓	05/02/2013		4
Cllr. Ieuan Williams	40%	24/05/2012	x	24/07/2012	✓	25/09/2012	✓	12/12/2012	x	05/02/2013		2
Cllr. Keith Evans	60%	24/05/2012	x	24/07/2012	✓	25/09/2012	✓	12/12/2012	✓	05/02/2013		3
Cllr. Clifford Lloyd Everett	40%	24/05/2012	x	24/07/2012	x	25/09/2012	✓	12/12/2012	✓	05/02/2013		2
Cllr. Gwilym O Jones	60%	24/05/2012	x	24/07/2012	✓	25/09/2012	✓	12/12/2012	✓	05/02/2013		3
Mrs Sharon Warnes	75%	24/05/2012	Ineligible	24/07/2012	✓	25/09/2012	✓	12/12/2012	✓	05/02/2013		3
Mr Richard Barker	75%	24/05/2012	Ineligible	24/07/2012	✓	25/09/2012	✓	12/12/2012	✓	05/02/2013		3

AUDIT COMMITTEE - ANALYSIS OF ATTENDANCE AT TRAINING SESSIONS - 2012-13

Members	% Attendance - Scheduled Meetings	Effectiveness Workshop	Attended	Risk Management	Attended	Statement of Accounts	Attended	Treasury Management	Attended	Number of Meetings Attended
Clr. Alun Wyn Mummery	75%	16/01/2013	✓	06/11/2012	✓	12/09/2012	✓	16/10/2012	×	3
Clr. Eric Roberts	75%	16/01/2013	✓	06/11/2012	×	12/09/2012	✓	16/10/2012	✓	3
Clr. Vaughan Hughes	50%	16/01/2013	×	06/11/2012	×	12/09/2012	✓	16/10/2012	✓	2
Clr. Thomas H Jones	75%	16/01/2013	✓	06/11/2012	✓	12/09/2012	×	16/10/2012	✓	3
Clr. Eurfryn Griffith Davies	50%	16/01/2013	×	06/11/2012	✓	12/09/2012	✓	16/10/2012	×	2
Clr. Jim Evans	100%	16/01/2013	✓	06/11/2012	✓	12/09/2012	✓	16/10/2012	✓	4
Clr. Ieuan Williams	25%	16/01/2013	×	06/11/2012	×	12/09/2012	×	16/10/2012	✓	1
Clr. Keith Evans	50%	16/01/2013	✓	06/11/2012	✓	12/09/2012	×	16/10/2012	×	2
Clr. Clifford Lloyd Everett	0%	16/01/2013	×	06/11/2012	×	12/09/2012	×	16/10/2012	×	0
Clr. Gwilym O Jones	75%	16/01/2013	×	06/11/2012	✓	12/09/2012	✓	16/10/2012	✓	3
Mrs Sharon Warnes	100%	16/01/2013	✓	06/11/2012	✓	12/09/2012	✓	16/10/2012	✓	4
Mr Richard Barker	75%	16/01/2013	✓	06/11/2012	✓	12/09/2012	✓	16/10/2012	×	3

AUDIT COMMITTEE EFFECTIVENESS SELF ASSESSMENT 2012-13



The outer references show the areas assessed by the checklist. The figures coming from the centre of the spider graph outwards from 1-12 represent the number of questions in each area.

The blue dotted line represents where we would be if we could answer yes to all the best practice questions in each area. The red line shows where we actually are against best practice in each area. The nearer the red line is to the dotted blue line and less towards the centre the better we have performed in each area.

The graph for 2013 at right at the top of this page shows improvements in 2012/13 in the areas of Role and Remit; Internal Control; External Audit and Administration. However, the last three of these areas are also included in the Action Plan for the Committee to improve further in 2013/14.

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to	Audit Committee
Date	5 February 2013
Subject	Treasury Management – Third Quarter 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. This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management which recommends that Members should be updated on treasury management activities at least twice a year, but preferably quarterly.
2. The Council's Treasury Advisers provided a summary of the economic background and outlook (Appendix 1) and also provided the following forecast soon after the end of the quarter.

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	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%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%
10yr PWLB rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%
25yr PWLB rate	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%
50yr PWLB rate	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%

Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report for November 2012. In the August Inflation Report, the Bank changed its position significantly in as much as it markedly downgraded its forecasts for the strength and speed of recovery in GDP growth whereas previously it had consistently been forecasting a strong recovery to over 3% p.a. In its November Report, the Bank has continued this shift towards pessimism in the speed and strength of recovery; it is now only forecasting growth at around 1% in 2013 and 2% in 2014. These developments have pushed back the expectations of the timing of the eventual start of increases in Bank Rate from Q4 2014 to Q1 2015, as well as the pace of rises in gilt yields.

Sector state that economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during 2013 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Equity prices staged a significant rise during the second half of 2012 and the start of January, accompanied by a fall in bond prices and a rise in bond yields. 2013 is likely to see a tug of war between bond and equity prices as ebbs and flows in investor confidence and fears cause recurring spikes and falls in their prices.

They also state that the overall balance of risks to economic recovery in the UK remains weighted to the downside. They believe that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. Although the prospect of further quantitative easing is likely to keep gilt yields lower than they would otherwise be in the near term, this programme is not everlasting. At some stage, the expectation of a conclusion to quantitative easing will add to the upside pressure on gilt yields.

3. At the beginning of the year, the Council's borrowing portfolio was all from PWLB and was £4.6m below the Capital Financing Requirement (CFR). 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. The market conditions continue to be regularly monitored and assessed. Borrowing at year end will therefore be in the range £96m to £109m.

The table shows the position at the beginning and end of the quarter:

	30 December 2012		30 Sept 2012	
	£m	%	£m	%
Borrowing – fixed rate	96.1	5.53	96.1	5.53
Borrowing – variable rate	-	-	-	-
Deposits – Call to 30 days	3.9	0.73	12.1	0.76
Deposits – Fixed Term < 1 year	10.0	1.63	10.0	1.42
Deposits – Fixed Term 1 year +	-	-	-	-
Total Deposits	13.9	1.38	22.1	1.06
Average Deposits in the Quarter	22.2	1.07	26.7	1.01

During 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 or debt rescheduling took place.

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.

4. During the quarter the Council remained within its Prudential and Treasury Limits (Appendix 2).
5. In October Member training on treasury management issues was undertaken in order to support the scrutiny role of members of the Audit Committee.
6. The Council's budget for the current year includes revenue provision for potential unsupported borrowing. Any such additional borrowing requirement will need to be approved by the County Council.
7. The plans for the rest of the year are:

- To continue to invest surplus balances in a way that ensures security as well as liquidity and yield;
- To continue to internalise borrowing whilst regularly monitoring market conditions;
- To monitor the market so that rescheduling can be undertaken at an appropriate time if opportunities are available; and
- To respond to possible initiatives for using unsupported borrowing or one-off borrowing support.

8. RECOMMENDATION

To consider the content of the report.

**EINIR WYN THOMAS
HEAD OF SERVICE (FINANCE)**

15 JANUARY 2013

Cefndir Economaidd / Economic Background

During the quarter ended 31 December:-

- Indicators suggest that the economy probably contracted;
 - Retail sales weakened but spending off the high street held up;
 - Employment continued to rise, albeit at a slower pace;
 - Inflation remained stubbornly above the MPC's 2% target;
 - The MPC paused its programme of asset purchases;
 - UK equity prices rose and government bond prices fell;
 - The US economy continued to recover at a modest pace.
- The unwinding of the boost from the Olympic Games in August means that GDP probably contracted in the fourth quarter of 2012. The CIPS/Markit business surveys generally weakened, with the measure of services activity in December falling to its lowest level since December 2010.
 - The weakness of the surveys seemed in part to reflect the washing out of the impact of the Olympics, which will have given a temporary boost to activity in the third quarter. Indeed, the official data deteriorated at the start of Q4. Following a 2.1% monthly drop in September, industrial production fell by a further 0.8% in October. In addition, the overall trade deficit widened from £2.5bn in September to £3.6bn in October.
 - Meanwhile, high street spending, which is excluded from the CIPS surveys, was relatively weak. The official measure of retail sales volumes fell by 0.7% in October. With sales volumes stagnant in November, retail sales are likely to detract from overall GDP growth in Q4. For example, if sales volumes remain unchanged again in December, then sales will be 0.6% lower than in the third quarter.
 - However, spending off the high street continued to show evidence of recovery. In particular, private new car registrations were 12% and 11% higher than a year ago in October and November respectively.
 - All in all, the above indicate there is likely to have been a 0.4% quarterly fall in GDP in Q4 2012, which would leave growth for 2012 as a whole at about -0.1%.
 - Meanwhile, although the resilience of the labour market continued, it faded a bit through the quarter. Admittedly, the claimant count measure of unemployment fell by 3,000 in November, while the Labour Force Survey measure of employment rose by 40,000 in the three months to October. However, this was the smallest increase since the start of the year.
 - Pay growth remained depressed. Annual growth of overall average earnings dropped from 1.8% in June to 1.3% in October. Given the rate of inflation over this period, real pay continued to fall on an annual basis.
 - Meanwhile, news on the housing market was mixed. The Halifax measure of house prices declined by 0.1% m/m in October, but then rose by 1% in November. However, the Nationwide measure was flat in November, having risen by 0.6% in October. The big picture is that prices on both measures fell slightly over the year. Elsewhere, mortgage approvals for new house purchase continued to edge up. The total of 52,982 in October was the fifth consecutive monthly rise. Although an encouraging sign, the level is still far below that seen pre-crisis.
 - Banks' funding costs continued to ease over the quarter, reflecting the Bank of England's provision of low cost funding via the Funding for Lending Scheme. Rates on new fixed and floating rate mortgages both declined in October compared to their average level in Q3.

- Meanwhile, although public borrowing has continued to overshoot last year's level, the Government was helped by a number of one offs in December's Autumn Statement. Borrowing from April to November was £93bn, £9bn higher than the same period in 2011/12. However, the Office for Budget Responsibility (OBR) expects net borrowing to come in at £108bn in 2012/13, about £10bn below last year's level, largely reflecting the receipt of funds from the Bank of England's Asset Purchase Facility and the anticipated auction of 4G licences early next year.
- As far as the Autumn Statement went, there were few surprises. Austerity was extended for a further year, to 2017/18, and in light of the deterioration in the borrowing forecasts, the Chancellor chose to disregard one of his fiscal targets, to get debt as a share of GDP falling by 2015/16. While he did announce a number of growth friendly measures, including a cut in corporation tax, it was largely a case of give with one hand and take away with the other.
- Inflation remained stubbornly sticky in Q4. Indeed, CPI inflation rose from 2.2% in September to 2.7% in October, and remained at that level in November. October's jump in university tuition fees, hefty rises in utility prices at the end of the 2012 and a pick-up in food price inflation following poor harvests, mean that inflation is likely to hover between 2.5% and 3% for the best part of 2013.
- Meanwhile, the MPC voted in November to pause its programme of quantitative easing, leaving total asset purchases at £375bn. The announcement in November that Mark Carney, the current Governor of the Bank of Canada, will take on the Governorship of the Bank of England from June 2013, raised speculation that the MPC's current 2% inflation target may be reformulated.
- Equity prices in the UK and overseas largely continued to rise over the course of the fourth quarter, with the FTSE 100 picking up from 5,820 to 5,898. Over the period gilt prices fell, causing 10-year gilt yields to rise from about 1.55% to 1.80%. Meanwhile, the pound was unchanged against the dollar, at about \$1.63, but weakened slightly against the euro from €1.25 to €1.23.
- Internationally, the US economy's recovery has remained soft. A weighted average of the manufacturing and non-manufacturing ISM indices points to annualised GDP growth of 2.0% in Q4. Total non-farm payroll employment rose by 138,000 in October and 146,000 in November, compared to an average increase of 168,000 in the third quarter. However, the agreement reached on 1st January to avert some of the "fiscal cliff" scheduled for the start of 2013 reduces the risk of a new recession.
- In the Eurozone, market sentiment continued to be steadied by the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt. However, activity indicators point to a deepening recession in the region. On past form, the composite Eurozone PMI points to a quarterly drop in GDP of about 0.5% in Q4.

Rhagolygon Economaidd / Economic Outlook

UK economy

Mervyn King was downbeat at the press conference, after the November Inflation Report was published, about the combination of stronger inflation and weaker growth facing the UK. He blamed the downturn in the global economy and viewed the recent reversal of the 25% devaluation of Sterling after the financial crash, to 20%, as being unhelpful to encouraging an export led recovery. However, some commentators are now questioning whether Sterling devaluation is a positive for an economy which is focused on producing high value added specialised goods and services which may not be as price sensitive as UK exports were in previous decades. He also commented that the banks were keeping financially weak “zombie firms” on life support systems by allowing them to breach borrowing covenants so as to avoid debt write offs hitting bank balance sheets. This may mean that more viable firms with expansion plans are being starved of credit and that the potential for a more rapid recovery is being stifled.

The Chancellor’s Autumn Statement recognised that the Government is not going to achieve its original timetable for reducing the budget deficit and total debt; the timescale has accordingly been extended. The housing market looks as if it will continue to be weak for a long time yet and the construction industry is contracting.

Eurozone

Although market anxiety about Greece has currently subsided after the agreement to a further major financial support package amounting to nearly €50bn in December, markets are still concerned that the eventual end game could be that Greece is eventually forced to exit (dubbed “Grexit”) the Eurozone and return to the drachma. There is also increasing concern that the contraction in Spain’s economy and the very high level of unemployment of 25%, similar to Greece’s level, could mean that both countries could get into a downward deflationary spiral which makes achieving fiscal correction increasingly difficult and unachievable. The ECB’s pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about Spain and Greece is likely to be subdued in the immediate future. However, the poor economic fundamentals and outlook for both economies could well mean that a storm in financial markets has only been delayed, not cancelled. Spain has also resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks. The imminent general election in Italy also creates uncertainty over which political parties will eventually create a coalition and what their eventual compromise will amount to in terms of economic policy to contain Italy’s own fiscal challenges. There could therefore be volatility in Spanish and Italian bond yields in the near future, depending on political and economic developments. There will also be a general election in Germany in 2013 though it currently looks likely that this will lead to little change in current policy on the Euro and support for peripheral countries.

In summary, our views on the prospects for GDP growth in the major global economies are as follows:-

UK

- The Bank of England November 2012 Inflation Report has again pushed back the timing of a return to trend growth and the rate at which inflation will fall back towards the target rate of 2%.
- It now looks likely that Q4 2012 will see a return to negative growth. If this negativity continues into the first quarter of 2013 it would be the first triple dip recession since records began in 1955.
- A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and Eurozone GDP growth means that the UK economy is likely to register weak growth over 2013 and 2014.

- Consumers are likely to remain focused on paying down debt. Weak consumer sentiment and job fears will all act to keep consumer expenditure suppressed; this will be compounded by inflation being higher than increases in average earnings i.e. disposable income will still be eroded.
- The Coalition government is hampered in promoting growth by the need to tackle the budget deficit.
- Little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- There is potential for more quantitative easing in 2013 which will help to keep gilt yields lower than they would be otherwise.
- On the other hand, recent discussion around reformulating how RPI is calculated could adversely affect demand for inflation indexed gilts in particular, but also gilts generally, if this proposal is taken forward and was perceived to be a softening of the stand against inflation in the UK.
- The main rating agencies have all made it clear they are reviewing the UK's "AAA" status in early 2013. There is a material chance of the current ratings being downgraded. Although the UK will retain its "safe haven" status, a change in rating may place some upside pressure on gilt yields.

US

- GDP growth is likely to remain weak at around 2% - but that is a lot better than the prospects for the UK and Eurozone.
- The Fed has indicated that is unlikely to increase the central rate until 2015. It changed its policy targets to focus specifically on the employment sector. The new target is for unemployment to fall to 6.5% before official policy rates are raised.
- The "fiscal cliff" has only been partially dealt with at the beginning of January 2013. Increasing the debt ceiling and agreeing the cuts in expenditure part of the "fiscal cliff" will need to be resolved within the next two months.
- The housing market is showing some sustainable signs of having turned a corner.

Eurozone

- Austerity programmes in the various "peripheral" countries are starting to show signs of having an effect in reducing growth rates in "core" countries. The Eurozone looks as if it is heading for another quarter of negative growth in Q4 2012 and prolong the recession which began in Q3.

China

- Efforts to stimulate the economy appear to be succeeding towards the end of 2012. However, there are still concerns around the unbalanced nature of the economy which is heavily dependent on new investment expenditure. The potential for the bubble in the property sector to burst, as it did in Japan in the 1990s, could have a material impact on the economy as a whole.

Allan o gyngor gan / From advice from SECTOR Ltd

Prudential Indicators – Quarter 3 2012/13

Prudential Indicator	2012/13 Indicator £m	Quarter 3 - Actual £m
Capital Financing Requirement (CFR)	113.7	n/a
Gross borrowing	113.7	96.1
Investments	n/a	13.9
Net borrowing	n/a	82.2
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%	7%
12 months to 2 years	20%	0%
2 years to 5 years	50%	6%
5 years to 10 years	75%	15%
10 years and above	100%	72%

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to	Audit Committee
Date	5 February 2013
Subject	Treasury Management Strategy Statement 2013/14
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. This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management which recommends that, prior to being presented for adoption, Members should scrutinise the Treasury Management Strategy Statement. This Authority's scheme of delegation charges the Audit Committee with this function.
2. It should be noted that the capital expenditure plans for 2013/14 and beyond are currently under development and have not, therefore, been reflected in this draft TMSS. Additionally, therefore, proposed Prudential and Treasury Indicators for 2013/14 will be presented in a later budget setting report for 2013/14.
3. It should be noted that this Authority is considering entering into the Local Authority Mortgage Scheme (LAMS). If this was to occur, the Treasury Management Strategy Statement would require amending accordingly.

EINIR WYN THOMAS
HEAD OF SERVICE (FINANCE)

28 JANUARY 2013

TREASURY MANAGEMENT STRATEGY STATEMENT**ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT
AND TREASURY MANAGEMENT POLICY STATEMENT 2013/14****1. Introduction****1.1 Background**

The Council is required to operate a balanced budget, meaning that total revenue due during the financial year must be sufficient to meet expenditure, and also that actual cash inflows must be adequate to cover cash outflows. A key part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk approach, ensuring adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

A particular point is that a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that:-

- increases in revenue costs resulting from increases in interest charges, incurred to finance additional borrowing to finance capital expenditure; and
- any increases in running costs from new capital projects, must be limited to a level which is affordable within the Council's projected income.

The Treasury Management Policy Statement defines the policies and objectives of the treasury management activities. See Appendix 9.

1.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

Prudential and Treasury Indicators and Treasury Strategy - The first and most important report, covers:-

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators;
- an investment strategy (the parameters on how investments are to be managed);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time); and
- a Treasury Management Policy Statement (definition of the policies and objectives of the treasury management function).

Reporting is also required on the capital plans (including the associated prudential indicators).

The capital plans for 2013/14 and beyond are currently being considered. Therefore, the details surrounding the plans, and therefore, the Prudential and Treasury Indicators will be presented to the Executive Committee as part of the 2013/14 budget setting.

A Mid Year Treasury Management Report - This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting its objectives or whether any policies require revision. Rather than this minimum requirement, these reports will be produced quarterly (with quarters one and three being reported only to the Audit Committee).

An Annual Treasury Report - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2013/14

The suggested strategy for 2013/14 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Sector Treasury Services.

The strategy for 2013/14 covers two main areas:-

Capital Issues

- the capital plans and the prudential indicators; and
- the minimum revenue provision (MRP) strategy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the WG MRP Guidance, the CIPFA Treasury Management Code and the WG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. In October 2012 Member training on treasury management issues was undertaken in order to support the scrutiny role of members of the Audit Committee. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Adoption of the Code

The Council is required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This original, 2001 Code, was adopted on 5 March 2002 by the full Council, a revised Code was adopted on 4 March 2010 and the current, 2011, Code now requires adoption.

2. Capital Considerations

The Council's current capital expenditure projection for 2013/14 is set out below. In respect of the years after 2012/13, the estimates will be updated in readiness for consideration by the Executive Committee when considering the budget reports for 2013/14. The key points to note are that:-

- the overall programmes will be limited to what is affordable, both in terms of actual capital spend and in terms of the revenue implications (see 1.1 above);
- the programmes for future years will be significantly reduced, compared to current levels, because the HRA Welsh Housing Quality Standard Programme was completed in 2012.

£m	2011/12 Actual £m	2012/13 Projected £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
TOTAL	21.6	25.8	TBC	TBC	TBC

3. Borrowing

The capital expenditure plans, set to be out in a separate report to the Executive Committee, provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's treasury portfolio position at 16 January 2013 comprised:-

		Principal (£m)	Average Rate (%)
Fixed Rate Funding	PWLB	96.1	5.53
Variable Rate Funding	n/a	0.0	n/a
Total Debt		96.1	5.5

PWLB: Public Works Loans Board

A more detailed breakdown of external debt is shown at Appendix 1.

3.2 Prospects for Interest Rates

The Council's appointed treasury advisor is Sector Treasury Services and part of their service is to assist the Council to formulate a view on interest rates. Appendix 3 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average (%)	Bank Rate (%)	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury management implications:-

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully; and
- There will remain a cost of carry - any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

A detailed review of the current economic background is contained within Appendix 5 to this report.

3.3 Borrowing Requirement

The forecast movements in the Council's capital financing requirement (CFR) are:-

ESTIMATED MOVEMENTS IN THE CAPITAL FINANCING REQUIREMENT AND REPLACEMENT BORROWING 2012/13 TO 2015/16				
	2012/13 Projected £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Movement in the CFR				
New borrowing to support capital expenditure				
<i>Supported Borrowing</i>	3,526	5,051	2,140	2,140
<i>Unsupported Borrowing</i>	5,700	6,050	6,777	7,300
Total	9,226	11,101	8,917	9,440
<i>Reduce by: Minimum Revenue Provision and set aside capital receipts</i>	(4,380)	(5,183)	(4,970)	(5,169)
Net movement in the CFR	4,846	5,918	3,947	4,271
Potential movements in actual borrowing				
Movement in the CFR (above)	4,846	5,918	3,947	4,271
Externalisation of pre 2012/13 internal borrowing	4,564	-	-	-
Replacement Borrowing	6	6,507	7	8
Total potential new borrowing	9,416	12,425	3,954	4,279

This incorporates the full impact of the draft Capital Programme for 2013/14. For the following financial years, the amounts of new borrowing are limited to the notified allocations for Supported Borrowing, plus an annual amount of £1m of additional Unsupported Borrowing, plus cover for delayed capital receipts, the effect of the Local Government Borrowing Initiative and the asset rationalisation programme (£5m in 2014/15 and 2015/16).

The likelihood is that not all of this requirement will be met by external borrowing (see 3.4.1 below).

3.4 Borrowing Strategy

The Council is currently in an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This approach is prudent as investment returns are low and counterparty risk is high, and will continue to be followed where appropriate (see 3.4.1 below for a more detailed consideration of internal and external borrowing).

Against this background and the risks within the economic forecast, caution will be adopted with the 2013/14 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:-

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

In view of the above, the Council's borrowing strategy will be based upon the following sources providing value:-

- Temporary borrowing from the money markets or other local authorities;
- PWLB variable rate loans for up to 10 years;
- Short dated borrowing from non PWLB sources;
- There will be a flexible approach to the mix of internal and external borrowing (see 3.4.1 below);
- Long term fixed rate market loans, where rates are significantly below PWLB rates for the equivalent maturity period, and to maintain an appropriate balance between PWLB and market debt in the debt portfolio;
- PWLB borrowing for periods under ten years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

The S151 Officer will also keep under review potential opportunities to join in bond issues or other collaborative borrowing arrangements.

3.4.1 External v. internal borrowing

The comparison of gross and net debt positions as at year end is as follows (this is on the basis of being fully funded):-

NET BORROWING 2011/12 TO 2015/16					
	2011/12 Actual £'000	2012/13 Projected £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Total Borrowing	96,103	96,096	111,430	115,377	119,648
Total Investments	16,151	11,299	20,000	20,000	20,000
Net Borrowing	79,952	84,797	91,430	95,377	99,648

Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. Many of the factors which lay behind the previous policy to externalise all borrowing remain valid, e.g.:

- To protect the council tax payer from losses caused by the method of calculation of Housing Revenue Account Subsidy in the current system;
- To mitigate any liquidity issues caused by the implementation in the future of the long stop provisions to limit unsupported borrowing;
- With a continuing historically abnormally low Bank Rate, there remains an unique opportunity for local authorities to actively manage their strategy of undertaking new external borrowing.

However, it remains the case that there are certain limitations to this approach, as previously noted, e.g.:-

- The policy can cause exposure to credit risk, so this aspect must be very carefully managed;
- Careful on going consideration needs to be given to the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

In favour of internalisation, over the next three years investment rates are expected to be below long term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

However, short term savings by avoiding new long term external borrowing in 2013/14 must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

Potential changes to Housing Subsidy will have a bearing on the balance of the internalisation/externalisation, but further information on this is awaited from WG.

The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, compounded by a considerable further widening of the difference between new borrowing and repayment rates in October 2010, has potentially meant that large premiums would be incurred by such action; such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

Against this background, caution will be adopted with the 2013/14 treasury operations. The S151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs, solely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:-

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets, have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the advantages and disadvantages of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded on 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (i.e. premiums incurred).

The reasons for any rescheduling to take place will include:-

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit Committee, at the earliest practicable meeting following its action.

4. Annual Investment Strategy

4.1 Current Portfolio Position

The Council's treasury portfolio position at 16 January 2013 comprised:-

	Principal (£m)	Average Rate (%)
Deposits – Call to 30 days	14.4	0.74
Deposits – Fixed Term < 1 year	10.0	1.63
Deposits – Fixed Term 1 year +	-	-
Total Deposits	24.4	1.11

4.2 Investment Policy

The Council's investment policy has regard to the WG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice for Local Authorities and Cross-Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list (see Appendix 5). The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings, service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the Council's advisors, Sector, in producing its colour codings which show the varying degrees of creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in Appendix 6 under the 'Specified' and 'Non-Specified' Investments categories.

The Council will also from time to time, make loans, deposits and investments 'for the purpose of delivery of its Service'. These transactions will require the authority of the County Council for amounts over £100k. All transactions will be subject to adequate credit quality and the approval of the Section 151 Officer in consultation with the Portfolio Holder for Finance.

4.3 Creditworthiness policy

The Chief Finance Officer will maintain a counterparty list in compliance with the criteria set out in Appendix 5 and will revise the criteria and submit them to Council for approval as necessary.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution, on the basis of credit rating, will fall outside the lending criteria. Credit rating information is supplied by Sector, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria could be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

As an additional layer to the minimum credit rating criteria described above, this Council also employs the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads from which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to assist in determining the duration for investments. The Council will, therefore, normally use counterparties within the following durational bands:-

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used without specific approval by S151 Officer

The Sector creditworthiness service uses a wider array of information than just primary ratings and, by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum credit rating criteria, its further use for new investment will cease immediately, unless otherwise authorised; and
- in addition to the use of credit ratings, the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Reference will also be made to market data and market information, information on government support for banks and the credit ratings of that supporting government.

4.4 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

4.5 Investment Strategy

In-house funds: Based on cash flow forecasts, the S151 Officer anticipates that the available cash balances in 2013/14 will be up to £30m on average and will range between £15m and £35m. This estimate is based on available cash balances, on a fully funded basis, of £30m on average this year to date (with a range of £16m to £34m). There is a core balance of up to £15m available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

As at the date of this report the Council holds no investments with a maturity of more than one year.

Investment returns expectations: Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast to commence rising in quarter 4 of 2014. Bank Rate forecasts for financial year ends (March) are: -

- **2012/2013** 0.50%
- **2013/2014** 0.50%
- **2014/2015** 0.75%
- **2015/2016** 1.75%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next four years are as follows:-

2012/13	0.50%
2013/14	0.50%
2014/15	0.60%
2015/16	1.50%

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and reserve accounts, and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 External fund managers

The Council has not appointed external fund managers. The need for this will be kept under review and a report will be made to the Executive before such an appointment is made.

4.8 Policy on the use of external service providers

In order to acquire access to specialist skills and resources, the Council uses Sector Treasury Services as its external treasury management advisors. The terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Final responsibility for treasury management decisions remains with the Council.

4.9 Delegation

The Treasury Management scheme of delegation and the role of the Section 151 Officer are outlined in Appendix 7.

APPENDICES

1. Loan maturity profile
2. MRP strategy
3. Interest rate forecasts
4. Economic background
5. Specified and non specified investments / Approved Lending List
6. Approved countries for investments
7. Treasury management scheme of delegation and the role of the section 151 officer.
8. Treasury Management Key Principles
9. Treasury Management Policy Statement

DADANSODDIAD BENTHYCIADAU YN AEDDFEDU 2012/13 YMLAEN/ LOANS MATURITY ANALYSIS 2012/13 ONWARDS						
	PWLB Aeddefedu/ PWLB Maturity £'000	PWLB EIP/ Annuity/ PWLB EIP/ Annuity £'000	Benthyciadau Marchnad/ Market Loans £'000	PWLB Amrywiol/ PWLB Variable £'000	Cyfanswm yn Aeddfedu/ Total Maturing £'000	%YN Aeddfedu o'r Cyfran yn sefyll/ Maturing of Total Outstanding %
2012/13	0	6	0	0	6	0.0
2013/14	6,500	7	0	0	6,507	6.8
2014/15	0	7	0	0	7	0.0
2015/16	0	8	0	0	8	0.0
2016/17	0	9	0	0	9	0.0
2017/18	5,500	9	0	0	5,509	5.7
2018/19	5,000	10	0	0	5,010	5.2
2019/20	5,000	11	0	0	5,011	5.2
2020/21	4,500	12	0	0	4,512	4.7
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	2.4
2023/24	1,854	16	0	0	1,870	1.9
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	854	22	0	0	876	0.9
2027/28	1,675	24	0	0	1,698	1.8
2028/29	0	26	0	0	26	0.0
2029/30	854	21	0	0	875	0.9
2030/31	0	15	0	0	15	0.0
2031/32	1,281	9	0	0	1,290	1.3
2032/33	0	8	0	0	8	0.0
2033/34	0	0	0	0	0	0.0
2034/35	0	0	0	0	0	0.0
2035/36	0	0	0	0	0	0.0
2037/38	0	0	0	0	0	0.0
2039/40	5,000	0	0	0	5,000	5.2
2040/41	3,500	0	0	0	3,500	3.6
2045/46	0	0	0	0	0	0.0
2047/48	0	0	0	0	0	0.0
2050/51	2,000	0	0	0	2,000	2.1
2052/53	28,238	0	0	0	28,238	29.4
2054/55	3,000	0	0	0	3,000	3.1
2055/56	3,500	0	0	0	3,500	3.6
2056/57	5,000	0	0	0	5,000	5.2
2057/58	8,513	0	0	0	8,513	8.9
2059/60	1,763	0	0	0	1,763	1.8
	95,816	287	0	0	96,102	100.0
Cyfartaledd bywyd (blynyddoedd)/ Average life(years)	27.33	17.86	0.00	0.00	27.31	
Cyfartaledd graddfa (%)/ Average rate (%)	5.52	9.41	0.00	0.00	5.53	

Minimum Revenue Provision Policy Statement 2013/14

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess the MRP for 2013/14 having regard to the main recommendations contained within the guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003. This relates to Council Fund only, not to HRA.

The major proportion of the MRP for 2013/14 will relate to the more historic debt liability that will continue to be charged at the rate of 4% of Capital Financing Requirement (in accordance with *option 2* of the guidance). Certain expenditure, generally that funded from unsupported borrowing, reflected within the debt liability at 31st March 2007 will be subject to MRP (under *option 3*), in accordance with the asset life method as below.

Although the regulations give discretion to charge MRP on new expenditure either at 4% as previously, or according to estimated asset life, MRP will normally be charged at 4%. However, expenditure financed by unsupported borrowing will be charged in accordance with the asset life method. This distinction will be kept under review.

Under the Asset Life method, MRP is charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined by the S151 Officer. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

The S151 Officer will determine the appropriate and prudent use of the paragraph 13 exception to defer charging MRP until the year following the one in which the asset became operational.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Housing Revenue Account share of the Capital Financing Requirement is generally subject to a 2% MRP charge; however, unsupported borrowing will be charged to HRA revenue over a shorter period according to the approved 30 year business plan.

**Rhagolygon Graddfeydd Llog 2013-2016/
Interest Rate Forecasts 2013 – 2016**

Sector's Interest Rate View														
	Now	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 M onth LIBID	0.39%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%
6 M onth LIBID	0.54%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%
12 M onth LIBID	0.88%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%
5yr PW IB Rate	1.85%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
10yr PW IB Rate	2.87%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
25yr PW IB Rate	4.02%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
50yr PW IB Rate	4.15%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
Bank Rate														
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PW IB Rate														
Sector's View	1.85%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.85%	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.85%	1.55%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
10yr PW IB Rate														
Sector's View	2.87%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	2.87%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	2.87%	2.55%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
25yr PW IB Rate														
Sector's View	4.02%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	4.02%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	4.02%	3.70%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
50yr PW IB Rate														
Sector's View	4.15%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.15%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.15%	4.00%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-



Economic Background

The Global economy

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to have grown significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 0.9% in quarter 3 is unlikely to prove anything more than a washing out of the dip in the previous quarter before a probable return to negative growth in quarter 4; this would leave overall growth in 2012 close to zero and could then lead into negative growth in quarter 1 of 2013, which would then mean that the UK was in its first triple dip recession since records began in 1955.

The **Eurozone sovereign debt crisis** abated following the ECB's commitment to a programme of Outright Monetary Transactions i.e. a pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request, (for a national bailout), and so surrendering its national sovereignty to IMF supervision. However, the crisis in Greece has subsided, for the time being, as a result of the Eurozone agreement to provide a further €50bn financial support package in December. Many commentators, though, still view a Greek exit from the Euro as being likely in the longer term as successive rounds of austerity packages could make it more difficult to bring down the annual deficit and total debt as ratios of GDP due to the effect they have on shrinking the economy and reducing employment and tax revenues. However, another possible way out would be a major write down of total Greek debt; this has now been raised by the German Chancellor as a possible course of action, but not until 2014-15, and provided the Greek annual budget is in balance.

Sentiment in financial markets has improved considerably since this ECB action and additional financial support for Greece to ensure that the Eurozone remained intact during 2012. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and do not address the huge obstacle of unemployment rates of over 25% in Greece and Spain. It is also possible that the situations in Portugal and Cyprus could deteriorate further in 2013 and, although they are minor economies, such developments could unnerve financial markets. There are also general elections coming up in Italy and Germany which could potentially produce some upsets on the political scene. It is, therefore, quite possible that sentiment in financial markets could turn during 2013 after the initial burst of optimism at the start of the year. While equity prices have enjoyed a strong start to 2013, the foundations for this stock market recovery are shallow given the economic fundamentals in western economies. In addition, QE has to come to an end at some point in time and there is a distinct increase in doubt in the central banks of the US and UK as to the effectiveness of any further QE in stimulating economic growth. An end to central purchases of bonds may lead to a fall in bond prices.

The US economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. The fiscal cliffs, and raising the total debt ceiling, still await final resolution by the end of February. The housing market, though, does look as if it has, at long last, reached the bottom and house prices are now on the up.

Hopes for a broad based recovery have, therefore, focused on the **emerging markets**. Recent news from China appears to indicate that the economy has returned to a healthier rate of growth. However, there are still concerns around the unbalanced nature of the economy which is heavily dependent on new investment expenditure. The potential for the bubble in the property sector to burst, as it did in Japan in the 1990s, could have a material impact on the economy as a whole.

The UK economy

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended, in the autumn statement, over a longer period than the original four years. Achieving this new extended timeframe will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. However, the subsiding of market concerns over the Eurozone has unwound some of the attractiveness of gilts as a safe haven and led to a significant rise in gilt yields. There is little evidence that UK consumer confidence levels are recovering, nor that the manufacturing sector is picking up. The dominant services sector disappointed in December with the PMI survey indicating the first fall in activity in two years. On the positive side, banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact in respect of materially increasing overall borrowing in the economy. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) increased by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE in early 2013 to try to stimulate economic activity. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) was also effectively a further addition of QE.

Unemployment. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and Bank Rate. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% by the end of the year, though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating. The UK continues to enjoy an AAA sovereign rating. However, the three main credit rating agencies have stated that they will be reviewing this rating in early 2013; they will, thereafter, also be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself. The same considerations could also apply to Spain;
- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment;
- the impact of the Eurozone crisis on financial markets and the banking sector;

- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession;
- stimulus packages failing to stimulate growth;
- elections due in Italy and Germany in 2013;
- potential for protectionism i.e. an escalation of the currency war/trade dispute between the US and China;
- the potential for action to curtail the Iranian nuclear programme;
- the situation in Syria deteriorating and impacting other countries in the Middle East.

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields:-

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields;
- Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held;
- Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone;
- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth;
- The possibility of a UK credit rating downgrade.

**Buddsoddiadau Penodedig ac Amhenodedig/Rhestr Benthycy Cymeradwyedig/
Specified and Non-Specified Investments/Approved Lending List**

Rheolau/Criteria

<p>BUDDSODDIADAU PENODEDIG</p> <p>Adneuron y Trysorlys</p> <p>Adneuron gydag awdurdodau lleol y DU hyd at 364 diwrnod.</p> <p>Adneuron gyda banciau a chymdeithasau adeiladu sydd wedi derbyn cyfradd credyd uchel, am gyfnodau o hyd at 364 diwrnod (gweler 4.1).</p>	<p>SPECIFIED INVESTMENTS</p> <p>Treasury Deposits</p> <p>Deposits with UK local authorities for up to 364 days.</p> <p>Deposits with banks and building societies which have been awarded a high credit rating, for up to 364 days (see 4.1).</p>
<p>BUDDSODDIADAU AMHENODEDIG <i>Mwyafswm ar unrhyw bryd £30m.</i></p> <p>Grŵp 1 (<i>wedi eu cymeradwyo</i>) Adneuron gyda banciau am gyfnodau o hyd at 5 mlynedd (gweler 4.2).</p> <p>Mwyafswm ar unrhyw bryd £15m.</p> <p>Adneuron gyda banciau a chymdeithasau adeiladu nad ydynt wedi derbyn cyfradd credyd uchel, am gyfnodau o hyd at 364 diwrnod (gweler 4.2).</p> <p>Mwyafswm ar unrhyw bryd £5m.</p> <p>Banciau'r DU sydd wedi eu gwladoli</p> <p>Banciau a ddaw dan Becyn Cefnogi System Bancio'r DU</p> <p>Giltiau</p> <p>Biliau'r Trysorlys</p> <p>Cronfeydd Marchnad Arian a raddiwyd AAA</p> <p>Gwarant Ddiamwys y Llywodraeth ar faterion dyled penodol (e.e. tystysgrifau adneuron, bondiau, a.y.b.) gan fanciau sy'n cael diogelwch dan y pecyn cefnogi system bancio.</p> <p>Grŵp 2 (<i>angen cymeradwyaeth y Pwyllgor Gwaith</i>) Dyrodidiadau Euro-Sterling gan rai cyrff rhyngwladol a restrir ar Gyfnwidfeydd Stoc gwledydd cymwys yr AEE.</p> <p>Mwyafswm ar unrhyw bryd £10m.</p> <p>Grŵp 3 (<i>angen cymeradwyaeth y Cyngor</i>) Pob math arall o fuddsoddiad i bwrpas Rheoli'r Trysorlys.</p> <p>Dim ond gwrthbartïon a gymeradwywyd o wledydd sydd â chyfradd credyd isaf o AA- trwy Fitch Ratings (neu gyfatebol trwy asiantaethau eraill os nad yw Fitch yn eu darparu) fydd y Cyngor yn eu defnyddio.</p> <p>Bydd y Cyngor hefyd yn gwneud benthyciadau i bwrpas cyflwyno ei wasanaethau lle mae cyllideb benodol wedi ei gytuno i'r pwrpas e.e. tai fforddiadwy. Bydd hefyd yn gwneud adneuron a buddsoddiadau yn sefydliadau ariannol i bwrpas darparu ei wasanaethau.</p>	<p>NON-SPECIFIED INVESTMENTS <i>Overall limit at any time £30m.</i></p> <p>Group 1 (<i>approved for use</i>) Deposits with banks for up to 5 years (see 4.2).</p> <p>Overall limit at any time £15m.</p> <p>Deposits with banks and building societies which have not been awarded a high credit rating, for up to 364 days (see 4.2).</p> <p>Overall limit at any time £5m.</p> <p>Nationalised Banks in the UK</p> <p>Banks covered by UK Banking System Support Package</p> <p>Gilts</p> <p>Treasury Bills</p> <p>Triple A Rated Money Market Funds</p> <p>UK Government Explicit Guarantee on specific debt issues (e.g. certificates of deposits, bonds, etc.) by banks covered by the banking system support package.</p> <p>Group 2 (<i>requires Executive approval</i>) Euro-Sterling issues by certain Supranational bodies listed on the Stock Exchanges of qualifying EAA states.</p> <p>Overall limit at any time £10m.</p> <p>Group 3 (<i>requires the Council's approval</i>) All other types of investment for Treasury Management purposes.</p> <p>The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).</p> <p>The Council will also make loans for the purposes of the delivery of its services where there is an approved budget for that specific purpose e.g. affordable housing. It will also make deposits and investments in financial institutions for the purposes of the delivery of its services.</p>

CYNGOR SIR YNYS MÔN – ISLE OF ANGLESEY COUNTY COUNCIL
CYRFF Y GELLIR RHOI ARIAN AR FENTHYG IDDYNT YN ÔL Y GYFRADD CREDYD - ADNEUON
Rheolau diwygiedig - Mawrth 2013
APPROVED LENDING LIST BY CREDIT RATING – DEPOSITS
Revised Criteria – March 2013

4.1	BUDDSODDIADAU PENODEDIG/SPECIFIED INVESTMENTS*	Rheolau/Criteria
Si) aiii	Cymdeithasau Adeiladu; Banciau'r DU a thramor- £10m am 12 mis (364 diwrnod) NEU Banciau'r DU sydd wedi eu gwladoli/eu gwladoli'n rhannol Building Societies; UK & Foreign Banks - £10m for 12 months (364 days) OR Nationalised/Semi Nationalised UK Banks	AA- & A1 + /P1/F1+
Si) b	Cymdeithasau Adeiladu; Banciau'r DU a thramor - £7.5m am 6 mis Building Societies; UK & Foreign Banks - £7.5m for 6 months	A & A1 + /P1/F1
Si) c	Cymdeithasau Adeiladu; Banciau'r DU a thramor - £5m am 3 mis Building Societies; UK & Foreign Banks - £5m for 3 months	A & A1 + /P1/F1
Si)d	Banciau'r DU a thramor - £10m am 1 mis UK & Foreign Banks - £10m for 1 month	A & A1 + /P1/F1
Sv)	Trysorlys y DU – dim mwyafswm UK Treasury – no maximum	
Svi)	Awdurdodau Lleol y DU - £5m am 12 mis UK Local Authorities - £5m for 12 months	Pob un /All : CC neu PGC/HoF(R) or HoS(F)
4.2	BUDDSODDIADAU AMHENODEDIG/NON-SPECIFIED INVESTMENTS*	
Ni) ai	Banciau'r DU a thramor - £10m am 5 mlynedd UK & Foreign Banks - £10m for 5 years	AA & A1 + /P1/F1 + Cefnogaeth/Support ½ CC neu PGC/ HoF(R) or HoS(F)
Ni) ai	Banciau'r DU a thramor - £10m am 3 blynedd UK & Foreign Banks - £10m for 3 years	AA & A1 + /P1/F1 + Cefnogaeth/Support ½ CC neu PGC/ HoF(R) or HoS(F)
N ii)	Is-gwmnïau Prif Fanciau'r DU - £1m am 1 mis Subsidiaries Major UK Banks - £1m for 1 month	Pob un /All : CC neu PGC/ HoF(R) or HoS(F)
N iii)	Banciau Clirio Eraill y DU - £1m am 1 mis Other UK Clearing Banks - £1m for 1 month	Pob un /All : CC neu PGC/ HoF(R) or HoS(F)
N iv) c	Cymdeithasau Adeiladu'r DU - £2m am 2 fis UK Building Societies - £2m for 2 months	Graddfa unigol/ Cefnogaeth dda Good individual/ Support Ratings
N iv) ch	Cymdeithasau Adeiladu'r DU - £1m am 1 mis UK Building Societies - £1m for 1 months	Pob un /All : CC neu PGC/ HoF(R) or HoS(F)
	* Yn amodol ar uchafswm fesul gwrth barti a fesul grŵp. * Subject to limits by counterparty and by group. * Yn amodol hefyd ar raddfa credyd y wlad y mae'r banc yn perthyn iddo. * Subject also to the sovereign credit rating of the country the bank is from.	

Approved countries for investments

Based upon lowest available rating

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

AA+

- France
- Hong Kong
- U.S.A.

AA

- Abu Dhabi
- Qatar
- UAE

AA-

- Belgium
- Japan
- Saudi Arabia

Treasury management scheme of delegation

(i) County Council

- receiving and reviewing reports on treasury management policies, practices and activities; and
- approval of annual strategy.

(ii) County Council or Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities; and
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body; and
- receiving and reviewing regular monitoring reports and acting on recommendations.

The treasury management role of the section 151 officer

The S151 (responsible) officer's role includes:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.

Capital Issues

- the capital plans and the prudential indicators; and
- the MRP strategy.

The CIPFA Treasury Management in the Public Services: Code of Practice

This Authority adopts the key principles of CIPFA's *Treasury Management in the Public Services: Code of Practice (2011 Edition)*, as described in Section 4 of that Code as follows:-

Key Principle 1:

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2:

Their policies and practices should make clear that the effective management and control of risks are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.

Key Principle 3:

They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that, within the context of effective risk management, their treasury management policies and practices should reflect this.

The Code then goes on to say that:

“In framing these recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. This code does not seek to be prescriptive about how this issue should be handled, particularly since it covers such a wide variety of organisations. However, where appropriate, the sector specific guidance notes give suitable advice. CIPFA recognises that no two organisations in the public services are likely to tackle this issue in precisely the same manner but success in this area of treasury management is likely to be viewed, especially in value for money terms, as an indicator of a strongly performing treasury management function.”

“Even though it dates back to 1991, CIPFA considers that the report by the Treasury and Civil Service Committee of the House of Commons on the BCCI closure is still pertinent, wherein it was stated that:”

“In balancing risk against return, local authorities should be more concerned to avoid risks than to maximise returns.”

“Indeed this view was supported by the Communities and Local Government Select Committee report into local authority investments in 2009.”

“It is CIPFA’s view that throughout the public services the priority is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money.”

Accordingly the Authority will adopt, as part of the standing orders, the following four clauses;

1. The Authority will create and maintain, as the cornerstones for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
 - Suitable treasury management practices (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in the Authority materially deviating from the Code's key principles.

2. The Authority will also have regard for the Guidance on Local Government Investments issued by the Welsh Assembly Government and effective from 1st April 2010.
3. Full Council will receive reports on its treasury management policies, practices and activities, specifically; an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in the TMPs. In addition to this the Audit Committee will receive quarterly review reports for first and third quarters.
4. The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee, and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the Authority's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
5. The Authority nominates Audit Committee to be responsible for ensuring effective scrutiny of treasury management policies, practices and performance.

Treasury Management Policy Statement

1. The Authority defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”

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