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CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Mr Richard Parry Jones, MA.
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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO	AUDIT COMMITTEE
DYDD MAWRTH, 23 GORFFENNAF, 2013 am 2 o'r gloch y prynhawn	TUESDAY, 23 JULY 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/Independent

Jim Evans, P.S.Rogers, D.Rhys Thomas

Llafur / Labour

Raymond Jones

Plaid Cymru / The Party of Wales

T Ll Hughes (Is-Gadeirydd/Vice-Chair), John Griffith and Vaughan Hughes

Heb Ymaelodi / Unaffiliated

R Ll Jones (Cadeirydd/Chair)

Aelodau Lleyg/Lay Members

Richard Barker, 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 OF THE 5TH FEBRUARY, 2013 MEETING (Pages 1 - 8)

To submit for confirmation, the minutes of the previous meetings of the Audit Committee held on the following dates –

- 5th February, 2013.
- 30th May, 2013

3 STATEMENT OF ACCOUNTS 2012/13 - MAJOR JUDGEMENTS AND ESTIMATES (Pages 9 - 26)

To present a report in respect of the above.

4 DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13 (Pages 27 - 40)

To present the draft Annual Governance Statement for 2012/13.

5 EXTERNAL AUDIT REVIEW OF LOCAL GOVERNANCE 2013 (Pages 41 - 52)

To present External Audit's feedback on the Isle of Anglesey County Council's Governance Statement.

6 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE (Pages 53 - 54)

To present External Audit's update on performance work.

7 EXTERNAL AUDIT - PROGRESS ON FINANCIAL AUDIT (Pages 55 - 60)

To present the Financial Audit progress report.

8 EXTERNAL AUDIT - ANNUAL FINANCIAL AUDIT OUTLINE (Pages 61 - 78)

To present the Annual Financial Audit Outline.

9 EXTERNAL AUDIT - CERTIFICATION OF GRANTS AND RETURNS 2011/12 (Pages 79 - 116)

To present a report by External Audit in respect of the certification of grants and returns for 2011/12.

10 RISK MANAGEMENT AND INSURANCE (Pages 117 - 124)

To receive an update with regard to Risk Management and Insurance.

11 INFORMATION MANAGEMENT AND DATA SECURITY (Pages 125 - 126)

To receive an update on progress.

- 12** **INTERNAL AUDIT - ANNUAL REPORT 2012/13** (Pages 127 - 134)
To present the Internal Audit Annual Report for 2012/13.
- 13** **INTERNAL AUDIT - IA STRATEGY AND PERIODIC PLAN 2012/15** (Pages 135 - 148)
To present the Internal Audit Strategy for the period from 2013/14 to 2015/16.
- 14** **INTERNAL AUDIT - PROGRESS REPORT QUARTER 1 2013/14** (Pages 149 - 156)
To present a report on the work of the Internal Audit Section for Quarter 1 2013/14
- 15** **ANNUAL TREASURY MANAGEMENT REVIEW 2012/13** (Pages 157 - 170)
To present the Annual Treasury Management Review report for 2012/13.
- 16** **AUDIT COMMITTEE DATES OF MEETINGS FOR 2013/14**
- Tuesday, 23 July, 2013 at 2:00 p.m.
 - Tuesday, 24 September, 2013 at 2:00 p.m.
 - Wednesday, 11 December, 2013 at 2:00 p.m.
 - Tuesday, 4 February, 2014 at 2:00 p.m.

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AUDIT COMMITTEE

Minutes of the meeting held on 5 February, 2013

- PRESENT:** Councillor T.H.Jones (Chair)
Councillor Eric Roberts (Vice-Chair)
- Councillors E.G.Davies, Jim Evans, Vaughan Hughes, Alun Mummery
- Lay Members: Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Chief Executive
Head of Function (Resources)
Head of Service (Finance)
Head of Service (Policy) (for item 4.5)
Audit Manager (JF)
Accountant (Mr Ben Davies)
Committee Officer (ATH)
- APOLOGIES:** Councillors Keith Evans, G.O.Jones, Ieuan Williams
- ALSO PRESENT:** Mrs Gill Lewis (Senior Finance Advisor), Andy Bruce (WAO), James Quance (Audit Senior Manager – PwC), Lynn Pamment (Engagement Partner – PwC)
-

The Chair welcomed all those present to this meeting of the Audit Committee and he extended a particular welcome to Miss Clare Williams to her first meeting of the Audit Committee since her appointment as Head of Function (Resources).

1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES

The minutes of the previous meeting of the Audit Committee held on 12 December, 2012 were submitted and confirmed as correct.

Arising thereon -

- In response to a query by a Member, the Head of Service (Finance) informed the Committee that due to time constraints on the meeting of the Isle of Anglesey Charitable Trust held on 24th January, the report of the Head of Service (Leisure and Culture) in respect of the achievement and performance of Oriel Ynys Môn for 2011/12 has been referred to a sub-committee of the Charitable Trust for further consideration and scrutiny.
- In response to a query by a Member, the Senior Finance Advisor confirmed that work regarding the Building Maintenance Unit (BMU) is on-going and that the Head of Service (Housing) is in discussions regarding modernising the Unit. The Audit Committee has received reports in relation to the BMU subsequent to the WAO review of the service delivery arrangements of the Unit, and also following an internal audit review of the BMU's procurement arrangements. Internal Audit is undertaking further targeted work in relation to this matter.

ACTION ARISING: Head of Service (Housing) to be asked to report back to the Committee at its next meeting on progress in addressing governance issues with regard to the BMU.

- With the Committee's consent, an Information Management/Governance Action Plan was tabled for Members' initial consideration as per the Committee's decision at its previous meeting that it be provided with feedback from the Information Management Group.

ACTION ARISING: The Head of Function (Resources) to update the Audit Committee at its next meeting on progress in implementing the Information Management /Governance Action Plan and any related issues arising.

3 CORPORATE RISK REGISTER

A report by the Head of Function (Resources) summarising progress on implementing the Risk Management Framework was presented for the Committee's consideration along with the revised Corporate Risk Register as at Appendix A to the report.

The Senior Finance Advisor reminded the Committee that the Risk Management Strategy and Guidance had been approved and training on the subject area delivered and that the only aspect that remained outstanding was to provide an update on the risk register. The report as presented outlines the work undertaken to date including a review by the Authority's Senior Leadership Team of the risk definitions, triggers and risk levels and the identification of the primary five risks facing the Council as set out in paragraph 3.3 of the report. The Corporate Risk Register denotes a number of other risk areas in addition to the top five and the matrix will be complete once the additional control measures/treatment required in terms of actions, responsible officer(s) and target date have been determined and defined. The Head of Function (Resources) confirmed that a further update would be provided to the next meeting of the Audit Committee.

Members of the Committee considered the contents of the report and accompanying Corporate Risk Register and the following were matters regarding which they commented and/or sought further clarification –

- The criteria used to determine the Council's top five risks.
- Whether it was considered that risk YM36 defined as failing to plan for the impact of the health sector reforms was confined mainly to Social Services or whether its impact would be more widespread across Council services.
- The grounds for not including risk YM23 (failing to implement the contents of the post Estyn inspection plan and improve performance against key indicators) as one of the Council's primary risks given the terms in which the consequence of this failure are described in the risk register. It was felt that that the non-inclusion of this risk among the top five was at odds with what was being said in the register as regards the severity of the consequences.
- The reiteration of reputational damage as a possible consequence of a number of risk areas. It was suggested that the potential for reputational damage lies in all things and does not need to be restated and that moreover, the references appear to be random. It was suggested that the references to reputational damage within the register need to be reduced.

The Officers responded to the questions asked by providing explanations as appropriate.

It was resolved to accept the report and accompanying Corporate Risk Register and to note their contents.

ACTIONS ARISING:

- **Head of Function (Resources) to include an update on the Corporate Risk Register as a standing item on the Audit Committee agenda together with the minutes of the Risk Management Group where appropriate.**
- **Head of Function (Resources) to raise the following points with the Senior Leadership Team:**
 - **The non-inclusion of YM23 as one of the five top corporate risks as being incongruous with the described risk level and consequences.**
 - **Reducing the references to reputational damage within the Corporate Risk Register.**

- **Audit Manager to arrange for the Committee to be provided with the Annual Governance Statement Action Plan in due course.**

4 EXTERNAL AUDIT

4.1 Mr Andy Bruce, Performance Audit Lead, WAO provided the Committee with an update on the status of work commenced under the Performance Work Programme as at the report under cover of 4.1 along with a tabular summary of on-going work and planned projects both on a national basis taking in all councils and on an Anglesey basis as at the work plan report under cover of 4.2. The Officer referred to the Corporate Governance review of all individual authorities in Wales which will be a new item to the programme which will take place on a 4 year cycle. The details as to when the Corporate Governance review of Anglesey will be undertaken have not as yet been finalised although it is not expected that the Authority will be subject to review in Year 1.

The Committee considered the information presented and there was discussion around the Corporate Governance review schedule in terms of where Anglesey is likely to fit into the cycle and also around the implementation of the post Estyn Inspection Action Plan in terms of seeking to clarify how the Education Recovery Board links into the regulatory programme.

It was resolved to note the information provided in the reports at 4.1 and 4.2

4.3 Mr James Quance, PwC provided the Committee with an update on the financial audit's progress against the key milestones in the 2012/13 Financial Audit Outline and in respect of grant certification work covering 2010/11 and 2011/12. The report set out the timeline for the key stages in the 2012/13 accounts audit process, the position with regard to certifying the 2011/12 Statement of Accounts as well as grant claims along with liaison arrangements with Internal Audit, Management and the WAO.

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

4.4 Mrs Lynn Pamment, Engagement Partner, PwC presented the Committee with the Annual Financial Audit Outline for the 2012/13 audit year. The report set out the audit responsibilities under the relevant legislation and regulations, the audit approach to the audit of the financial statements; the main operational and financial risks faced by the Authority that could impact on the audit as illustrated under Exhibit 1; the auditor's responsibilities in terms of evaluating the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources together with the Audit fee and what that covers.

Members of the Committee considered the report and asked the following questions to which the Officers responded with further details.

- The concept of materiality and how it is derived.
- Whether the Auditor's assessment of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is limited to examining procedures or whether it encompasses the Authority's approach to identifying and achieving savings and the general corporate setting in which savings can be produced.
- The ways in which the Authority can mitigate the risks in new systems implementation.

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

4.5 Mr Andy Bruce, Performance Audit Lead, WAO presented the Auditor General's Improvement Assessment Letter (2) which summarised the work in respect of improvement reporting under the Local Government (Wales) Measure 2009 and specifically the outcome of the audit and assessment work in relation to whether the Isle of Anglesey County Council has discharged its duties and met the requirements of the Measure; the reliability of its self-evaluation and any further proposals for improvement and/or recommendations.

Mr Andy Bruce informed the Committee that the Auditor General has concluded that the Council has complied in full with its improvement reporting duties under the Measure but that the content and structure of the Council's Performance Report for 2011/12 could include more qualitative information to provide a more rounded evidence base to enable the Council to assess its performance. In expanding on the conclusions reached, he referred to the explanatory points at page 2 of the Letter which illustrates the ways in which the Report meets all the required

elements. Page 3 of the Letter explains in what ways the content and structure of the Performance Improvement Report could include more qualitative information to provide a more rounded evidence base. The Auditor General includes two proposals for improvement in relation to ensuring consistency across services in the quality of self-evaluation and the application of better editorial control over the report.

The Officer stated that overall the Council's performance report for 2011/ can be regarded as a positive and encouraging piece of work.

It was resolved to accept the Assessment Letter and to note its contents.

5 INTERNAL AUDIT

The Audit Manager presented for the Committee's consideration a progress report on the work of the Internal Audit Section for the period from 1 April to 31 December, 2012.

The Audit Manager highlighted the following key points from the report –

- There were no reviews in the period which resulted in a Red Assurance opinion
- The key findings from the three audit review reports issued are set out in section 2.2 of the report.
- Performance in terms of the percentage of the Audit Plan completed is up from 46% to 53% but remains well below the target of 90%. A contributory factor is the eleven referrals that have been completed and reported on in the period and which have diverted resources from planned internal audit work.
- The performance in implementing recommendations in the period remains below target with 68% of High and Medium recommendations having been recorded as implemented. An analysis of recommendation implementation by service is provided at Appendix A to the report.

Members considered the report and they asked the Officer to clarify certain points in respect of the arrangements for scrutinising Social Services Direct Payments other than by internal audit, and in respect of governance and control issues within schools and whether any thought had been given to engaging a bookkeeper to provide schools with peripatetic assistance in this respect. The Officers responded to the points made.

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

6 ENHANCING THE AUDIT COMMITTEE

The Audit Manager presented for the Committee's consideration, a report detailing the outcome of the 2013 Effectiveness Self-Assessment (Appendix B to the report) along with an Improvement Action Plan for 2013/14 (Appendix C to the report).

The Audit Manager drew attention to the following principal considerations from the report –

- Areas for improvement identified at the January 2013 workshop for the Audit Committee's Members encompassing enhancing induction training and individual training needs analysis for Members; clarification of the roles of the Audit and Scrutiny Committees in relation to risk management; adoption of Counter Fraud and Corruption guidelines; increased liaison in relation to External Audit planning and performance.
- Counter Fraud Arrangements – there is a need to take action in order for the Committee to obtain assurance that the Council's current counter fraud arrangements are effective and are being implemented as per the CIPFA guidance – Managing the Risk of Fraud – Actions to Counter Fraud and Corruption. A Fraud Awareness Session for the Committee's Members is recommended so that they can be apprised of current arrangements and issues as well as the requirements of the CIPFA guidance.

Members considered the report and the point was made that as well as undertaking an annual self-assessment, the Audit Committee should consider means of obtaining an external perspective on its performance and effectiveness as a committee.

It was resolved –

- To endorse the outcome of the self-assessment of the Committee's effectiveness together with the Improvement Action Plan as at Appendix C.
- That a fraud awareness training session be included in the Committee's training Schedule for 2013/14 in order to inform its opinion on the effectiveness of the Council's existing Counter Fraud and Corruption arrangements.
- That a revised self-assessment on the Committee's effectiveness be incorporated in its work plan for 2013/14 with the addition that provision be made also to allow for an external perspective.

ACTIONS ARISING:

- Audit Manager to make arrangements for a fraud awareness training session for the Committee in due course as part of its Training Schedule for 2013/4.
- Audit Manager to take steps to include within the Committee's work plan, a revised self-assessment on the Committee's effectiveness.
- Audit Manager to consult with RSM Tenon with a view to bringing back to the Committee, options for obtaining an external perspective on the Committee's performance and effectiveness.

7 ANNUAL REPORT OF THE AUDIT COMMITTEE 2012/13

The Chair presented the Annual Report of the Audit Committee for the 2012/13 municipal year. The report provided a synopsis of the work and activities of the Audit Committee during the year including the meetings held and attendance thereat; the key areas/issues covered and training arranged and delivered.

The Chair sought the Committee's endorsement of the inclusion as part of the Annual Report, Members' record of attendance at the Committee's meetings and training events during the year. Members supported the inclusion of attendance data as an element of the report as good practice with the proviso that the training attendance schedule at Appendix B be amended to show the presence at the 16th October, 2012 session of Councillor Alun Mummery.

It was resolved to endorse the Annual Report for 2012/13 for presentation to the County Council at its meeting in May, 2013 subject to the amendment noted.

ACTIONS ARISING:

- Audit Manager to amend the training attendance schedule at Appendix B to reflect the presence at the 16th October, 2012 session of Councillor Alun Mummery.
- Audit Manager to make the necessary arrangements to present the Annual Report to May full Council.

8 TREASURY MANAGEMENT

8.1 The Treasury Management report for the Third Quarter of the 2012/13 financial year was presented for the Committee's consideration. The report provided Members with an update on treasury management activities in Quarter 3 within the context of the broader economic background and outlook.

The Head of Service (Finance) referred to the position with regard to the Authority's borrowing activities and its investment portfolio with particular reference to the re-investment with RBS on maturity during the quarter, of a £5m fixed term investment 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. The Officer stated that during the quarter the Council remained within its prudential and Treasury Limits as set out in Appendix 2 to the report. Plans for the remainder of the year are outlined under paragraph 7 of the report.

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

8.2 The Treasury Management Strategy Statement for 2013/14 was presented for the Committee's consideration as part of the consultation on budget issues prior to its submission to the Executive. The strategy for 2013/14 covered in detail two main areas, namely capital issues and treasury management issues including amongst other aspects, the borrowing strategy, investment strategy and debt rescheduling.

The Head of Service (Finance) drew particular attention to the following matters –

- The Investment Policy as outlined under section 4.2 of the report includes a provision as highlighted which allows the Authority where appropriate, to invest or make deposits in a credit union or similar for the purpose of the delivery of its service with the objective that when the proposed welfare reform changes are implemented there will be available to those affected by the changes, a safe and inexpensive source of borrowing. Whilst this is a possibility at this point in time the strategy has been adapted as outlined in non-specific terms as regards counterparties, in order to allow this to happen.
- Appendix 5 – Approved Lending List by Credit. Section 4.1 (specified investments) will need to be amended to clarify that nationalised or semi nationalised UK Banks are outside of the specified criteria and that their nationalised or part nationalised status constitutes their credit score.
- The Local Authority Mortgage Scheme in which the Authority is considering participating. If this was to occur, the Strategy would require amending accordingly.

Members were given the opportunity to raise questions and to seek clarification of any aspects of the Treasury Management Strategy Statement.

It was resolved to accept the Treasury Management Strategy Statement for 2013/14 and to note its contents.

ACTION ARISING: Head of Service (Finance) to amend Appendix 5 of the Treasury Management Strategy Statement as outlined prior to its submission to the Executive.

**Councillor Thomas Jones
Chair**

AUDIT COMMITTEE

Minutes of the meeting held on 30 May, 2013

PRESENT: Councillors Jim Evans, John Griffith, Vaughan Hughes, Raymond Jones, R.Llewelyn Jones, D.Rhys Thomas

Lay Members: Mr Richard Barker, Mrs Sharon Warnes

IN ATTENDANCE: Chief Executive
Head of Function (Legal & Administration)/Monitoring Officer
Committee Services Manager

APOLOGIES: Councillor Trefor Lloyd Hughes

ALSO PRESENT: Councillor Gwilym O.Jones (Chair of the County Council)

1 DECLARATION OF INTEREST

No declaration of interest was received.

2 CHAIRPERSON

Councillor R.Llewelyn Jones was elected Chairperson of this Committee.

3 VICE-CHAIRPERSON

Councillor Trefor Lloyd Hughes was elected Vice-Chairperson of this Committee.

**Councillor Gwilym O.Jones
(as Chair of the County Council)**

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	23 JULY 2013
TITLE OF REPORT:	STATEMENT OF ACCOUNTS 2012/13 MAJOR JUDGEMENTS AND ESTIMATES
PURPOSE OF REPORT:	UPDATE AUDIT COMMITTEE MEMBERS ON KEY JUDGEMENTS IN THE 2012/13 STATEMENT OF ACCOUNTS
PORTFOLIO HOLDER(S):	COUNCILLOR H E JONES
REPORT BY:	CLARE J WILLIAMS
CONTACT OFFICER:	TONY FURBER
ACTION:	NOTE THE CONTENTS AND DECIDE WHETHER FURTHER TRAINING WOULD BE DESIRABLE ON THE STATEMENT OF ACCOUNTS

INTRODUCTION

The Council's Draft Statement of Accounts for 2012/13 was signed by the Section 151 Officer on 28th June 2013 within the end of June statutory deadline.

The accounts cover the period from 1/4/2012 – 31/3/2013. They are large, complicated statements which are not always easy for the non-specialist to interpret. They are also prepared at a point in time and as such, judgements need to be made in applying accounting policies and assumptions made about future and other major sources of estimation uncertainty.

The purpose of this report is to give more clarity to members and officers on those judgements, and should be read in conjunction with the draft Statement of Accounts. Those accounts were published on the Council's website at the beginning of July.

The accounts are prepared in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

THE STATEMENT OF ACCOUNTS

A brief explanation of the Statement of accounts is set out below. As always, Finance Officers would want members of the Audit Committee to focus on certain key areas:

- The Explanatory Foreword, which links the out-turn back to the budget for the year and the in-year monitoring (Appendix A);
- The Movement in Reserves Statement (Appendix B), which summarises the reserves available to the Council, divided into usable and unusable categories, and the movements on then during the year.

The main parts of the Statement of accounts are:

Contents (Pages 1-2)

Summarises the layout of the accounts and better enables the user to find their way around them.

Glossary (pages 82-88)

The use of abbreviations is often necessary to keep this sizeable document to a minimum. Technical terms are also explained in the Glossary to assist the user of the accounts.

Explanatory Foreword (pages 3-10)

This is an important part of the accounts as it explains in financial terms how the year has gone. It summarises the information contained within the main statements and notes to the accounts. The numbers in the foreword should reflect or mirror the key figures contained within the financial statements.

The main sections of the foreword are as follows:

- Review of the year – contains commentary on the revenue performance of the Council against budget plans and in-year forecasts, with explanations of the reasons for over or under spending;
- Capital, Major Capital Projects and Capital Expenditure and Financing;
- Housing Revenue Account (HRA) – contains commentary on the HRA usable reserve;
- Borrowing and Investments – contains commentary on borrowing and investments over the year;
- Financial Position at 31st March 2012 – contains commentary on the movement in Usable Reserves and Provisions.
- Commentary on particular significant items within the accounts,

The main financial statements

The Movement in Reserves Statement for the current and comparative year (page 12)

This statement is vertical in presentation in that it should be read down over rather than across. It contains two years worth of movements starting from reserve balances at 1 April 2011 and end at the bottom with reserve balances at 31 March 2013. It shows each of our 'useable' reserves plus a summary of unusable reserves.

Unusable Reserves are really reserves created to contain technical adjustments and they are not available for spending by the Council. For example the Revaluation Reserve was £29.768m at 31st March 2013. However, this contains 'paper' gains from increases in the value of its Plant, Equipment, Property and Intangible Assets. Money would only be realised and be usable on the sale of these assets.

Usable Reserves are monies that can be expended by the Council. Certain reserves are 'ring fenced' and can only be expended on specific purposes. For example, the School reserves can only be used by schools and the Housing Revenue Account can only be expended on council houses.

Usable Reserves contain the Council Fund and HRA General Reserves, Earmarked Reserves and the Capital Receipts reserve.

It should be noted that this is only a 'snap shot' of balances at 31 March and not all of these balances are 'available' to spend. For example, services may have planned to spend some of their earmarked reserves as part of the current year (or coming year/s) budget plans.

The Statement also contains the adjustments necessary to ensure that the charge against the Council Fund is limited to the total that is allowed by law to be charged against the Council Tax. This issue is dealt with in more detail below.

Comprehensive Income and Expenditure Account (CIES - page 13)

This statement shows the accounting cost in the year of providing the Council services in accordance with accounting standards, rather than the amount to be funded from taxation. Accounting standards require certain costs, eg depreciation (over £10m in 2012/13) to be charged to services, but because this is not a 'real' cost, i.e. no money actually changes hands, statutory regulations do not allow it to be charged against the Council Fund. So, although it forms part of the reported net deficit on services, it is removed from the charge against taxation by the adjustments shown in the Movement in Reserves Statement (see above). A full list of all such adjustments appears in Note 7 on page 34.

These technical charges can have quite a dramatic impact on the bottom line balance on the CIES. For example, there is an actual loss on pensions assets/liabilities of £18.6m in 2012/13, which makes up the bulk of the overall deficit shown of £48.9m. For example, there is an actuarial loss on pensions assets / liabilities of £18.6m in 2012/13, which makes up the bulk of the overall deficit shown of £18.9m.

The net taxation position is shown in the Movement in Reserves Statement. This shows a net surplus on the Council fund of £212k rather than that of £18.9m shown on the CIES.

Balance Sheet (page 14)

The Balance Sheet for the Council shows the assets and liabilities of the Council as at 31/3/2013. The net assets (assets less liabilities) are matched by the reserves held by the Authority. These are split into usable reserves (subject to conditions) and unusable reserves that are mainly technical adjustments.

Cash Flow Statement (page 15)

The Cash Flow Statement shows the changes on cash and cash equivalents of the Authority during the year. The statement shows how the Council generated and used cash and cash equivalents by classifying cash flows into the following 3 areas:

Net cash flows from Operating Activities – are funded by way of taxation and grant income or the recipients of services provided by the Authority.

Net cash flows from Investing Activities – represent the extent to which cash flows have been made from resources which are intended to contribute to the Council's future service delivery.

Net cash flows from Financing Activities – are useful in predicting claims on future cash flows by providers of capital to the Authority, for example borrowing.

Notes to the Accounts including Note 1, Accounting Policies (pages 16 - 77)

The notes are to facilitate the user of the accounts' understanding. These notes set out in general, what the accounts are measuring and how that measure has been derived. It is also the usual starting point in reading the main statements. If there is a number one doesn't understand then hopefully one can gain more information by referring to the associated note as detailed on the main statement.

Housing Revenue Account (pages 78 - 81)

Judgemental Decisions and Estimation Uncertainties (pages 32 - 33)

Users of the accounts are often concerned about their accuracy. The test of this is usually reflected in the outcomes of the independent external audit that for this year commenced on 11 July. It is a statutory requirement for the outcomes of this external audit to be presented to the Audit Committee and for the Final Accounts to be presented for approval by 30th September.

There are certain notes to the accounts that are meant to better explain or summarise the judgemental decisions and estimation uncertainties when the accounts were prepared as shown in Notes 3 and 4, and these are reproduced as Appendices C and CH to this report.

The Committee is invited to consider these aspects of the Statement of Accounts in preparation for the formal presentation of the audited accounts in September. It has also become customary to provide a workshop for members of the committee in preparation. We would welcome members views on the arrangements for this year.

EARMARKED RESERVES

There are a number of reserves shown in the Statement of Accounts that have been set aside for a specific purpose – these are known as earmarked reserves. The amounts held in each and the transfers year on year are shown at Appendix D. A brief description of each, and its purpose is shown below:

Capital Expenditure - to fund capital expenditure in future years. This has been created to ensure committed capital expenditure, including expenditure which has slipped from previous years, is fully financed.

Penhesgyn Waste Landfill Site Reserve - This reserve has been created from the net cash assets, less winding up and capping costs, of Cwmni Gwastraff Môn-Arfon Cyf which is in the process of being wound up. The reserve will be used to contribute towards any future liabilities arising from the management of the Penhesgyn site.

Service Reserves - under the Council's Financial Procedure Rules over and under-spending is carried forward as earmarked reserves to the level set by the Executive.

Restricted Service Reserves - earmarked budgets within service areas which remain unspent at year end.

Equal Pay, Single Status and Job Evaluation - As a result of the 'Single Status' agreement, the Council, in common with most other local authorities, is required to introduce a new pay and grading system with effect from 1 April 2007. The extent to which this may involve an obligation to back pay is uncertain. Negotiations are proceeding on a revised pay and grading structure. A sum has been set aside in the Job Evaluation reserve towards the overall cost of the exercise, including the administrative costs, the cost of new pay scales, any pay protection and any back pay. Although the individual elements cannot be estimated with certainty, the Council is of the view that the sums set aside are adequate.

Recycling - landfill cost savings created by diverting waste to recycling. The reserve will be utilised towards recycling initiatives.

Performance Management Reserve - amounts earmarked towards performance improvement measures from the Outcome Agreement Grant.

Major Repairs Reserve – amounts set aside from HRA balances to fund capital spending on council housing.

Insurance Fund - The Council runs an internal insurance account which pays for self insured losses and which receives ‘premiums’ from service accounts. The known losses at year end are provided for. This reserve is the surplus on the internal insurance account plus interest on balances and is intended to cover claims which have been incurred but have not been reported.

Other - This balance comprises the aggregation of the balances of 7 individual reserves, which individually hold balances of less than £0.5m, which are not considered to be material amounts.

PROVISIONS

Provisions are sums of money set aside for known and probable events i.e. the probability of them occurring is high. The amounts held in each and the transfers year on year are shown at Appendix B. A brief description of each, and its purpose is shown below:

Insurance Claims Provision

The Council's external insurance policies have excesses deductible amounts which means that the first part of any loss or claim under these policies is self insured and protected by means of a stop-loss. The Council's general and education properties are not externally insured against the following perils: escape of water from any tank or pipe, flood, impact, theft, accidental damage, subsidence, ground heave, landslip. With the exception of theft and accidental damage, losses resulting from these perils are normally funded from the insurance reserve. The balance on the insurance provision is the expected liability for the self insured element of known claims which had not been settled at year end.

Penhesgyn Waste Site

The provision has been provided for the aftercare and reinstatement works of the areas of the site formerly used for landfill.

Termination Benefits

Provision for known future liabilities arising from staff reductions following restructure.

Municipal Mutual Insurance (MMI)

In January 1994 the insurer of the Council's predecessor authorities, Municipal Mutual Insurance (MMI), made a scheme of arrangement with its creditors. The Council was notified on 13 November 2012 that the scheme of arrangement has been triggered as a solvent “run-off” was not now expected. The current estimated liability is estimated to be 15% of claims paid on behalf of the Council since January 1994, which equates to £0.17m. The Council is now making a provision for this sum, which will be met initially from the insurance reserve, in order to meet its liabilities under the Scheme of Arrangement.

RECOMMENDATIONS

- That members consider the key items outlined above; and
- That members confirm what further preparation is required in advance of the September meeting of this committee

EXPLANATORY FOREWORD

1. INTRODUCTION

The Statement of Accounts for 2012/13 has been prepared using best accounting practice set down by the Chartered Institute of Public Finance and Accountancy (CIPFA). The foreword provides an understandable guide to the most significant matters reported in the Accounts and an overview of the Council's overall financial position.

Anglesey County Council's Accounts for 2012/13 consist of the following:-

- **Statement of Responsibilities for the Statement of Accounts** - which sets out the respective responsibilities of the Council and the Council's Section 151 Officer, the Head of Function (Resources);
- **Annual Governance Statement** – this sets out the framework within which corporate governance is managed and reviewed, including arrangements for internal audit.
- **Financial Statements** – the Statement of Accounts includes four core financial statements which are:-
 - a) **The Movement in Reserves Statement (MIRS)** – which shows the movement in the year of the different reserves held by the Council analysed between usable and unusable reserves;
 - b) **The Comprehensive Income and Expenditure Statement (CIES)** – which shows the cost of providing services in the year using accepted accounting practices, rather than the amount to be funded from taxation and general grants in accordance with statutory regulation;
 - c) **The Balance Sheet** – which sets out the financial position of the Council at 31 March 2013 as reflected in the level of balances and reserves at the Council's disposal and the level of assets and liabilities held by the Council;
 - ch) **The Cash Flow Statement** – which summarises the cash inflows and outflows during the year, arising from transactions with third parties for revenue and capital purposes.
- **Notes to the Financial Statements** – which are intended to explain the key figures shown in the financial statements. The notes include the Statement of Accounting Policies which supports and explains the basis of the figures in the Accounts and it sets out the significant accounting policies and estimation techniques used to prepare the Accounts.

2. STATUTORY FRAMEWORK

Regulation 7 of the Accounts and Audit (Wales) Regulations 2005 (SI 2005/368 (W.34), as amended) requires Welsh Local Authorities to prepare a Statement of Accounts in accordance with proper practices.

Regulation 25 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulation 2003 (SI 2003/3239 (W.319), as amended), identifies the Code of Practice on Local Council Accounting 2012/13 issued by CIPFA, as representing proper practices.

3. CHANGES IN ACCOUNTING TREATMENT

There are no changes to accounting treatment required for 2012/13 and consequently there are no changes to the accounting policies in use at the Council.

4. REVENUE EXPENDITURE AND INCOME 2012/13

What is Revenue Expenditure and Income?

Revenue expenditure and income generally relates to items that are used within a financial year. Before the start of a financial year, the Council prepares its annual revenue budget, which reflects the expenditure and income expected to be needed during the year to provide services.

What we planned to spend

The revenue budget approved by Council for 2012/13 amounted to £119m, after including general grant of £0.729m and use of balances of £1.2m. This was to be funded by the Council's Revenue Support Grant from the Welsh Assembly of £73.544m, receipts from the National Non-Domestic Rates Pool of £18.787m and Council Tax receipts of £26.704m.

What we actually spent

a) Council Fund Services

The net revenue budget for 2012/13 was set at £119m, which incorporated spending reductions of £3.7m and required the use of £1.2m from reserves. The quarter 3 year-end projections presented to the Executive on 18 February 2013, indicated that there would be a significant overspend, principally due to pressures on the Education and Social Services budgets. At that time actions were identified to limit the overspend to £1m by the end of the financial year.

The Council's Executive Committee received a provisional out-turn report at its meeting of 10 June 2013, which showed a net underspend of £1.1m, a turnaround of £2.1m from the position reported at quarter 3. The biggest single factor contributing to this much improved position was a significant improvement in the budgetary position of the Education service, where a forecast overspend at quarter 3 of £0.774m became an underspend of £0.09m at out-turn. Beyond this rather than a small number of large movements there has been a consistent pattern of more limited movement across all budget headings arising from;

- A spending moratorium on certain types of expenditure in the latter part of the year;
- General restraints on spending by services in response to the forecast financial position of the Council;
- A cautious approach to forecasting the year-end position taken by both budget holders and finance staff to avoid unforeseen overspends during the year.

More details in respect of spending on individual services are provided in the following paragraphs.

Lifelong Learning

- A forecast overspend of £0.358m in the Education Integration budget;
- Additional grant of £0.230m has been received to fund sixth form places;
- An underspend of the Youth Service of £0.093m;
- An improvement in the net cost of school meals service, which is £0.2m better than budget.

Community Services

- A net overspend of £0.303m in Children and Families. This due to increases in the number and costs of Looked After Children giving rise to an overspend of £0.663m and additional costs of agency staff of £0.160m. The overspend has been offset by savings of £0.532m from the cost of fostering and adoption £0.179m, Activities and Other Family Services £0.203m and the closure of the Queens Park Centre £0.150m;
- A net overspend of £0.381m in the Provider Unit due mainly to increases in the costs of residential homes, Telecare facilities and Sheltered Housing;
- A net overspend of £0.068m in Leisure and Community Services arising mainly from overspends in Parks and Outdoor facilities £0.097m, Archives £0.049m and Museums £0.065m. These overspends have been offset by a saving in the cost of operating leisure centres of £0.111m.

Sustainable Development

- A saving of £0.143m in the cost of Planning and the Environment service is due to the over-achievement of income streams within the service;
- A net surplus in the activities within Property Services of £0.180m arising from savings to the cleaning contract of £0.096m and other property activities of £0.074m;
- Savings of £0.254m in Highways and Transportation, due mainly to savings in Street Lighting costs of £0.191m and in the Works Administration Account of £0.102m;
- Savings of £0.270m in Waste Services, due to reductions in the net cost of managing the Penhesgyn Site of £0.198m and a small net saving of £0.072m in other waste services.

Deputy Chief Executive

- A saving of £0.254m in the operational cost of the Information Communication Technology Service due to staffing savings.

Corporate Risks

- Significant reduction in the cost of providing out of county Education and Social Services places which has resulted in savings of £0.149m and £0.333m respectively;
- A reduction in the cost of housing benefits of £0.183m due to a change in the expected level of subsidy to be received in respect of the 2011/12 financial year.

The overall improvement shown in the provisional out-turn position for 2012/13 meant that the forecasted use of earmarked reserves and general balances for the year of £1.2m would reduce to £0.092m, thereby releasing resources to help the Council meet any potential funding shortfall arising from the current constraints on public sector finances.

Since then the figures have been finalised and now show a further improvement, with the general balance actually increasing by £0.212m.

b) Housing Revenue Account

The Housing Revenue Account (HRA) identifies costs and income expended and received in respect of the Council's own housing stock. In 2012-13 the account successfully funded all operational expenditure and made capital contributions of £2m towards the long-term maintenance and upgrading of the stock, while retaining a working balance of £0.250m.

Further information on the HRA can be found in the Supplementary Statements to the Accounts on page 78.

Use of revenue reserves and balances

Council Fund

The 2012/13 budget assumed that £0.9m would be taken from the Council Fund balance to support services. At out-turn the balance on the Council Fund at 31 March 2013 increased by £0.212m from £5.796m to £6.008m. In year movements on the Council Fund can be found in Movement in reserves Statement on page 12.

Earmarked Reserves

At 1 April 2012, the Council held earmarked reserves of £12.882m. The 2012/13 budget assumed that £0.3m would be taken from earmarked reserves to support the revenue budget. The improved out-turn position has led to a significant increase in the value of earmarked reserves, which now stand at £17.402m, an increase of £4.520m in the year. The improvement arises mainly from a technical change in the categorisation of £2.1m of ring-fenced grant income (previously shown in the accounts as receipts in advance), a net increase of £1.1m in other service reserves and the creation of a major repairs reserve of £0.860m within the Housing Revenue Account.

Schools Balances

School reserves are limited to the uses approved by the individual schools and the position varies from school to school. Ten schools had a deficit at the end of the financial year (fourteen at the end of the previous year) and a number of other schools are projecting deficits in future years.

During the year, net spending by schools reduced their reserves (in total) by £0.068m, so that the total value of schools reserves at 31 March 2013 stood at £1.18m (£1.25m 2011/12). Details of the breakdown of the value of the reserves by school type can be found in note 9 to the Accounts on page 37.

HRA balance

The HRA balance stood at £0.25m at 31 March 2013, an increase of £0.003m over the balance of £0.247m held at 31st March 2012, which is an acceptable level for the HRA balance.

CAPITAL EXPENDITURE 2012/13

What is Capital Expenditure?

Capital expenditure relates to the cost of providing or enhancing assets or other spending where the benefits last beyond the financial year in question.

What we planned to spend

The Council approved a capital programme of £32.274m for 2012/13, largely to meet the Council's commitment to bring its housing stock up to Welsh Housing Quality Standards (WHQS) and to implement major projects for the relocation of Ysgol y Bont, the 3 towns regeneration initiative and improvements to small holdings

What we actually spent

The Executive considered a capital out-turn report at its meeting of 10 June 2013, which showed that the Council actually spent £25.4m on capital projects in 2012/13. Details of spending against individual project budgets are as follows

Project	Budget for 2012/13 £000	Actual spend in 2012/13 £000	Variance in Year £000	Cumulative Spend £000	Total Project Budget £000
Ysgol y Bont, relocation	6,203	4,335	(1,868)	4,562	10,932
Housing Stock – WHQS	6,650	7,378	728	28,470	35,000
Other Council Housing projects	3,150	1,373	(1,777)	1,373	3,150
Council Fund Housing	2,315	1,088	(1,227)	1,088	2,315
3 Towns Regeneration	1,601	669	(932)	4,765	8,248
Coastal environment	502	538	36	4,718	4,590
Penhesgyn Civic Amenities Site	992	986	(6)	986	1,000
Small Holdings – improvements	(546)	1,043	1,589	3,489	6,300
Local Government Borrowing initiative	1,700	1,795	95	1,796	5,300
Strategic Infrastructure on Anglesey	150	0	(150)	0	2,013
Other	9,557	6,223	(3,334)	3,334	9,557
Total	32,274	25,428	(6,846)	54,581	88,405

Total capital spending of £25.428m was £6.846m less than the approved budget for the capital programme. The main reasons for the under/over spend are

- Construction of the new building at Ysgol y Bont is behind schedule due to delays brought about by bad weather. Completion is now expected in January 2014;
- Work on energy efficiency works in council housing is behind schedule and will slip into 2013/14 due to contractual delays with external suppliers;
- A delay in approving the Council's new renewal strategy, which only occurred towards the end of 2012, has resulted in significant slippage to the improvements grant programme;
- A time extension to the 3 Towns Scheme to 2015/16 has resulted in significant slippage in spending on the project;
- Improvements to small holdings show a significant overspend against budget. This is due to the fact that the programme is intended to be self financing and be funded from the sale of the properties. It is expected that position will correct itself during 2013/14, when income is expected to far exceed works costs;
- The budget for Other Schemes included £0.9m for the 21st century schools programme which has been deferred until 2013/14. The remaining underspends relate to slippage on Highways schemes (£0.523m), Property Services (£0.676m) and other Departmental Schemes (£1.248m) to 2013/14.

How the capital programme was paid for

Funding for the Capital Programme is dependent on resources from grants, from anticipated capital receipts, and on a level of borrowing close to the level assumed by the Welsh Assembly when calculating revenue support.

A small number of projects have been approved for unsupported borrowing to be financed through budgets or new income sources. The most notable of these is the Housing WHQS project which has been part funded in this way since 2010.

	Council Fund	Housing Revenue Account	Total
	£000	£000	£000
Capital Expenditure	16,677	8,751	25,428
Grants and Contributions	8,518	2,600	11,118
Revenue Contributions	1,209	2,000	3,209
Capital Receipts	929	30	959
Supported Borrowing	3,084	0	3,084
Unsupported Borrowing	2,937	4,121	7,058
Total Financing	16,677	8,751	25,428
Resources available at 31 March 2013			
Capital Expenditure Reserve	1,000	0	1,000
Leisure Improvement Reserve	196	0	196
Supported Borrowing carried forward	2,901	0	2,901
Total available	4,097	0	4,097

Capital commitments outstanding at the year end were £6.8m. Capital reserves of £1m and an unused approved borrowing capacity of £2.9m, have been set aside to partially meet these commitments. It is anticipated that the remaining balance of the current capital commitments and the cost of new projects that are brought forward in future years will be financed from capital grants, receipts from projected asset sales and borrowing.

BORROWING AND INVESTMENTS

No loans matured during the year and no new long term borrowing was taken out as it was decided that utilising cash balances would be most beneficial approach in the current economic climate. This resulted in external borrowing at the year end of £96.1m, unchanged from the balance at 31 March 2012 resulting in an average external borrowing rate for 2012/13 of 5.53%, which was unchanged from 2011/12.

As a result of these transactions and changes in debtors, creditors and other items, there was a reduction in the total level of investments and cash on the balance sheet date of £3.8m to £12.4m by the year end, partly as a result of an increase in short term debtors.

BALANCE SHEET POSITION AT 31 MARCH 2013

The net worth of the Council in the balance sheet has decreased by £18.9m over the year, mainly due to an increase of £18.4m in the Council's net pension liability (£17.1m increase in 2011/12). The statement discloses an estimated net liability of £82.1m (£63.7m 2011/12) in respect of pensions. This estimate is very dependent on the assumptions used, and the reduction over the year was mostly attributed to falling real bond yields and poor investment returns. The projected pension expense for next year has also risen for the same reasons, and reduced the expected asset rate of returns.

SIGNIFICANT ITEMS

The best assessment of financial standing is the extent to which the Authority has made provisions for known liabilities and the amount of distributable reserves available to cover other risks and uncertainties. The Council has made full provision for all identified liabilities wherever proper accounting practice requires this. The circumstances that require specific provision to be made are shown in item 13 under Note 1 to the Statement. Earmarked reserves have been established where they are required to meet statutory or regulatory requirements, by grant conditions, by specific Council plans, or where it is prudent to do so to allow for risks and uncertainties. As set out above, the Council had originally planned to use £1.2m of balances to support spending in 2012-13, but the year-end position actually showed an increase in general balances of £0.212m to just over £6m, representing a significant strengthening of the Council's underlying financial position. While this would be welcome news at any time, it is particularly welcome at a time when the Council is both undertaking a programme of corporate transformation and planning to meet an increasingly challenging economic and financial situation.

Within the Earmarked Reserves of £17.4m (£12.8m at 31 March 2012), £2.7m (£2.0m at 31 March 2012) has been set aside for costs arising from the implementation of Single Status and Job Evaluation, although this does not represent an estimate of the actual liability. In addition, a further £9.4m is identified for specific purposes (e.g. the Insurance Fund of £2.4m) or ring-fenced by grant conditions. Schools balances stand at £1.1m (£1.2m at 31 March 2012) and the HRA balance at £0.25m (unchanged from 31 March 2012).

PENSIONS

- **TEACHERS PENSION SCHEME**

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

- **LOCAL GOVERNMENT PENSION SCHEME**

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits by participating in the Gwynedd Pension Fund administered by Gwynedd County Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. Benefits will not actually be payable until employees retire but the Council has a commitment to make the payments to the Pension Fund that need to be disclosed at the time that the employees earn their future entitlement.

International Accounting Standard (IAS) 19 – Employee Benefits applies to all local authorities and relates to the Gwynedd Local Government Pension Fund administered by Gwynedd County Council. The net pension liability is recognised in the Balance Sheet and has increased by £18.4m from £63.7m to £82.1m during 2012/13. The Council's actual liability is reviewed every three years as part of the triennial valuation of the Pension Fund and an investment strategy is determined which aims to recover the deficit over a stated period (currently 25 years). However, it is important to note that this does not represent an immediate call on the Council's reserves as it is a notional amount which shows how much the Council's pension liabilities exceed its share of the Fund's assets.

The Movement in Reserves Statement and the Comprehensive Income and Expenditure Statement shows the pensions benefits earned in the year, adjusted as necessary to reflect that part of the pensions costs that are not met from council taxpayers.

PROVISIONS

Total provisions held by the Council amounted to £6.438m at 1 April 2012. During the year the balance increased by £0.523m to £6.961m largely due to the requirement to provide an additional provision to meet liabilities in respect of the MMI Scheme of Arrangement and to meet increased equal pay liabilities.

Details of the movements in provisions are shown in note 27 to the Accounts on page 50.

CONTINGENT LIABILITIES

A number of contingent liabilities are disclosed in the accounts in relation to issues where an event has taken place that gives the Council potential obligations whose existence will only be confirmed by the occurrence or otherwise of uncertain future events that are not wholly within the control of the Council. The value of these potential liabilities and the probability that a cash outflow to meet these obligations are both uncertain at this time. For 2012/13 the disclosures covered;

- Equal Pay, Single Status and Job Evaluation claims;
- Recovery of charges made by the Council under Section 117 of the Mental Health Act 1983;
- A potential contractual obligation arising from the renovation of Beaumaris Pier.

Full details of these contingent liabilities are provided in note 42 to the Accounts on page 69.

CONTINGENT ASSETS

The Council retains a number of legal charges over privately owned residential properties, where it provided support to the buyers under schemes for assisted home purchase, with the Council being entitled to a share of proceeds on the sale of the properties. Further details are provided in note 43 to the Accounts on page 70.

**MOVEMENT IN RESERVES STATEMENT
FOR YEAR ENDED 31 MARCH 2013**

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus/(Deficit) on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the Council Fund Balance for council tax setting purposes and the Housing Revenue Account for rent setting purposes. The 'Net Increase / (Decrease) before transfers to earmarked other reserves' line shows the in year movement on the Council Fund and Housing Revenue Account balances before any discretionary transfers to or from earmarked reserves are made by the Council.

	Council Fund Balance	Earmarked Council Fund Balance (Note 6)	HRA Balance (Supplementary Financial Statements)	Capital Receipts Reserve (Note 10)	School Balance (Note 6)	HRA Earmarked Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Council
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance 1 April 2011	6,743	11,645	255	0	2,246	0	20,889	168,264	189,153
Movement in reserves during the year									
(Deficit) on provision of services	(3,520)	0	(4,957)	0	0	0	(8,477)	0	(8,477)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(17,080)	(17,080)
Total Comprehensive Income and Expenditure	(3,520)	0	(4,957)	0	0	0	(8,477)	(17,080)	(25,557)
Adjustments between accounting basis and funding basis under regulations (note 7)	2,816	0	4,949	0	0	0	7,765	(7,765)	0
Net (Decrease) before Transfers to Earmarked Reserves	(704)	0	(8)	0	0	0	(712)	(24,845)	(25,557)
Transfers to/(from) Earmarked Reserves	(243)	1,237	0	0	(994)	0	0	0	0
Increase/(Decrease) in Year	(947)	1,237	(8)	0	(994)	0	(712)	(24,845)	(25,557)
Balance 31 March 2012	5,796	12,882	247	0	1,252	0	20,177	143,419	163,596
Movement in reserves during the year									
Surplus/(Deficit) on provision of services	4,766	0	(4,474)	0	0	0	292	0	292
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(19,204)	(19,204)
Total Comprehensive Income and Expenditure	4,766	0	(4,474)	0	0	0	292	(19,204)	(18,912)
Adjustments between accounting basis and funding basis under regulations (note 7)	(1,118)	0	5,493	14	0	0	4,389	(4,389)	0
Net Increase / (Decrease) before Transfers to Earmarked Reserves	3,648	0	1,019	14	0	0	4,683	(23,595)	(18,912)
Transfers to/(from) Earmarked Reserves	(3,436)	3,504	(1,016)	0	(68)	1,016	0	0	0
Increase/(Decrease) in Year	212	3,504	3	14	(68)	1,016	4,683	(23,595)	(18,912)
Balance 31 March 2013	6,008	16,386	250	14	1,184	1,016	24,858	119,826	144,684

NOTE 3 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Accounts have been prepared on a going concern basis, which assumes that the functions and services provided by the Council will continue in operational existence for the foreseeable future;
- The Council has determined that assets used for economic development purposes e.g. industrial estates are not solely held for income generation or capital appreciation purposes and therefore do not meet the definition of investment properties. As a consequence these assets are shown as Property, Plant and Equipment within the Balance Sheet;
- In accordance with current guidance regarding the treatment of certain types of school, only the value of the land for voluntary controlled and foundation schools is included in the Balance Sheet. As the Council does not own these types of school and does not have access to them for valuation purposes, the value of the buildings is excluded from the Balance Sheet;
- Capital and revenue grants are reviewed regularly to determine if the grants were provided with any conditions that might require repayment if those conditions were not met. There has been a consequential impact on the sums held within the Balance Sheet and credited to the Comprehensive Income and Expenditure Statement;
- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

NOTE 4 – ASSUMPTIONS MADE ABOUT FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The following items in the Council's Balance Sheet at 31 March 2013 may be considered to be most vulnerable for estimating error in the forthcoming financial year:

Property, Plant and Equipment – Assets are depreciated over useful lives in accordance with standard accounting practices. Any difference between the depreciation applied and actual deterioration to assets will naturally reflect in future spending patterns. Information relating to Property, Plant and Equipment is contained in Note 15 on page 42.

The accounting policy for the depreciation of Property, Plant and Equipment (page 20) identifies that:

'Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.'

Applying this in practice requires two judgements to be made, to establish:

- the proportion of the cost of an asset which is considered to represent a significant part of the asset, and
- the cost threshold, below which the separate calculation of depreciation on part of an asset would not have a significant effect on the amount of depreciation as a whole.

The Council has set these figures at 20% of the total cost of the asset and £2m respectively. As is stated above in respect of depreciation in general, physical deterioration of the individual parts of an asset may, over time, lead to spending patterns which have not been fully reflected in the levels of depreciation previously provided for.

Council Housing - The Council's Housing stock is valued under a standard methodology, part of which requires the application of an adjustment factor to allow for the difference between rents and yields on private sector and social housing. There is currently no published adjustment factor for Wales, and so the Council has selected the most comparable of the English regions and applied the published factor for that, which was 31%. (Should a specific factor be published, either for Wales as a whole, or on a regional basis, then this will be applied. Each 1% of any resulting change would increase or decrease the reported value of the stock by approximately £3.4m).

Provisions – Various separate provisions, the basis of which have been individually assessed, are contained within these accounts as detailed in Note 27 on page 50.

Pensions Liability – The Pension Liability position as contained within the accounts is based on a number of complex assessments and judgments as provided by actuaries engaged by the administering Council. Further details are contained in Notes 40 and 41 on page 65.

Doubtful Debts Impairment/Allowance – A certain impairment level of doubtful debts is contained within the accounts, which is based on a specific policy. Any departure between the impairment level applied and the actual arrears position will naturally reflect in future spending patterns. Doubtful Debts impairments are contained within the figures for Short Term Debtors contained in Note 24 on page 49.

NOTE 8 – EARMARKED RESERVES

	Balance as at 01 April 2011	Transfers In 2011/12	Transfers Out 2011/12	Balance as at 31 March 2012	Transfers In 2012/13	Transfers Out 2012/13	Balance as at 31 March 2013
	£000	£000	£000	£000	£000	£000	£000
Capital Expenditure	988	478	(466)	1,000	1,209	(1,209)	1,000
Penhesgyn Waste Landfill Site Reserve	886	0	0	886	0	(111)	775
Service Reserves	1,918	1,115	(1,526)	1,507	1,540	(1,156)	1,891
Restricted Services	1,333	827	(379)	1,781	4,037	(754)	5,064
Equal Pay, Single Status and Job Evaluation	1,222	776	(32)	1,966	701	0	2,667
Recycling	1,161	312	0	1,473	302	(986)	789
Performance Management Reserve	1,170	196	(312)	1,054	412	(26)	1,440
Major Repairs Reserve (HRA)	0	0	0	0	860	0	860
Insurance Fund	2,145	417	(33)	2,529	0	(178)	2,351
Other	822	110	(246)	686	0	(121)	566
Total	11,645	4,231	(2,994)	12,882	9,061	(4,541)	17,402

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	23 JULY 2013
TITLE OF REPORT:	DRAFT ANNUAL GOVERNANCE STATEMENT 2012-13
PURPOSE OF REPORT:	COVERING REPORT FOR PRESENTING INTIAL DRAFT OF THE GOVERNANCE STATEMENT
REPORT BY:	DEPUTY CHIEF EXECUTIVE
ACTION:	CHALLENGE AND MAKE COMMENTS

1. **Background**

1.1 This is the covering report to enable discussion of the Draft Annual Governance Statement (AGS) for the last financial year. The current draft is still at a consultation and challenge stage and will go on to officers and members for comment before being brought back to this Committee for approval at its meeting in September.

2. **Need for Annual Governance Statement**

2.1 The Council is required to review at least once in a year of the effectiveness of its system of internal control and governance arrangements and publish a statement reporting on the review at the same time as the Statement of Accounts.

2.2 This requirement is based on the CIPFA/SOLACE Statement from 2007 on Delivering Good Governance in Local Government. It is now a statutory requirement in England and since 2011 has had almost the same status in Wales. The expectation is that each authority adopts a local code of governance based on the principles in the CIPFA/ SOLACE framework then conducts a review against the framework and the local code.

3. **Wales Audit Office Assessment for 2011-12**

3.1 The Review of Governance is aligned with assessment requirements under Local Government Measure and the Auditor General must audit arrangements within local authorities – their aim is to place reliance on the Council's own assessment. In order to gain assurance over the assessment, in 2012 the Wales Audit Office conducted a review of process and documentation in all local authorities in Wales. The national report isn't available yet but WAO local feedback was positive. There were three main messages from the discussion:-

- That we reported in too much detail and not focusing on the “current significant governance issues in relation to the authority achieving its vision” – it was suggested that we went back to the model and consider adopting the approach of authorities with recognised good practice
- That the arrangements need to be broadened to provide further assurance on the Council’s vision and outcomes for the public
- That there is scope to evaluate the effectiveness of our controls.

3.2 We have tried to address the first point and have looked closely at the arrangements at some of the North Wales authorities and others highlighted in a national review in England.

3.3 The second point is partly addressed by aligning the AGS with the Corporate Self-Assessment, the Transformation Plan and the Risk Register and also by using the Performance Review Group to ensure that there was sufficient corporate planning and performance input.

3.4 The third point will need more time; there are examples of tools that might be used for the assessment in future years.

4. **Role of the Audit Committee**

4.1 The approval of the Annual Governance Statement (prior to signing by the Leader and the Chief Executive) is in the Terms of Reference of the Audit Committee.

“3.4.8.1.1. (viii) to ensure that the authority has a sound system of internal control which facilitates the effective exercise of functions and which includes arrangements for the management of risk and adequate and effective financial management. To review the effectiveness of internal control at least once a year and approve an Annual Governance Statement for inclusion with the authority’s Statement of Accounts.”

5. **Considerations**

Are there any significant gaps in the description of the governance arrangements and are there any weaknesses in the arrangements?

Does the conclusion on Significant Governance Issues sound right?

Any comments on the proposed actions?

6. **Recommendation**

That the Audit Committee considers the draft document and makes comments.

That the Audit Committee asks for regular updates on the developing governance action plan.

ANNUAL GOVERNANCE STATEMENT – 2012-13 Draft

1 BACKGROUND

Following a Corporate Governance Inspection in 2009 the Auditor General took intervention measures in the affairs of the Isle of Anglesey County Council under section 15 of the Local Government Act 1999. From March 2011 to September 2012, Commissioners appointed by the then Minister for Social Justice and Local Government exercised the Council's executive function. In October 2012 decision making powers were returned to the Leader and his Executive Committee with safeguards. Following the elections for county council members in May 2013 and the subsequent appointment of a new administration, the intervention was brought to an end at the end of May.

During the period of intervention, the Council worked to the Commissioners' ten improvement themes which included a number of areas to strengthen corporate governance. In preparation for the new Council with thirty members rather than forty as previously, the County Council's Constitution and in particular the scrutiny arrangements were updated. A Transformation Plan for the authority was adopted in January 2013 setting out the agenda for its work up to 2016. It is a programme of change driven by the Council itself.

2 SCOPE OF RESPONSIBILITY

The Isle of Anglesey County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk and adequate and effective financial management.

The Council has approved and adopted a local code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the local code is on our website at <http://www.anglesey.gov.uk/council-and-democracy/governance-and-performance-/corporate-governance/> or can be obtained from [???]. This statement explains how the Council has complied with the code and it meets the requirements of non-statutory proper practice encouraging the publication of an Annual Governance Statement. It also meets the requirement of regulation 4(2) of the Accounts and Audit (Wales) Regulations 2005 in relation to the publication of a statement on internal control.

3 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to

identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2013 and remains applicable up to the date of the approval of the Statement of Accounts. Where new arrangements have been introduced during the year, or following the elections in May 2013, this has been noted.

4 THE GOVERNANCE FRAMEWORK

The current framework as it relates to each of the six Corporate Governance principles is described in the schedules to the Local Code of Governance which is available at <http://www.anglesey.gov.uk/council-and-democracy/governance-and-performance-/corporate-governance/>.

The following summary focuses on the areas of weakness and work on development and strengthening of the framework during the 2012-13 financial year. It is also linked back to the Transformation Plan themes.

Principle One: Focusing on the purpose of the authority and on outcomes for the community and creating a vision for the local area

**Transformation Theme: Customer, Citizen and Community Focused
Committed to Partnership; Achieving**

A Community Strategy was in place during the year and a Single Integrated Strategic Plan was being developed in its place under the oversight of the Local Services Board. This change resulted from the national initiative to rationalise partnerships and plans. The Single Integrated Strategic Plan was subsequently approved soon after the end of the year.

A Corporate Plan 2012-15 was in place throughout the year and was reinforced by work undertaken during the year. The New Anglesey Roadmap which was a strategic, high level report, was endorsed by the Council in September 2012. The Transformation Plan to identify the programme of work emanating from the Roadmap and integrating it with the Council's other work programmes was developed by the Senior Leadership Team and adopted in January 2013.

An annual budget and high level Medium Term Revenue Budget Strategy was approved in March 2012 and updated in March 2013 following public consultation. The budget process included discussion in the public domain on the adequacy of reserves; robustness of estimates and treasury management arrangements as required. The Medium Term Financial Strategy needs to be developed.

The Statement of Accounts for 2011-12 were published on a timely basis with a draft being publicly available at the end of June and published with an unqualified audit opinion by the end of September as required. The certificate of completion of the audit was not issued [until ???] as a result of an objection to the accounts by an elector. Arrangements are in place to publish the 2012-13 accounts in line with the statutory timetable.

An Improvement Plan (Performance Review) report was approved by the County Council in October 2012. The Plan looked back to assess how we performed against the priorities and targets as set out in our 2011/12 Corporate Business Plan. This was assessed by the Wales Audit Office in its Improvement Assessment Letter as the Council having complied in full with

its improvement reporting duties under the Measure; but the content and structure of the Report could include more qualitative information to provide a more rounded evidence base. A Corporate Self-Assessment was undertaken in April 2013.

Partnership arrangements are in place on a case by case basis but there is no overarching partnership framework in place. This has been identified as a weakness.

Progress is being made on the way service quality standards are set and measured, and the information needs are to be assessed and improved. During the autumn of 2012, a series of Service Reviews was undertaken which covered budgets and performance and which informed the budget process.

A Performance Management Framework was in place throughout the year with quarterly challenges to Services and reports to the Executive and Scrutiny. The framework continues to be developed to focus on key areas of risk and transformation.

Financial Management arrangements were in place throughout the year, although there were recognised weaknesses in the old financial ledger and related systems. The implementation of new financial systems which went live in April 2013 will resolve these weaknesses.

Principle Two: Members and officers working together to achieve a common purpose with clearly defined functions and roles

Transformation Theme: Professional and Well Run

Arrangements for committees and a scheme of delegation to officers and members are included in the Council's constitution. Significant changes have been made to the committee structure and to the scrutiny function over recent years. During 2012-13 new arrangements were developed in preparation for the May 2013 elections to cater for the reduction in members from forty to thirty and for multi member wards.

A new Relationship Protocol for Members and Officers was approved in May 2012 and during 2013 we have agreed a programme supported by the Welsh Local Government Association (WLGA) to help develop the Executive and the way members and senior officers work together; this includes the key roles of Leader and Chief Executive.

The Council's new senior management structure was completed during the year as the Deputy Chief Executive started in post in June 2012, Directors of Lifelong Learning and Community in July and September 2012 respectively and a Head of Function (Resources) in January 2013. The approved senior management structure includes a Chief Executive who is the designated Head of Paid Service; a Deputy Chief Executive who is responsible for leading the internal functions of the Council and for ensuring good corporate governance; and three Directors who lead the agenda for their group of services, taking responsibility for the policy, planning and performance of those functions. These five officers form the Authority's Senior Leadership Team (SLT).

Heads of Function for Resources and for Legal and Administration are respectively the authority's designated Chief Financial Officer (CFO) and Monitoring Officer. They both report to the Deputy Chief Executive who is responsible for the management of their performance and for coordinating their governance roles within the wider corporate governance and performance and change management framework.

The approved management model is that the SLT leads on developing the vision and strategic direction of the Council and are held to account in that role; and that the extended

management team has an implementation role. The CFO and Monitoring Officer are key members of the extended management team and have access to the Chief Executive and the SLT and its individual members.

It is a requirement that local authorities assess their arrangements on an annual basis against the CIPFA Statement on the Role of the Chief Financial Officer in Local Government and report on compliance or explain any alternative arrangements. Up to January 2013 the interim CFO was a member of the SLT reporting to the Deputy Chief Executive but having access to the Chief Executive. Since January, the approved management model has been in place which is a different model to that envisaged by CIPFA but which is intended to have an equivalent impact to that envisaged by the CIPFA Statement. A protocol is being drawn up to ensure that the Council's arrangements deliver an equivalent impact; this includes access to SLT meetings and papers and other safeguards. The effectiveness of the protocol for committee papers is also being reviewed to ensure that these officers are able to provide advice at the appropriate time. The effectiveness of these arrangements will be reviewed on an annual basis.

Allowances are paid to members in accordance with a local scheme based on the decisions of the Independent Remuneration Panel for Wales. The Panel published specific reports for this Council in respect of the year. Decisions on discretionary matters are taken by the Full Council and both the schemes, and the payments made to members under the scheme, are published on the Council's website.

A Pay Policy Statement was adopted for the first time in March 2012 as required and this was updated in 2013.

Principle Three: Promoting values for the authority and demonstrating the value of good governance through upholding high standards of conduct and behaviour

Transformation Theme: Professional and Well Run

The Corporate Plan for 2012-15 sets out the Council's values and these became embedded in the Vision of the Transformation Plan and the Transformation Culture.

A Local Code of Corporate Governance was adopted in October 2012, drawing together and formalising existing governance arrangements.

There are a number of codes of conduct and protocols in place as part of the Constitution to ensure high standards of conduct and behaviour. There is a Policy for the Prevention of Fraud and Corruption in the Constitution with subsidiary plans in place.

An active and effective Standards Committee is in place and it reported on its work at the end of the year.

Principle Four: Taking informed transparent decisions which are subject to effective scrutiny and managing risk

Transformation Theme: Innovative, Ambitious and Outward Looking

The constitution and associated procedures establish responsibilities for decision making. Decisions are made taking account of appropriate professional advice including legal and financial advice. Executive decisions are published and subject to scrutiny. The arrangements for delegation of Executive decisions to individual members are not well understood across the authority and there are plans to clarify the requirements.

In November, the Council introduced new systems to ensure easy access to the Council's agendas, papers and minutes and from May members and the public have had the full benefit of access to committee papers and supporting information. Members have direct access to this electronic system during meetings.

Scrutiny was strengthened as part of the Commissioners' programme of work and an Annual Report was published in May setting out the work done by the Committees during the year. [Include something from the outputs of the review in early 2013] From June 2013 the number of scrutiny committees has been reduced from five to two.

Risk Management arrangements have been developing over the last two years and the policies and guidance were reaffirmed and formally adopted in September 2012. Arrangements continue to be embedded in services and corporately.

The management of change has been weak within the authority and project management not embedded. Since the end of the year, significant steps have been taken to develop a new programme and project management framework and to provide capacity to support the Transformation Plan.

An effective Audit Committee is in place. The committee conducted a self-assessment during the year and reported on its work at the end of the year.

There are transparent and accessible arrangements for dealing with complaints and a new Concerns and Complaints Policy came into force in April 2013 based on the Model Policy developed with the Public Services Ombudsman for Wales. There are also formal arrangements for whistle blowing.

Principle Five: Developing the capacity and capability of Members and Officers to be effective

Transformation Theme: Valuing and Developing our People

The Council has been working towards achieving the Member Charter awarded by WLGA. Member job descriptions have been in place since 2012 and personal development reviews and development plans were being introduced. An induction programme for new members was undertaken in June 2013 onwards. The Democratic Services Committee oversees these areas and its Chair serves as Member Development Champion.

A Democratic Renewal Strategy was completed in the year in preparation for the elections held in May 2013. This strategy contributed to increased participation and increased voter turnout.

As a result of public engagement activity over the last few years, there is a pool of citizens who have volunteered to assist the Council in the future.

We have a People Strategy and we retained our Investors in People accreditation in the year. There was an induction programme in place for staff throughout the year and a managers' induction programme was launched in April 2013.

The Corporate Personal Development Review scheme introduced in 2011-12 was further embedded and developed in the year. The scheme covers all staff including senior managers. Over 60% of staff received their appraisal, a similar level to the previous year. Targets have been set to ensure a higher rate during 2013-14. Arrangements are being made to target training and development on a more consistent and focused basis, linked to appraisal, as budgets are reduced.

During 2012 we adopted a Workforce Development Strategy and Succession Planning Strategy. A Talent Strategy was being developed in the year and work is proceeding to embed it into the competency appraisal process. This is due to be fully adopted in 2013.

The People Strategy 2012-15 is due to be reviewed in 2013 and will incorporate the needs of the Transformation Plan and outcomes of the staff survey conducted in May and June 2013.

As part of the activity on the Transformation Plan and staff engagement activity, individuals across the authority have been given an opportunity to work on corporate projects and strategies.

Principle Six: Engaging with local people and other stakeholders to ensure robust accountability

Transformation Theme: Customer, Citizen and Community Focused

The Community Engagement Strategy produced in 2011 was still in place and was supported by Good Practice Consultation and Engagement Guidelines for staff. This strategy is now dated and is to be replaced by a Customer Care Strategy and the new Corporate Communication Strategy.

Arrangements for engagement with groups of stakeholders continued to develop during the year with a Community Council Charter approved in 2012 and a Voluntary Sector Compact formally approved at the end of the year.

Arrangements are in place to engage with Welsh Government, External Audit and other regulators and WLGA. These have been strengthened during the recent periods of intervention and need to be sustained as part of the continuing governance arrangements.

A Communication Strategy produced for 2012-15 was in place for the year and gained formal approval during the year. The strategy has four strands: Citizen and Community Engagement; Media; the Council Brand; and Internal Communication. Internal Communication is a key area for development in the Transformation Plan.

Corporate planning for the year was firmly based on engagement with local people and stakeholders in respect of the Corporate Plan and the Single Integrated Strategic Plan. Corporate Planning was linked to financial planning by consulting jointly on the Improvement Priorities and the Budget Strategy.

Annual reports on their work were published by Scrutiny as well as the Standards and Audit Committees.

There are longstanding arrangements for engaging with employees: with Trade Unions through the Local Joint Consultative Committee and less formal meetings, and communication with staff generally through e.g. monthly staff bulletins. Managers and staff are being consulted and involved in decision making as part of the Transformation Programme.

5 REVIEW OF EFFECTIVENESS

The Isle of Anglesey County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The effectiveness of the governance framework has been evaluated by a combination of:

- the results of the regular in-year review and monitoring by officers and committees;
- a review of relevant documents prepared during the year or relating to the year;
- the reports of the Commissioners leading to the ending of intervention at the end of May 2013;
- the Corporate Self-Assessment Report covering the period November 2012 – April 2013 and the transition back to local control, including reviews of feedback from Estyn and CSSIW and the related recovery boards on the improvement work in relation to Education and Children's Services;
- a series of interviews with key officers;
- discussion with, and receiving comments from, groups of officers and members including the SLT and the Executive.

Regular in-year review and monitoring includes:

- reviews of the Constitution and ethical governance arrangements by the Monitoring Officer, and the review of compliance with the Regulation of Investigatory Powers Act,
- formal risk management activity, including specific consideration of those risks linked to governance processes,
- Internal Audit, whose work takes account of identified risks through regular audits of the major systems, establishments, major projects and major governance processes, including risk management, in accordance with the annual internal audit plan, and which includes 'follow-up' work to ensure that senior officers implement agreed recommendations,
- the annual assessment of Internal Audit by the Council's external auditors,
- the work of the Council's Scrutiny and other Committees, including its Audit and Standards committees,
- the opinions and recommendations of the Council's external auditors and other review agencies and inspectorates,
- the regular monitoring of improvement and performance against the Corporate Plan and its supporting plans and strategies by members and senior managers,
- assessments of the statutory officers, such as the Chief Financial Officer and the Monitoring Officer against regulatory requirements and recommended best practice.

Key policies, and any amendments to them, are approved by the Executive and where appropriate, formally adopted by the County Council.

The Audit Committee was asked for views on the effectiveness and completeness of the framework and comments on a draft version of this AGS before final draft was taken to the Audit Committee for approval.

6 SIGNIFICANT GOVERNANCE ISSUES

Excellent progress was made across a number of governance themes during the year leading to an Annual Improvement Report from Wales Audit Office concluding “that the Council has a comprehensive plan for improvement which will be challenging to achieve, but which has realistic prospects to bring significant improvements to services and the people of Anglesey. [they] found that:

- the Council has discharged its improvement planning duties under the Local Government (Wales) Measure 2009 (the Measure) and has acted in accordance with Welsh Government guidance;
- the Council continues to make steady progress in addressing the proposals for improvement identified in previous assessments;
- the Council has clear and robust financial plans but faces a number of financial challenges with continuing austerity measures; and
- the Council has developed an organisational development plan to support long-term improvement and modernise the way the Council works.”

Subsequently, intervention was brought to an end at the end of May 2013.

The report of the Head of Internal Audit gives assurance on the framework for internal control. It identifies three reviews carried out during the year which received a “red” assurance opinion. These reviews related to Business Continuity, Data Security and Modern Records Management. The recommendations from all of these reports have been included in a Corporate Information Management Action Plan. The report also identifies four areas where significant weaknesses in control would prevent the Council placing reasonable reliance on the systems of internal control in respect of those systems reviewed during the year. These areas were:

- Business Continuity;
- Risk Management;
- Governance: compliance with key corporate policies and procedures;
- Information Management.

Good progress was made on a number of the actions resulting from the 2011-12 Annual Governance Statement:

- The Council adopted a Local Code of Governance and signed off the Single Integrated Plan incorporating the Health, Social Care and Wellbeing Strategy;
- We published unqualified accounts by the statutory deadline;
- Work was well underway on the Action Plans developed following adverse reports on the Council’s services by Estyn and CSSIW;
- Added impetus was given to the Job Evaluation and Equal Pay processes during the year.

Progress is slower on some of the other areas:

- Risk Management, although the Framework is now formally approved;
- Business Continuity;
- Compliance with key corporate policies, including staff appraisals;
- Data Security and Information Governance.

These items are reflected in the report of the Head of Internal Audit and are included in the governance action plan for 2013-14.

Based on the review outlined above, and in particular, the annual report of the Head of Internal Audit; the findings of the outgoing Commissioners in their Commissioners’ Reports; the Annual Improvement Report by the Wales Audit Office; and the work of the Senior Leadership Team in formulating the Council’s Transformation Plan, the following issues have

been identified as the current significant governance issues in relation to the authority achieving its vision:

Significant Governance Issues	
Issue	Actions Identified
<i>The need to ensure that the Transformation Programme is delivered as planned while continuing to provide services effectively</i>	<i>Establish Transformation Boards; Programme Management Office and Governance arrangements</i> <i>Developing internal capacity to support transformation and improvement</i>
<i>The need to plan for and deliver the savings required of the Council</i>	<i>Develop a Medium Term Budget Strategy based on existing plans and projections</i> <i>Establish the Efficiency Strategy as part of the Council's core strategic plans</i> <i>Introduce Commissioning and Procurement Policy and Strategy</i>
<i>Taking appropriate technical and organisational measures against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data</i>	<i>The Council has accepted a consensual audit by the Information Commissioner</i> <i>Establish a project board to implement existing work plans and the recommendations of the Information Commissioner</i>

7 CERTIFYING THE ANNUAL GOVERNANCE STATEMENT

We have been advised on the implications of the result of the **review of the effectiveness of the governance framework** by the Audit Committee and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**. The areas already addressed and those to be specifically addressed with new actions planned are outlined in the document.

We propose to take appropriate steps to address these and the other weaknesses identified in the Annual Governance Statement and to further enhance our governance arrangements in the forthcoming year. We will monitor the implementation and operation of improvements through the Audit Committee and as part of our next annual review.

Leader of the Council

Date:

On behalf of the Isle of Anglesey County Council

Chief Executive

Date:

Governance Action Plan 2013-14	
Issue	Actions Identified
Significant Governance Issues	
<i>The need to ensure that the Transformation Programme is delivered as planned while continuing to provide services effectively;</i>	<i>Establish Transformation Boards; Programme Management Office and Governance arrangements.</i> <i>Developing internal capacity to support transformation and improvement.</i>
<i>The need to plan for and deliver the savings required of the Council</i>	<i>Develop a Medium Term Budget Strategy based on existing plans and projections.</i> <i>Establish the Efficiency Strategy as part of the Council's core strategic plans</i> <i>Introduce Commissioning and Procurement Policy and Strategy</i>
<i>Taking appropriate technical and organisational measures against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data</i>	<i>The Council has accepted a consensual audit by the Information Commissioner.</i> <i>Establish a project board to implement existing work plans and the recommendations of the Information Commissioner</i>
Governance Framework and Review Issues	
<i>Arrangements for Monitoring the Governance Framework and Action Plan</i>	<i>Invite Audit Committee to take regular monitoring reports</i> <i>Review Terms of Reference of the Audit Committee to ensure that AGS assurance can be gathered throughout the year</i>
<i>Achieving a Cohesive Governance Framework</i>	<i>Broaden the framework to include assurance on the Council's vision and outcomes for the public</i> <i>Document the framework and ensure that all relevant and current policies, strategies, guidelines and reports are easily accessible</i> <i>Provide training to managers and staff</i>
<i>Streamlining the Self-Assessments</i>	<i>Decide how to streamline the processes for developing the Corporate Self-Assessment, the AGS and the Improvement Report</i>
<i>Evaluating the effectiveness of controls</i>	<i>Map where the Council gets its assurance in all key governance areas and use it to feed the Annual Governance Statement, linking it with the Internal Audit assurance plan and annual corporate self-assessment</i>
Development areas	
<i>Ensure coherent and effective senior management</i>	<i>Complete the Heads of Service review.</i> <i>Document and embed roles of Heads of Service and relationship with SLT</i> <i>Approve a Protocol for Statutory Officers to ensure that the Council can show that it complies with the CFO Statement.</i>

Governance Action Plan 2013-14	
Issue	Actions Identified
<i>Member Development</i>	<p><i>Achieve "The Wales Charter for Member Support and Development"</i></p> <p><i>Deliver the WLGA funded programme on developing the Executive</i></p>
<i>Developing and embedding the Corporate Performance Management system, Programme Management and the Risk Management system, and ensuring appropriate management information</i>	<p><i>Approve and implement a new Performance Management Framework</i></p> <p><i>Review arrangements for a web-based performance management system</i></p> <p><i>Identify current information systems and establish how they integrate with each other, identifying any gaps</i></p> <p><i>Embed Risk Management arrangements</i></p> <p><i>Introduce new Programme and Project Management framework</i></p> <p><i>Introduce Officer group to review and make recommendations on matters relating to performance, projects, action plans and risks</i></p>
<i>Strengthening Financial Management Arrangements</i>	<p><i>Complete the implementation of new financial systems</i></p> <p><i>Complete new staff structure for Finance</i></p> <p><i>Update Financial Procedure Rules</i></p>
<i>Ensuring that the basic building blocks of governance are in place consistently across departments and ensuring compliance</i>	<p><i>Ensure consistent absence and sickness management</i></p> <p><i>Increase the percentage of completed individual performance reviews</i></p> <p><i>Deliver the Development Priorities in the Corporate Communication Strategy</i></p> <p><i>Prepare and implement Customer Care Strategy</i></p>
<i>The continued need to review, and improve, the governance arrangements for partnership and collaborative working and to raise awareness and ensure compliance by officers</i>	<p><i>Identify relevant partnership arrangements</i></p> <p><i>Provide guidance to staff and members on setting up and managing partnerships</i></p> <p><i>Establish a new scrutiny committee focused on Partnerships and Regeneration</i></p> <p><i>Update Financial Procedure Rules, Contract Procedure Rules, Schemes of Delegation and other parts of the Constitution</i></p> <p><i>Introduce Commissioning Policy and Strategy</i></p>

Governance Action Plan 2013-14	
Issue	Actions Identified
<i>The need to manage reports by external audit and other regulators on a corporate basis and ensure appropriate response</i>	<p><i>Implement system for identifying regulatory work across the Council</i></p> <p><i>Implement register of regulators' recommendations and ensure monitor of progress in line with internal audit recommendations</i></p> <p><i>Introduce Officer group to review and make recommendations on the regulator's programmes and progress against agreed actions</i></p>
<i>The Council has no complete and formally approved Business Continuity Plan or ICT disaster recovery plan</i>	<p><i>Draw up Service Business Continuity Plans</i></p> <p><i>Develop the draft ICT Disaster Recovery Plan for approval</i></p>

DRAFT



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Isle of Anglesey County Council

Local Authority Review of Governance July 2013

Page 41

Agenda Item 5



Local Authority Reviews of Governance – Improvement Study

- Local Authorities (LA) are required to prepare an Annual Governance Statement (AGS) since 2010-11
- Review of Governance is aligned with assessment requirements under the Local Government Measure (LGM)
- The Auditor General must audit arrangements within the LAs to meet LGM duties
- Willingness to place reliance on LA's own assessment
- Study to provide assurance over assessment and help enhance this
- Focus on identifying learning points for 2012-13 review of governance



Scope of study



Key question:

“In producing its Annual Governance Statement, has the Council evaluated the effectiveness of its governance arrangements comprehensively and thoroughly?”

Sub questions:

- **Has the Council’s review of its governance arrangements been sufficiently wide-ranging?**
- **Has the Council’s review of its governance arrangements been thorough and robust?**
- **In producing its AGS has the Council identified areas in need of improvement in its governance arrangements and made plans to address them?**



Overall conclusion



- The Council's review of governance is developing and is based on firm principles. However, the arrangements need to be broadened to provide further assurance on the Council's vision and outcomes for the public.
- The Council's review of governance arrangements provide a level of assurance, but there is scope to evaluate the effectiveness of its controls.
- The Council has identified important issues from its governance arrangements and is taking positive steps to improve its arrangements.



Local Authority Review of Governance



Has the Council's review of its governance arrangements been sufficiently wide-ranging?

Page 45

The Council's review of governance is developing and based on firm principles. However, the arrangements need to be broadened to provide further assurance on the Council's vision and outcomes for the public.



Has the Council's review of its governance arrangements been sufficiently wide-ranging?

- The review reflects the key principles of the CIPFA framework and the Commissioners' ten corporate governance themes.
- The review explains the processes and procedures in place to enable the Council to carry out its functions effectively.
- The Council is developing governance controls for partnership working and commissioning, but they are not yet clearly linked to the risk management and business planning processes.
- The Council is developing an action plan to monitor issues and progress for the Annual Governance Statement, supported by a new corporate framework and members committees to improve the review process.



Local Authority Review of Governance



Has the Council's review of its governance arrangements been thorough and robust?

Page 47

The Council's review of governance arrangements provide a level of assurance, but there is scope to evaluate the effectiveness of its controls.



Has the Council's review of its governance arrangements been thorough and robust?



- Appropriate arrangements are in place to provide challenge of the results of the governance review and there is a clear and formal process for drafting the Annual Governance Statement.
- The Council has adopted a code of governance and has a process for clearing and signing off the Annual Governance Statement.
- Although a number of steps have been taken to improve its arrangements, there is no formal process to evaluate the effectiveness of its governance controls.



Local Authority Review of Governance



In producing its AGS, has the Council identified areas in need of improvement in its governance arrangements and made plans to address them?

The Council has identified important issues from its governance arrangements and is taking positive steps to improve its arrangements.



In producing its AGS, has the Council identified areas in need of improvement in its governance arrangements and made plans to address them?



- Acknowledge the AGS is large document with lengthy process descriptions which could cause the Council to fail to recognise risks that are more serious, albeit remote.
- Greater focus on planning and performance information is needed, but balanced alongside financial information.
- Developing an action plan to provide updates on progress made and minimise out-dated risks and information remaining within its governance framework.
- Decision making at Committee and Scrutiny levels are becoming sharper and more focused with less time taken to cover governance issues.



In producing its AGS, has the Council identified areas in need of improvement in its governance arrangements and made plans to address them?



- Piloting a new performance management software system to improve analysis and reporting of performance data.
- Raising awareness and understanding of governance and reduce its perception as just a financial statement.
- Providing a number of developmental workshops for officers and members to help raise awareness of governance.
- Strengthening its committee and scrutiny structures by appointing appropriately skilled members.
- Acknowledging the need to plan carefully, the capacity and capability of those charged with governance responsibilities. For example, the impact, following the reduction of members after the May 2013 election and Council service reviews.



What next?

- The results from all Council reviews will be centrally collated
- Developed into a national report looking at common trends and themes





Performance work programme update for Audit Committee 23 July 2013

Isle of Anglesey County Council

Improvement Assessment Letter 1 – Improvement planning

This is a review of the Council's improvement plan arrangements to secure continuous improvement. The letter, is generally produced following the publication of the Council's improvement plan. Work has commenced and the draft letter is due by the end of July 2013. As there was an election this year, the Council has delayed the production of its improvement plan until Autumn 2013. This is similar to the arrangements last year with other Welsh authorities. The letter will therefore provide an assessment of progress.

Improvement Assessment Letter 2 - Testing and Audit of Council's Performance Assessment Publication

This is a review of how well the Council has reported on its performance in the last year. The letter will also provide a commentary of the Data Quality Audit. The letter will be produced by November 2013.

Annual Improvement Report

The Annual Improvement Report (AIR) summarises all the work carried out by the Wales Audit Office as well as that carried out by relevant regulators, such as Estyn, CSSIW and Welsh Language Commissioner. The Annual Improvement Report is to be produced in January/February 2014.

Data quality review

The review was previously known as the PI audit. It is a review of systems to ensure accuracy of performance information and, includes a selection of performance indicators. Work has commenced and will be reported through local feedback and in IA Letter 2 in November.

Improvement study – Safeguarding

Review of whole authority governance and management arrangements for safeguarding children and vulnerable adults. The study will provide local feedback and national report. Timing is to be confirmed.

Local Government National Study –Welfare reform

Review of arrangements to manage the impact of welfare reform. This study will be conducted at a number of selected Councils and may involve a data return for all authorities. A national report and briefing paper is normally produced. Timing is to be confirmed.

Local Government National Study - Delivering with less – the impact on services and citizens

First of a series of national studies into specific service areas to examine how best use is being made of diminishing resources. This study will be conducted at a number of selected Councils and may involve a data return for all authorities. A national report and briefing paper is normally produced. Timing is to be confirmed.

Work specific to Anglesey

Homelessness

A brief review of Homelessness was conducted before the election. The findings will be reported through local feedback and included in the IA Letter 1.

Local review

Review of the effectiveness of relationships between councillors, and between councillors and officers following the 2013 elections. The work will be conducted November/December 2013 and will be reported through local feedback and, in the Annual Improvement Report.

Isle of Anglesey County Council

Financial audit progress report to Audit Committee

July 2013

23 July 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	4

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. Re-presented at the July Audit Committee following final moderation of fee and for benefit of new committee members.
Interim review and planning of the accounts audit	March/April 2013	Interim visit undertaken and accounts audit planning completed.
Training for audit committee members	July 2013	Training provided on the role of external audit and the audit committee in relation to the Statement of Accounts
Financial statements testing	July - September 2013	Financial statements were received on 28 June. Audit fieldwork has now commenced.
Final accounts (ISA 260) report	September 2013	To be reported to the September 2013 Audit Committee meeting.
Audit opinion and completion certificate	September 2013	To be 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 obtained further information from the Council and the elector and we undertook audit fieldwork to validate the evidence provided by the Council. We have now concluded on the outstanding matters in respect of this.

In order to issue the completion certificate, we were also required to revisit significant estimates in the accounts to satisfy ourselves in light of any subsequent events or information that the estimates were not materially misstated. We have undertaken this exercise and the completion certificate has been issued by the Appointed Auditor, Anthony Barrett.

Grants

2011/12 grants

We have now certified all of the 2011/12 claims with the exception of the Housing Benefit grant, which is in its final technical review phase. Our grants report provides further detail in this area.

2012/13 grants

We have started fieldwork on Communities First and Housing Benefit claims which have been provided by the Council. We anticipate undertaking further work across the course of the summer as the Council provides further claims for us to audit.

Liaison arrangements

with Internal Audit

We 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. We continue to meet with internal audit regularly alongside management.

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 following the implementation of the Civica accounting system and to continue the momentum of improvement noted during the 2011/12 accounts and audit process during our audit of the 2012/13 accounts.

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: May 2013

Document reference: C13111

This document is a draft pending further discussions with the audited body. The contents of this draft may not yet have been fully verified and should not be distributed beyond those at Isle of Anglesey County Council who have a business need to access it.

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 on behalf of Anthony Barrett, the Appointed Auditor.

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 with 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 Corporate Director (Finance) 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 set at £155,000. 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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WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Certification of Grants and Returns 2011-12

Isle of Anglesey County Council

Audit year: 2011-12

Issued: April 2013

Document reference:

Status of report

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

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Contents

We certified 29 grant claims and financial returns for 2011-12 with a total value of £56,212,148 – 1 less claim than 2010-11 with a total value approximately £2,751,484 lower.	5
Of the 29 grant claims certified, 5 claims related to earlier financial years. These had a total value of £23,558,208.	6
Our total fee for the certification of grants and returns was £137,319 – £22,360 lower than 2010-11.	6
We certified 12 claims without any qualifications or amendments. 6 claims were amended following our audit, 8 claims were certified with a qualification, and 3 claims were amended and qualified.	7
38% of total claims received a qualification. There were a number of reasons for our qualifications. The qualifications we raised have a potential value of approximately £336,827.	8
31% of total claims were amended. The most common reason was because the claim was not prepared correctly. 2 claims were amended by over £10,000. The net effect of all amendments was an increase of £88,106 in the amounts claimed.	9
The Authority had generally improved the arrangements in place for the production and submission of its 2011-12 grant claims. There is room for further improvement.	10
61% of claims were submitted on time.	10
There were 2 less qualifications and the same number of amendments compared with 2010-11.	10
We recommend that the Authority reviews the areas where qualifications and amendments were made this year.	11

Appendices

Appendix 1 – List of the grants we certified	12
Appendix 2 – Schedule of amendments and qualifications	17
Appendix 3 – Table of recommendations	28
Appendix 4 – Remaining work	35

We certified 29 grant claims and financial returns for 2011-12 with a total value of £56,212,148 – 1 less claim than 2010-11 with a total value approximately £2,751,484 lower.

1. Under Paragraph 20 of Schedule 8 to the Government of Wales Act 2006 the Auditor General shall, if required by a local government or other grant-receiving body, make arrangements for certifying claims and returns (referred to hereafter as grant claims).
2. The aim of our work was to certify individual claims and to answer the question:
'Does Isle of Anglesey County Council (the Authority) have adequate arrangements in place to ensure the production of co-ordinated, accurate, timely and properly documented grant claims?'
3. The following table summarises the value of the different claims and returns we certified:

Description	Value Claimed
Welsh Government grants	£14.8 million
European grant claims via WEFO	£1.9 million
National Non Domestic Rates – Contribution to the Pool	£14.6 million
Housing and Council Tax Benefit – Total Subsidy Claimed	£ 22.9 million
Housing Revenue Account Subsidy	£ 2.0 million (payable)
Total:	£56.2 million

We also certified 5 claims relating to earlier financial years. These had a total value of £23,588,208.

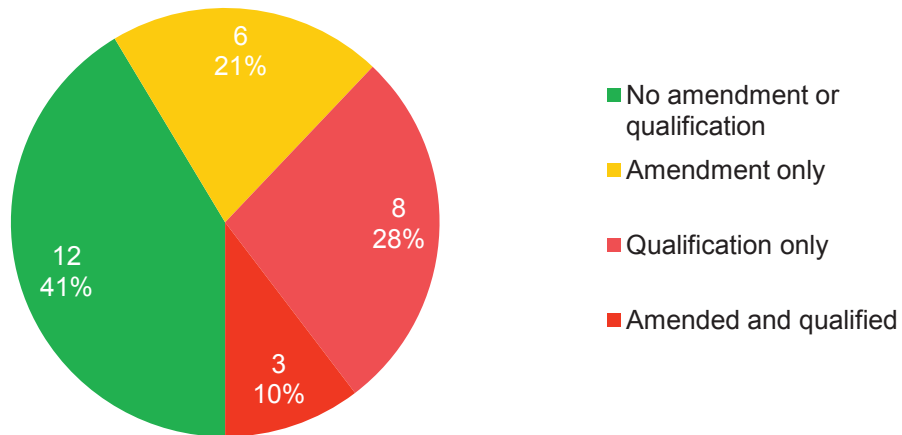
4. A full list of the claims and returns we audited during this year's programme of work is presented in Appendix 1.
5. A list of work that is still remaining is set out in Appendix 4.

Our total fee for the certification of grants and returns was £137,319 – £22,360 lower than 2010-11.

6. During our programme of work in 2011-12, we certified claims worth 5% less than our work in 2010-11. However, the total fee charged for our 2011-12 programme of work was 14% lower.
7. Appendix 1 shows an analysis of the fees we charged for each of the claims we certified.

We certified 12 claims without any qualifications or amendments. 6 claims were amended following our audit, 8 claims were certified with a qualification, and 3 claims were amended and qualified.

8. The chart below summarises the results of our audit:

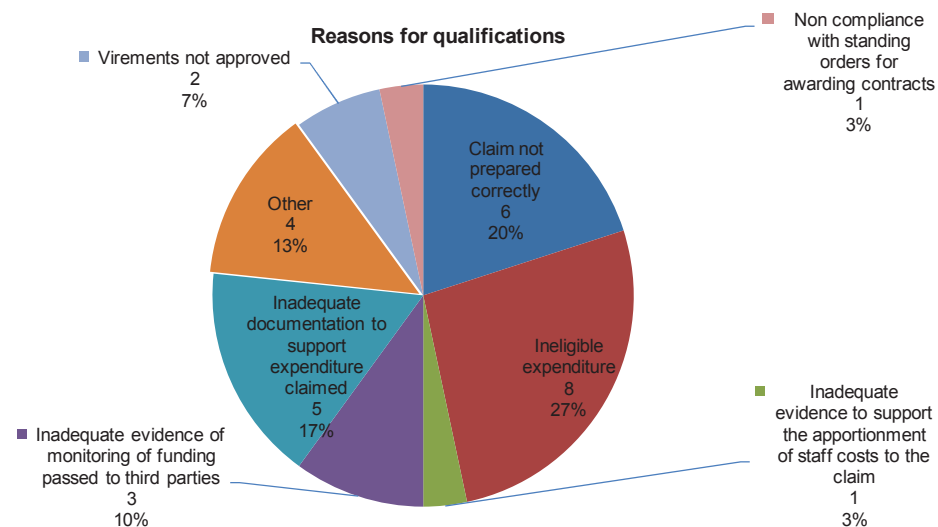
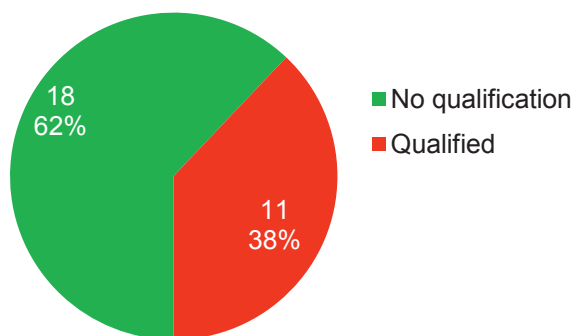


9. A detailed list of the claims we certified and the results of our audit work is provided in Appendix 1.

38% of total claims certified received a qualification. There were a number of reasons for our qualifications. The qualifications we raised have a potential value of approximately £336,827.

10. The charts below summarise the reasons why we issued qualifications:

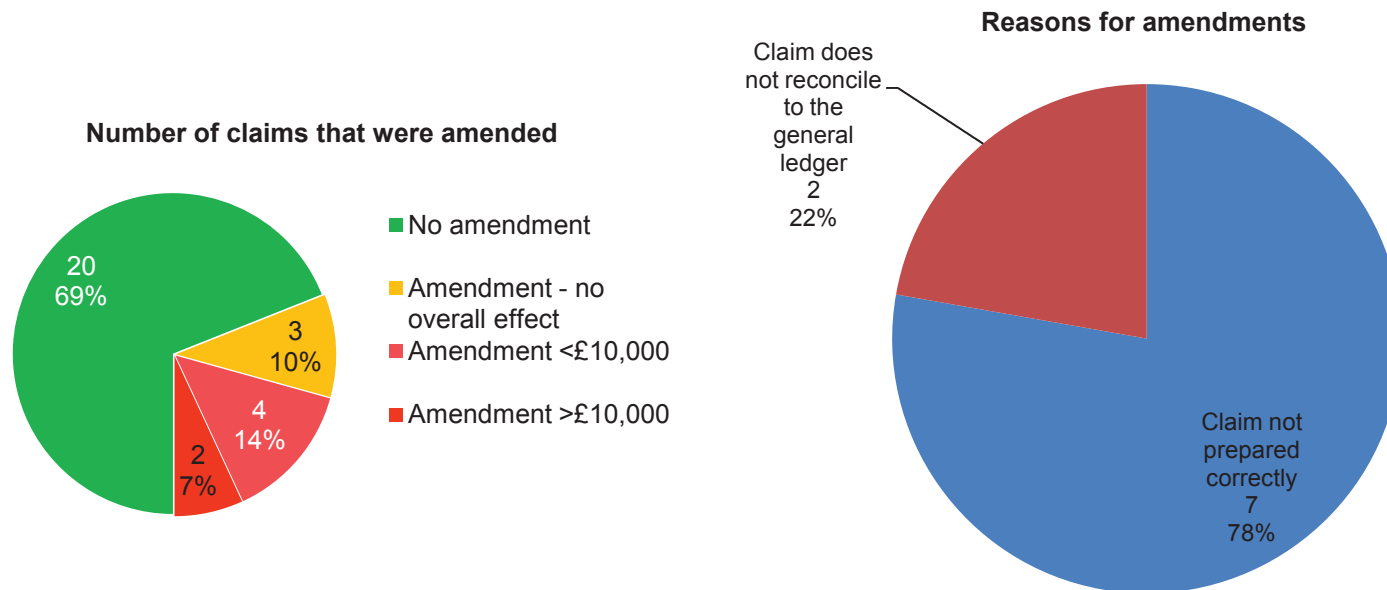
Number of claims that were qualified



11. 11 of the 29 claims certified were qualified. The qualifications covered claims with a value of approximately £336,827. A more detailed analysis of the qualifications raised on each claim is provided in Appendix 2.

31% of total claims were amended. The most common reason was because the claim was not prepared correctly. 2 claims were amended by over £10,000. The net effect of all amendments was an increase of £88,106 in the amounts claimed.

12. The charts below summarise the reasons why we amended claims:



13. 4 of the amendments led to an increase in the amount claimed by the Authority, totalling £88,114. 2 of the amendments led to a reduction in the amount claimed, totalling £8. 3 amendments had no effect on the amount claimed. The net effect was an overall increase of £88,106. A more detailed analysis of the amendments made to each claim is provided in Appendix 2.

The Authority had generally improved the arrangements in place for the production and submission of its 2011-12 grant claims. There is room for further improvement.

14. The Authority had a grants coordinator on site who worked closely with us to ensure that an accurate and up-to-date schedule of 2011-12 grants was in place throughout the year.
15. A joint working protocol was put in place prior to the start of the audit.

61% of claims were submitted on time.

16. 17 out of the 28 2011/12 claims were submitted by the submission deadline or earlier. 11 claims were submitted late, of which 7 were still completed by the certification deadline. 2 claims were certified after the certification deadline. The remaining 2 claims have not been submitted to date and are noted in appendix 4.

There were 2 less qualifications and the same number of amendments compared with 2010-11.

17. The Authority's performance is generally improving and the number of significant findings is low.

We recommend that the Authority reviews the areas where qualifications and amendments were made this year.

18. We have made 8 recommendations for the Authority to further improve performance in managing grant schemes and their associated claims.
19. The recommendations address the areas where we qualified or amended claims in 2011-12:
 - R1. All claim forms should be completed in full, in accordance with the completion guidance and independently checked to supporting documentation.
 - R2. Controls should be implemented to ensure that only eligible expenditure incurred within the claim period is included within the claim.
 - R3. All contracts to be funded by grant funding should be awarded in accordance with the Authority's standing order. A full contracts listing should be maintained for each grant claim together with copies of tender awarding documentation.
 - R4. A reconciliation should be performed prior to every audit to confirm that the figures in the claim agree to the general ledger and a copy of the reconciliation should be held on file.
 - R5. Timesheets should be completed and retained for all staff costs apportioned across a number of grant claims to ensure the accuracy of the time spend by each individual in respect of the relevant activity.
 - R6. Robust monitoring arrangements should be put in place to ensure that all funding passed to third parties is spent in accordance with the terms and conditions of the grant.
 - R7. The Authority should ensure that all invoices are appropriately filed to ensure adequate security whilst also ensuring that they are readily available for future reference. All internal re-charges should be supported by appropriate calculations.
 - R8. The Authority should ensure that the terms and conditions of the grant funding are carefully reviewed to identify any additional/specific requirements which must be complied with. Systems and processes should be implemented as appropriate to help to ensure that these requirements are satisfied.
20. We will continue to work with the Authority to make these improvements for 2012-13.
21. A detailed table of our recommendations is presented in Appendix 3.

Appendix 1

List of the grants we certified

2011-12 claims and returns

Ref	Name of grant or return	Value of claim or return	Change in value from 2010-11	Submitted on time	Audit result for 2011-12	Comparison with audit result from 2010-11	Audit fee 2011-12	Change in fee from 2010-11
1	Communities 1st Tudur (Core)	£150,363	+3.77%	On time	No amendment or qualification	Qualified	£1,881	-4.47%
2	Communities 1st Amlwch Port Ward (Core)	£153,544	+8.45%	On time	Amended	No amendment or qualification	£1,710	-3.12%
3	Communities 1st Central Office (Core)	£46,430	22.53%	On time	No amendment or qualification	Qualified	£1,965	-3.53%
4	Communities 1st Porthyfelin (Core)	£138,217	+6.36%	On time	No amendment or qualification	No amendment or qualification	£1,333	+0.76%
5	Communities 1st Morawelon (Core)	£145,007	-2.40%	On time	No amendment or qualification	No amendment or qualification	£1,608	-13.32%
6	Communities 1st Amlwch (Outcomes)	£64,012	+206.74%	On time	No amendment or qualification	No amendment or qualification	£1,412	-5.43%
7	Communities 1st Porthyfelin (Outcomes)	£20,938	+443.90%	104 days late	Qualified	Qualified	£1,484	-7.19%

Ref	Name of grant or return	Value of claim or return	Change in value from 2010-11	Submitted on time	Audit result for 2011-12	Comparison with audit result from 2010-11	Audit fee 2011-12	Change in fee from 2010-11
8	Transport grant	£345,100	-9.66%	On time	Qualified	Qualified	£3,220	-13.81%
9	Housing benefit and council tax benefit subsidy 2011/12	£23,467,913	+2.60%	Ongoing – refer to appendix 4	Ongoing – refer to appendix 4	Qualified	£30,237 – ongoing	-62.89%
10	NNDR	£14,669,193	+16.97%	On time	Amended and qualified	Amended and qualified	£9,631	-3.49%
11	Teachers pension return	£4,507,615	-0.82%	On time	Amended	No amendment or qualification	£3,317	-0.18%
12	Land drainage schemes	£1,204,938	N/A	On time	No amendment or qualification	N/A – new claim	£3,611	N/A
13	School effectiveness grant	£951,790	+50.59%	Ongoing – refer to appendix 4	Ongoing – refer to appendix 4	No amendment or qualification	N/A – ongoing	N/A
14	14-19 Learning pathways	£720,706	-0.19%	On time	Amended	No amendment or qualification	£2,395	-7.92%
15	Flying start	£563,466	-11.16%	On time	Amended	Qualified	£3,157	+5.98%

Ref	Name of grant or return	Value of claim or return	Change in value from 2010-11	Submitted on time	Audit result for 2011-12	Comparison with audit result from 2010-11	Audit fee 2011-12	Change in fee from 2010-11
16	Cymorth	£696,833	-40.81%	On time	Amended and qualified	Qualified	£3,997	+47.98%
17	Substance misuse action fund	£526,921	+0.96%	On time	No amendment or qualification	Qualified	£3,397	-0.85%
18	Welsh government learning disability strategy resettlement	£967,771	+0.90%	On time	Qualified	Qualified	£3,313	+49.37%
19	HRA subsidy	£2,000,522	-6.52%	On time	Amended	Amended and qualified	£4,675	+1.63%
20	Sustainable waste management	£1,911,343	-2.72%	On time	No amendment or qualification	No amendment or qualification	£2,631	+8.32%
21	Strategic regeneration areas	£130,000	-89.47%	On time	No amendment or qualification	No amendment or qualification	£3,963	-30.98%
22	Regional transport consortia grant	£538,000	N/A	On time	No amendment or qualification	N/A – new claim	£2,076	N/A
23	Free concessionary travel	£687,323	+5.10%	On time	Amended	Qualified	£2,428	+69.91%

Ref	Name of grant or return	Value of claim or return	Change in value from 2010-11	Submitted on time	Audit result for 2011-12	Comparison with audit result from 2010-11	Audit fee 2011-12	Change in fee from 2010-11
24	Anglesey airport	£331,732	+8.88%	On time	No amendment or qualification	No amendment or qualification	£1,051	+37.21%
25	Social care workforce development programme	£212,672	-33.03%	On time	No amendment or qualification	No amendment or qualification	£2,350	+2.66%
26	The development of Anglesey's coastal environment - EU convergence	£1,891,294	-9.23%	16 days late	Qualified	Amended and qualified	£5,536	+16.40%
27	Local investment fund EU convergence	TBC	-	Not started - refer to appendix 4	Not started - refer to appendix 4	Amended and qualified	N/A	N/A
28	Strategic sites and premises project	TBC	-	Not started - refer to appendix 4	Not started - refer to appendix 4	N/A - new claim	N/A	N/A

Claims and returns relating to earlier financial years:

Ref	Name of grant or return	Year of claim	Value of claim or return	Audit result	Audit fee	Reason for late certification
29	Communities 1st Maeshyfyd (Core)	2005/06	£137,377	Qualified	£2,288	Identification of numerous errors in the claim form resulting in additional audit work.
30	Communities 1st Maeshyfyd (Core)	2006/07	£120,084	Qualified	£1,495	Identification of numerous errors in the claim form resulting in additional audit work.
31	Capital Road Maintenance Fund	2009/10	£453,358	Qualified	£2,751	Identification of numerous errors in the claim form resulting in additional audit work.
32	Housing benefit and council tax benefit	2010/11	£22,873,539	Amended and qualified	£81,470 *(£30,237 incurred in 2011/12)	Identification of numerous errors in the claim form resulting in additional audit work.
33	Communities 1st - Porthyfelin (Outcomes)	2010/11	£3,850	Qualified	£1,599	Submitted late

Appendix 2

Schedule of amendments and qualifications

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
1	Communities 1st Amlwch Port Ward (Core)	N/A	-	Typographical error in columns 2 and 5 in the co-ordinator salary line.	No impact on amounts spent or received

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
2	Communities 1st Porthyfelin (Outcomes)	<ul style="list-style-type: none"> No supporting documentation could be provided to support one of the three petty cash during testing. No approval had been sought from the Welsh Government for the disposal of all assets in the claim period. No proceeds were obtained from the disposals of assets as they had either been scrapped or were deemed obsolete. The actual match funding amount used per the transaction listing provided does not agree to the amount noted in column 15 of the claim form. The actual match funding amount used is still below the original amount agreed in the offer letter. In addition, the match funding element of the claim represents 58% of the total amount spent, above the 50% benchmark as stated in paragraph 48 in CI RG01. Both expenditure amounts are below the amounts stated in the offer letter agreed with the Welsh Government. 	£1,232.13	N/A	-

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
3	Transport grant	<ul style="list-style-type: none"> • During testing of prime documents we selected an expenditure item with a value of £88,839.61 which represented the original quote for a piece of work relating to an approved scheme. This amount was claimed in full as part of the grant, however only £72,378.02 was subsequently invoiced, resulting in a difference of £16,461.59. • In addition, it was noted that only £12,124.80 of the total amount invoiced of £72,378.02 related to the year 2011/12, with the remaining amount of £60,253.22 being attributable to the year 2012/13. The Authority has not amended the 2011/12 return. 	£76,714.81	N/A	-

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
4	NNDR	<p>Errors noted with implementation of the following reliefs;</p> <ul style="list-style-type: none"> • Mandatory charitable relief. • Community Amateur Sports Club (CASC) – Lines 6.5 and 6.6. • Empty premises – Lines 11 and 12 • Discretionary top-up relief – Lines 17 and 18 	£8,412.80	The authority has not included amounts in respect of adjustments from payments deferred from 2009/10	£3,003.00
5	Teachers pension return	N/A	-	Amendment in respect of a calculation error in the total actual contributory salary – other payroll providers line (line 3) and has no impact on the overall balance in lines 5a and 5b.	(£5.38)
6	14-19 Learning pathways	N/A	-	Amendments in respect of the analysis of grant allocation between the Welsh Medium and Welsh Medium Forum categories, which has been changed to reflect the analysis in the completion instructions. The total of the two remains unchanged and has no impact on the amounts spent or received.	£NIL

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
7	Flying start	N/A	-	Amendment in respect of correcting the allocation of the total expenditure across each funding stream recorded within column B of the Table of funding streams. The total actual eligible expenditure 2011-12 is unchanged from the original submission.	£NIL
8	Cymorth	<ul style="list-style-type: none"> The work performed for this year's claim included confirmation that signed SLAs were agreed with all Cymorth partners. However, the SLAs were completed between June and September 2011, which does not cover the full period of the claim. Consequently, SLAs were not in place for all expenditure incurred within this claim. It was noted that one item of expenditure tested was incurred in August 2012, after the claim period end of 31 March 2012. The Authority investigated this exception and identified two further instances. The total of these exceptions is £55,569.50. 	£55,569.50	Correcting the total expenditure across each project recorded within column B of the table of projects. The total actual eligible expenditure 2011-12 has increased by £33,901.64 from the original submission to £696,832.64.	£33,901.64

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
9	Welsh government learning disability strategy resettlement	<ul style="list-style-type: none"> The total claimed expenditure includes £65,960 relating to the apportioned salary costs of four officers. The percentage of total salary apportioned is not supported by timesheets and we have not therefore been able to confirm that the percentage allocated to the grant is a fair reflection of the actual time spent by the officers on the grant project. We have therefore been unable to conclude whether or not the apportionments are on a fair basis. This issue was also raised following our audit of the prior year claim. Expenditure for this claim is incurred by the authority and one third party organisation. The authority was not able to supply to us a signed copy of this Service Level Agreement with the partner. Consequently, we are unable to confirm whether a SLA was in place at the time that the expenditure included within this claim was incurred. 	£NIL	N/A	-

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
10	HRA subsidy	N/A	-	<ul style="list-style-type: none"> Opening capital funding requirement should be used as basis to calculate cell 0385 rather than opening subsidy capital financing requirement. The authority used the average rather than an actual number of dwellings to calculate a number of cells. Various amendments were made due to incorrect values picked up from working papers and from the prior year claim. 	£3,657.00
11	Free concessionary travel	NIL	-	We note that the total being claimed by the authority was originally £687,324.00. The authority's underlying records indicate this amount should be £687,322 and so an amended form has been completed.	(£2.00)

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
12	The development of Anglesey's coastal environment - EU convergence	<ul style="list-style-type: none"> • Expenditure transactions not defrayed by the end of the claim period, and as such did not constitute eligible expenditure. • Targeted match funding income not received during the claim period. • Classification error within the marketing and promotion expenditure sub-categories 	£46,401.09	N/A	-

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
13	Communities 1st Maeshyfryd (Core) 2005/06	<ul style="list-style-type: none"> • A number of virements over £2,000 are recorded on the claim form. Retrospective approval of these virements was obtained in 2011, however the Authority was unable to provide evidence to demonstrate that the prior written agreement of the Assembly was obtained prior to the virements being processed. • Non compliance with standing order for awarding contracts - contracts awarded without obtaining three quotations. • Ineligible expenditure. • Inadequate documentation to support expenditure claimed (mislaidd invoices). • Inadequate documentation to support expenditure claimed (internal recharges without adequate supporting documentation). • Asset register has not been maintained for assets purchased under this grant. 	£17.909.00	N/A	-

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
14	Communities 1st Maeshyfyrd (Core) 2006/07	<ul style="list-style-type: none"> • One virement of £3,450 is recorded on the claim form, however the Authority was unable to provide evidence to demonstrate that the prior written agreement of the Assembly was obtained prior to the virement being processed. • Ineligible expenditure. • Inadequate documentation to support expenditure claimed (internal recharges without adequate supporting documentation). • Asset register has not been maintained for assets purchased under this grant. 	£7,667.00	N/A	-
15	Capital Road Maintenance Fund 2010/11	We noted two items of expenditure as part of our testing of prime documents which related to projects not either initially or subsequently approved by the Welsh Government. The total of these items of expenditure is £75,111.01.	£75,111.01	N/A	-
16	Housing benefit and council tax benefit 2010/11	<ul style="list-style-type: none"> • Claim not prepared correctly. • Ineligible expenditure. 	£46,254.38	Claim not prepared correctly.	£47,552.00

Ref	Name of grant or return	Reason for qualification	Potential value of qualification	Reason for amendment	Value of amendment
17	Communities 1st - Porthyfelin (Outcomes) 2010/11	Inadequate evidence of monitoring of funding passed to third parties.	£1,554.90	N/A	-
Total:			£336,826.62		Total: £88,106.00

Appendix 3

Table of recommendations

We have given each of our recommendations a rating from the following scale:

Priority 1	Priority 2	Priority 3
Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Recommendations:

Ref	Issue	Implication	Recommendation	Priority Level	Management Comment	Responsible officer and target date
R1	Claim not prepared correctly.	<ul style="list-style-type: none"> Arithmetic errors. Transposition errors between expenditure breakdown and claim. Empty cells. Claim completion guidance not adhered to. Incorrect classification. 	All claim forms should be completed in full, in accordance with the completion guidance and independently checked back to supporting documentation.	2	There is a procedure that requires that all final claims submitted for audit are independently reviewed. This existing procedure will be updated for issues raised and reissued to the team. There is an expectation that audit working papers have to be compiled at this point to ensure that supporting documentation is checked and reconciled to claim and to the grant conditions and certification instructions. This will be highlighted in the revised procedure document.	Grants Coordinator 30 September 2013

Ref	Issue	Implication	Recommendation	Priority Level	Management Comment	Responsible officer and target date
R2	Ineligible expenditure included.	<ul style="list-style-type: none"> Activity outside the claim period. Items of expenditure not related to the intended purpose of the grant. 	Controls should be implemented to ensure that only eligible expenditure incurred within the claim period is included within the claim.	1	<p>The issue of claiming grant on expenditure made in the following year related to a particular contract and the underlying cause has been resolved.</p> <p>Difficulties remain on grants where their year end cut-off is different from the accounting cut-off. The procedure will be updated to reflect this issue (see R1).</p>	Grants Coordinator 30 September 2013
R3	Non compliance with standing orders for awarding contracts.	<ul style="list-style-type: none"> Contract listings not maintained. Contracts awarded without obtaining three quotations / tenders. 	All contracts to be funded by grant funding should be awarded in accordance with the Authority's standing order. A full contracts listing should be maintained for each grant claim together with copies of tender awarding documentation.	1	Audit Workshop to be delivered on an annual basis to provide advice to Project Managers and reinforce the compliance issues. Grants Protocol to be issued which also outlines the need to comply with contract procedure rules. Heads of Service to ensure compliance.	Grants Coordinator 30 September 2013 Heads of Service Ongoing

Ref	Issue	Implication	Recommendation	Priority Level	Management Comment	Responsible officer and target date
R4	Claim does not reconcile to the general ledger.	<ul style="list-style-type: none"> • Use of estimated figures. • Manual adjustments made to claim forms but not reflected in the general ledger. 	A reconciliation should be performed prior to every audit to confirm that the figures in the claim agree to the general ledger and a copy of the reconciliation should be held on file.	1	Full reconciliation to ledger and supporting documentation will be carried out prior to submission of the final claim and will be checked as part of the review process as outlined in R1.	Grants Coordinator 30 September 2013
R5	Inadequate evidence to support the apportionment of staff costs to the claim.	Lack of staff timesheets.	Timesheets should be completed and retained for all staff costs apportioned across a number of grant claims to ensure the accuracy of the time spend by each individual in respect of the relevant activity.	2	Issue of staff time recording will be raised with Departments on an individual project level. The issue will also be taken up with WG. Recording of staff time is also covered in the Grants Protocol.	Grants Coordinator 30 September 2013

Ref	Issue	Implication	Recommendation	Priority Level	Management Comment	Responsible officer and target date
R6	Inadequate evidence of monitoring of funding passed to third parties.	Monitoring arrangements not in place or inconsistent.	<p>Robust monitoring arrangements should be put in place to ensure that all funding passed to third parties is spent in accordance with the terms and conditions of the grant. These should include:</p> <ul style="list-style-type: none"> • Signed SLA's in place with all partners; • Quarterly monitoring reports to be provided by the partner to the Authority; • Periodic visits to partners and spot checking of eligibility on a sample basis; and • Agreement of targets and key performance indicators with partners to monitor outcomes. 	1	Where there are failures in monitoring systems it will be raised with the Project Managers and monitoring systems put in place by the Grants Co-ordinator. 3rd Party Monitoring is also covered within the Audit Workshop and the Grants Protocol. Project Managers to ensure compliance.	<p>Grants Coordinator 30 September 2013</p> <p>Project Managers Ongoing</p>

Ref	Issue	Implication	Recommendation	Priority Level	Management Comment	Responsible officer and target date
R7	Inadequate documentation to support expenditure claimed.	<ul style="list-style-type: none"> Mislaid invoices. Internal re-charges without adequate supporting evidence / justifications. 	The Authority should ensure that all invoices are appropriately filed to ensure adequate security whilst also ensuring that they are readily available for future reference. All internal re-charges should be supported by appropriate calculations.	1	<p>It is rare that invoices are mislaid as there is an adequate filing system, however the introduction of a new ledger system will ensure that all invoices are scanned and retained electronically as a pdf. Storage of paid invoices for previous years will be part of the corporate information governance project.</p> <p>It is also rare that internal recharges cannot be evidenced but internal recharges will be checked for appropriateness before being included in the final claims.</p>	<p>N/A In place April 2013</p> <p>Grants Coordinator In place April 2013</p>

Ref	Issue	Implication	Recommendation	Priority Level	Management Comment	Responsible officer and target date
R8	Non compliance with specific terms and conditions of individual grants.	Inadequate attention given to the specific requirements of individual grant claims.	The Authority should ensure that the terms and conditions of the grant funding are carefully reviewed to identify any additional/specific requirements which must be complied with. Systems and processes should be implemented as appropriate to help to ensure that these requirements are satisfied.	1	The Grants Protocol requires Project Managers to review grant terms and conditions prior to acceptance by an authorised officer. These will also be risk assessed by the Service Accountant or Grants Co-ordinator and any potential areas of risk identified will be followed up with the Project Managers. This topic is also covered in the Grants Audit Training.	Grants Coordinator 30 September 2013

General – Internal Audit Review of Grants Processes has been commissioned the recommendations of which will be implemented over the next 6 months which will also help to address the issues raised in the report.

Appendix 4

Remaining work

Ref	Name of grant or return	Year of claim	Value of claim or return	Current status
1	Housing benefit and council tax benefit subsidy 2011/12	2011-12	£23,467,913	Ongoing following late submission of the 2010/11 grant due to significant additional audit work required following the identification of numerous errors in the claim form.
2	School effectiveness grant	2011-12	£951,790	Ongoing due to the significant additional audit work required following the identification of numerous errors in the claim form.
3	Local investment fund EU convergence	2011-12	TBC	Submitted late
4	Strategic sites and premises project	2011-12	TBC	Submitted late



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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	23 JULY 2013
TITLE OF REPORT:	RISK MANAGEMENT & INSURANCE
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. These documents will be reviewed and amended to reflect the changes in reporting and management arrangements once these are confirmed.
- 2.2 Risk Management training was delivered to Members on 6th November 2012, and 8th July 2013.
- 2.3 The role of the Risk Management Group has been incorporated into the Performance Review Group which meets on a monthly basis and has representatives from Transformation, Performance, Internal Audit, Finance, ICT, Property, Risk & Insurance, and Health & Safety.
- 2.4 The Risk & Insurance Manager continues to support Heads of Service to develop their Service Risk Registers, although progress on the same has been affected by the Heads of Service Review.

3. CORPORATE RISK REGISTER

- 3.1 The Performance Review Group reviewed the Service Risk Registers and the Corporate Risk Register on the 2nd July 2013. I have reviewed their recommendations and the Corporate Risk Register and a revised version is attached to this report at Appendix A.

3.2 The review has identified the following as the Council top risks:-

- YM8 Failing to plan for a significant reduction in funding from 2015/2016
- YM33 Failing to provide services within the budget provided
- YM31 Risk of not being compliant with Data Protection legislation
- YM36 Failing to plan for the impact of the effects of reforms in the health sector

3.3 The Corporate Risk Register will always be a living and developing document and will continue to be reviewed and updated as required.

4. INSURANCE CLAIMS

4.1 The Council's claims experience for the period 1st April 2007 to 31st March 2013 is attached to this report at Appendix B. Please note that the report is based on the incident date of the claim and not the claims made basis.

4.2 Of significance is the 40% increase in public liability claims received by the Council during 2012/2013. This is attributable to claims for damage to vehicles due to the condition of the Council's roads. At this stage it would be premature to comment on the financial effects of the same.

4.3 There has also been a 100% increase in claims involving the Council's fleet of vehicles. This cannot be attributed to any single service area but appear to be due to an increase in driver error, both by our drivers and other road users, and inclement weather.

5. RECOMMENDATIONS

5.1 The Committee is requested to consider the Corporate Risk Register and note the insurance claims experience.

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 Lack of compliance with policies and procedures New systems not being fully embedded Having weak Business Planning, Risk Management and Performance Management arrangements Inadequate and ineffective communications 	<ul style="list-style-type: none"> Objectives not met Reputational damage / criticism from regulators Further intervention Uncertainty Low morale Inappropriate decision making Ineffective use of resources Lack of accountability, compliance and assurance 	3	5	15	<ul style="list-style-type: none"> Provide all Members with in-depth induction and briefings Implement the Transformation Plan and fully embed the roles of the Transformation Boards Preparation and production of Annual Governance Statement Embedding the Corporate Planning and Performance Management arrangements Embedding the self-assessment framework Implement the findings of the internal communications report 	<ul style="list-style-type: none"> Carys Edwards Danielle Edwards Einir Thomas Gethin Morgan Gethin Morgan Gwen Sion 	<ul style="list-style-type: none"> July 2013 March 2014 				Quarterly
YM1	Chief Executive	10/2011	Failing to collaborate effectively with others to benefit the Council	<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) Failing to make savings 	4	3	12	<ul style="list-style-type: none"> Agree a statement on the Council's response to collaboration, including a definition for collaboration Decide which collaboration frameworks are worth buying into 	<ul style="list-style-type: none"> Richard Parry Jones SLT 	<ul style="list-style-type: none"> On-going 				Quarterly
YM8	HoF (Resource)	10/2011	Failing to plan for a significant reduction in funding from 2015/2016	<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 Inability to support vulnerable groups and individuals 	5	5	25	<ul style="list-style-type: none"> Development of a Medium Term Financial Plan which is updated quarterly Identify demographic pressures Monitor grant reduction and develop grant exit strategies Review the budget setting process Develop and implement an Efficiency Strategy 	<ul style="list-style-type: none"> Clare Williams Clare Williams Clare Williams Clare Williams 	<ul style="list-style-type: none"> October 2013 October 2013 October 2013 October 2013 				Quarterly
YM33	HoF (Resource)	01/2013	Failing to provide services within the budget provided	<ul style="list-style-type: none"> Declining budgets Increased demand for service Lack of timely financial management / budgetary control information Increased energy costs (market forces) Weak workforce planning arrangements Impact of large scale projects (e.g Wylfa, Energy Island) Budget deficits within some schools 	<ul style="list-style-type: none"> Reduction in services provided in future years Reputational damage Lack of improvement in key areas Lack of Capacity and / or capability to undertake the Council's workload Further intervention from WG (especially in relation to schools) 	5	4	20	<ul style="list-style-type: none"> Review the budget setting process Embed the new financial systems (ledger etc) Establish a new financial reporting process Establish a new financial monitoring process Review the services being provided See also risks YM5, YM22, YM23 and YM37 	<ul style="list-style-type: none"> Clare Williams Richard LI Jones Clare Williams Clare Williams 	<ul style="list-style-type: none"> October 2013 June 2013 Sept 2013 				Quarterly
YM32	Deputy Chief Executive	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 	4	3	12	<ul style="list-style-type: none"> Agree timetable and implement Appoint and retain suitable staff to undertake the project 	<ul style="list-style-type: none"> Carys Edwards Carys Edwards 	<ul style="list-style-type: none"> April 2014 April 2013 				Quarterly
YM34	Deputy Chief Executive	01/2013	Failing to reach agreement in relation to equal pay claims submitted to date	<ul style="list-style-type: none"> Delays in completing JE Recent Scottish cases Inequality in pay levels 	<ul style="list-style-type: none"> Reputational damage Increased financial costs in terms of settling or defending the claims and increased future earnings 	3	4	12	<ul style="list-style-type: none"> Prepare and implement strategy 	<ul style="list-style-type: none"> Carys Edwards 	<ul style="list-style-type: none"> May 2013 				Quarterly
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	<ul style="list-style-type: none"> Review use of land and buildings and value for money, linking into the work of the Smarter Working Group Prioritise all repairs and maintenance expenditure on the bases of a risk matrix Develop and implement an asset disposal strategy See also risks YM1, YM5, YM8, YM23, YM37 and YM38 	<ul style="list-style-type: none"> Clare Williams & Mike Barton Mike Barton Mike Barton 	<ul style="list-style-type: none"> Oct 2013 On-going On-going 				Quarterly

Page 113

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	
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	Develop and implement an ICT Strategy	Barry Eaton					Quarterly
									Identify all current systems and establish how they integrate with each other	Barry Eaton	Sept 2013				
									Review any gaps and what additional systems are required to fill these	Clare Williams	March 2014				
									Deliver the Information Governance Project (taking account of the findings of the ICO Audit)	Huw Pritchard					
YM31	HoF Legal and Administration	08/2012	Risk of not being compliant with Data Protection legislation	<ul style="list-style-type: none"> Insecure systems Human error Inadequate storage / disposal arrangements Lack of corporate leadership Inadequate DP governance arrangements 	<ul style="list-style-type: none"> Damage to reputation Financial Penalties in terms of fines issued by the ICO 	5	4	20	Implement and embed the role of the SIRO	Huw Pritchard					Quarterly
									Deliver the Information Governance Project (taking account of the findings of the ICO Audit)	Huw Pritchard					
YM20	Director of Sustainable Development	10/2011	Not being able to deliver services following a major event (e.g. civil emergency, major flooding etc)	<ul style="list-style-type: none"> No effective Business Continuity Plans in place Lack of effective Emergency Plans in place Lack of appreciation of the statutory requirements and consequences Lack of capacity Reliance on ICT systems and networks 	<ul style="list-style-type: none"> Unable to respond appropriately Service disruption Council not fulfilling its role under the Civil Contingencies Act Damage to reputation Recovery prolonged 	2	4	8	Embed BCM so that it becomes an integral part of Service activities	Heads of Service	Oct 2013				Quarterly
									Develop an ICT BCM plan	Barry Eaton					
									Exercise and review BCM arrangements	Heads of Service	On-going				
									SLT to implement 'Gold Command' structure	Bethan Jones	Sept 2013				
									Executive to agree to provision of North Wales regional service to be hosted by Flintshire	Bethan Jones	March 2013				
Regional Implementation Team to bring forward proposals to reduce residual risk levels and establish new service	Bethan Jones	Oct 2013													
YM15	Head of Function (Resources)	10/2011	Failure to plan for and support individuals affected by the 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 (rent arrears have increased by £52k since April 2013) 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	Deliver the Welfare Reform Project	Shân Lloyd Williams	Aug 2013				Quarterly
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 Demand and supply imbalance in relation to school places WG and external regulators expectations Lack of funding to deliver services and improvements Leadership capacity 	<ul style="list-style-type: none"> Further external intervention Education services removed from control of Anglesey 	3	5	15	Progress against each of the action points noted in the PIAP monitored on a regular basis and reported to the Education and Leisure Committee.	Dr Gwynne Jones	On-going				Quarterly
									Interim report on surplus places in both primary and secondary sectors produced, highlighting revised figures for surplus places and possible rooms in specific schools that could be used to house area based staff.	Dr Gwynne Jones	Completed				
									Complete consultation in specific areas	Dr Gwynne Jones	Completed				
									Outline strategic plan for school modernisation agreed by SLT	Dr Gwynne Jones	Completed				
YM25	Director of Lifelong Learning	08/2012	Failing to respond to the Estyn report in relation to Ysgol Uwchradd Caerdybi, 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	Detailed post inspection plan [PIAP] developed.	Dr Gwynne Jones	Completed				Quarterly
									Progress against PIAP monitored on a regular basis.	Dr Gwynne Jones	Completed				

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	
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 Significant reduction in the Supporting People grant 	<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 Increase in homelessness, especially amongst vulnerable adults 	3	4	12	Deliver the Older Adult Social Care Programme	Anwen Davies	Sept 2016				Quarterly
									Confirm criteria for eligibility of support and ensure that all new care plans meet this criteria	Anwen Davies	March 2013				
									Review all current care plans	Anwen Davies	On-going				
									Strengthen the architecture of community based service delivery particularly around intervention	Anwen Davies	Sept 2016				
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	Weekly operational managers' meeting to manage delivery risks of key PIs	Anwen Huws	Ongoing				Quarterly
									Weekly meeting of Senior Accommodation Panel to manage out of county placements	Anwen Huws	Ongoing				
									Monthly meeting of CS Management Team manage and mitigates issues such as finance, staffing, sickness and partnership working	Anwen Huws	Ongoing				
									Monthly meeting of multi-agency Service Improvement Board provides scrutiny and challenge on range of performance and service risks, and monitors the Service Improvement/Business Plan	Anwen Huws	Ongoing				
									Quarterly Quality Assurance Board manages issues of customer needs, complaints and risks associated with quality of delivery	Anwen Huws	Ongoing				
									Task group established to develop improved data security	Anwen Huws	Ongoing				
									Comprehensive Service Improvement Plan with clear actions, targets and responsibilities	Anwen Huws	Ongoing				
									Improvements achieved in relation to protection, safeguarding, looking after and after care, as well as service management.	Anwen Huws	Ongoing				
External guidance provided when required (such as the Independent Support Team) to provide objective risk assessment of service delivery.	Anwen Huws	Ongoing													
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 Effects of Welfare Reforms 	<ul style="list-style-type: none"> Targets not met Increase in demand for other services (homeless, social services etc) A shortage of 1-2 bedroom properties on the Island, which makes downsizing a problem, and will inevitably lead to an increase in rent arrears and homelessness. 	3	3	9	Quarterly meetings set up with Development Directors of the 3 RSLs zoned to work on Anglesey, which forward planned developments for 3 years, and monitors each scheme whilst on site, trouble shoots any identified problems.	Shân Lloyd Williams	On-going				Quarterly
									Rural Housing Enabler Group focused on identifying housing need, and have a focused action plan, reviewed annually	Shân Lloyd Williams	On-going				
									Local housing needs survey undertaken and follow-on work , working with Community and Town Councils	Shân Lloyd Williams	On-going				
									Positive dialogue channels developed with WG Officers, to maximise grant spend	Shân Lloyd Williams	On-going				
									Investigating alternative ways of funding affordable housing developments, including use of HRA and Council-owned land.	Shân Lloyd Williams	On-going				
									Local Housing Market assessment drafted to present to Elected Members and SLT	Shân Lloyd Williams	June 2013				
									Strengthen working relationship with Social Services to ensure that accommodation needs are fed to the relevant officers in Housing Services and considered in discussions with RSLs	Shân Lloyd Williams	On-going				

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	
YM37	Director of Community	08/2012	Failure to plan for access to leisure and libraries 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 Lack of strategy 	<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	Agree and implement a Leisure Strategy Agree and implement a Libraries Strategy	Gwen Carrington					Quarterly
YM29	Director of Sustainable Development	10/2011	Failure to meet Waste Management targets	<ul style="list-style-type: none"> More stringent statutory targets Lack of stakeholder participation 	<ul style="list-style-type: none"> Impact on funding available Financial penalties 	1	4	4	Evaluating current waste and recycling options with a view of implementing a more effective collection system resulting in higher recycling rates Redeveloping the household waste recycling centres Continue to promote waste minimisation and recycling to encourage stakeholder participation	Dewi Williams	March 2014				Quarterly
YM36	Director of Community	01/2013	Failing to plan for the impact of the effects of 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	Set up Project Board to develop and implement a transformation and modernisation plan for the service Work in partnership with Health in specified areas to ensure that impacts are limited Undertake a study to establish the potential long term population needs and the cost of service provision	Anwen Davies	Sept 2016				Quarterly
6SM4	Director of Sustainable Development	07/2013	Risk of injury or illness to employees	<ul style="list-style-type: none"> Lack of appreciation of the importance of health & safety Health & safety breaches Uncertainty in relation to change 	<ul style="list-style-type: none"> Harm to staff (including those covering those on sick leave) Increased costs Fines / prosecution Service continuity compromised Reduced capacity 	2	4	8	Establish an effective health & safety Steering Board Develop and adopt a Health & Safety Strategy Adopt and enforce a Health & Safety Roles and Responsibilities document Develop and implement Annual Health & Safety Plans Monitor that risk assessments are completed and effective	Steve Nicol	July 2013				

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	23 JULY 2013
TITLE OF REPORT:	INFORMATION MANAGEMENT AND DATA SECURITY UPDATE
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER
ACTION:	For noting

1. INTRODUCTION

- 1.1 The Committee has been kept informed of progress made in addressing significant control weaknesses identified in five regulatory reports in the area of Information Management, Information Governance and data security. The WAO reported on Information Management arrangements at the Council in June 2012 and PWC published a report on Information Governance arrangements at the Council in May 2011. Internal Audit issued reports on Modern Records Management, Data Security and Business Continuity in 2012.
- 1.2 In The Annual Improvement Report relating to the IOACC published this year the WAO stated that the 'Council's arrangements for the management of its information asset limit the Council's ability to improve.'

2. BACKGROUND

- 2.1 As a number of the findings and recommendations from these reports are of a similar nature, management consider that the reports are best addressed as a whole rather than individually. Therefore a review of the action plans from all five reports was undertaken to consolidate actions into the main areas where improvement is required.
- 2.2 In September 2012 the Deputy Chief Executive set up a Project Group to lead on the implementation of the recommendations made in the five regulatory reports headed by the then Interim Head of Resources (Gill Lewis).

3. CURRENT DEVELOPMENTS

- 3.1 Following breaches of the Data Protection Act 1998 by the Council formal Undertakings were made by the Council under this Act with the Information Commissioner's Office in January 2011 and December 2012. As a result the Council agreed to the ICO carrying out a consensual audit of the Council's arrangements for the processing of personal data.

3.2 The Information Commissioner's auditors undertook field work in relation to a consensual audit of the Council's processing of personal data during the first week of July 2013. Their report is expected to re-iterate and possibly add to the recommendations made in the previous regulatory reports.

3.3 In May 2013 an Information Governance meeting was held and in the light of the Information Commissioner's then forthcoming audit it was agreed that a project on information governance would be initiated covering the areas of:

- Information Management (ICT Audit and security; Records Management and Information security policy training);
- Review of arrangements for confidential waste;
- Review of access to HQ building; and
- Schools handling of information.

This project will include progressing the action plan that is expected from the Information Commissioner's consensual audit.

John Fidoe
Audit Manager

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	23 JULY 2013
TITLE OF REPORT:	INTERNAL AUDIT ANNUAL REPORT 2012/13
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER
ACTION:	NONE

1. INTRODUCTION

1.1 The following report summarises the work of the Internal Audit Section for 2012/2013. The Audit Manager makes regular progress reports in year to the Audit Committee which allows an on-going evaluation of the overall internal control framework as reflected within Audit coverage.

2. OUTPUT GENERATED DURING THE YEAR

2.1 The following table gives a comparison of the planned number of audits with the actual audits carried out. As in any year, in 2012/13 it was necessary to amend the audit plan to take account of various factors throughout the year. Again this year, these factors mainly related to additional work being required to meet emerging risks and referrals. One referral in this period was particularly resource intensive and took up the equivalent of 50% of an Auditor’s available programmed time against the Plan.

Analysis of Planned and Actual Audits Carried Out During 2012/2013

Status of Report	Original Number Planned	2012-13 Plan Reports Issued	Other Reports Issued
2012-13			
Final	63	33	13
Draft		5	0
Nearing Draft		7	0
2011/12			
Final		2	
TOTAL	63	47	13






2.2 In all 60 reviews (Final and Draft/nearing Draft) were carried out during 2012/2013, compared to 61 the previous year. The total, therefore, is comparable to 2011/12. This figure includes an additional thirteen Final Reports issued in 2012/13 which were not originally planned for this period but were necessary for risk and / or compliance purposes or as the result of work relating to referrals.

2.3 The additional thirteen reviews in part replaced the reviews in the 2012/13 Operational Plan not started in the period. Of these reviews not started: six were postponed due to assurance provided by other third party assurance providers or due to the level of materiality in relation to other areas of audit concern. Six areas had not progressed as envisaged in the period and, therefore, work in 2012/13 was postponed and in four areas we had hoped to use the Corporate Risk Register as the basis of our work but were unable to do so due to its status during 2012/13. The remaining eleven reviews were postponed due to the additional workload in year and all of these have been carried forward to be included in the 2013/14 Internal Audit Operational Plan.

- 2.4 All the key financial reviews in the plan were completed in final or draft format and forwarded to the External Auditor in March 2013.
- 2.5 Although work is planned to be carried out in individual years in the strategic and annual plans, individual jobs do carry forward from one year to the next, particularly the larger audits or audits which commence close to the end of the financial year. This is reflected in the fact that at the end of the period there were five draft reports awaiting finalisation and seven reviews which were still work in progress. These reviews will be completed in the first quarter of 2013/14.

3. PERFORMANCE INDICATORS

- 3.1 Each year the Council's Internal Audit Service participates in pan Wales benchmarking against indicators relating to cost and output. This benchmarking is carried out in May / June each year and, therefore, the results for 2012/13 were not available in time to be included in this annual report.
- 3.2 When the results are published they will be included in the next Internal Audit progress report thereafter.
- 3.3 Internal Audit Service performance against internal targets is reported to each Audit Committee as part of the Internal Audit Progress Report. For the period 01 April 2012 to 31 March 2013 the performance against internal targets was as follows:

Performance Measure	Target 2012/13	Actual for Period	Target Status
% of 2012/13 audit plan completed to draft in year (63 reviews in original plan – of which 4 were removed from plan as not being necessary / possible in year – leaving 59 possible reviews). Performance: 5 to Draft in period; 33 Finals and 7 WIP nearing draft from 2012/13 and 3 alternative reviews from referrals - Total = 48 reviews substantially completed.	90%	81%	
Overall customer satisfaction levels from questionnaires.	90%	100%	
% of High & Medium IA recommendations implemented – from 01/04/10 as at 03/04/13.	80%	53%	
Number of planned reviews of Identified High Corporate Risk Areas. <i>*NB – The progress and status of the CRR precluded the carrying out of a number of these reviews in period.</i>	8	2*	
Two Audit Committee Training Sessions in period.	2	2	

3.4 The percentage of High and Medium recommendations implemented is below target at 53%; however the percentage of High recommendations implemented is higher at 74%. Internal Audit will carry out a review of outstanding recommendations in April 2013 and will again in 2013/14 be working with Services to update the 4Action system with the latest implementation data which it is hoped will show an improvement against target.

4. OVERALL CONCLUSION ON THE AREAS AUDITED

4.1 Table 1 shows the number of reviews undertaken in 2012/13 for which an opinion of either Green; Green/Amber; Red/Amber or Red opinion was given and includes the definition for each assurance level. The table also includes the number of advisory/ referral reviews undertaken;

Table 1

RAG Opinion/ Grade	What is meant by the RAG Opinion/Grade	System/ Risk 2012/13	Schools 2012/13
Green	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.	6	0
Green Amber	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.	6	3
Red Amber	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.	2	0
Red	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.	3	0
Advisory/ Referral	Advisory review designed to provide best practice advice – No formal opinion.	13	0
Total		30	3

4.2 The overall grades based on all the work carried out are:

- System/Risk reviews average of 'Green Amber' for 2012/13 which although is positive assurance is a lower average opinion that the 'Green' recorded for 2011/12; and
- School reviews average of 'Green Amber' for 2012/13 which is again a lower average opinion that the 'Green' recorded for 2011/12.

4.3 Both grades for systems and schools of 'Green Amber' Audit Opinions translate to a minimal to low risk to the Authority, based on the scope of the work carried out, the action recommended to management being implemented and those systems continuing to operate as intended.

4.4 The Audit Manager is, however, aware of areas where significant weaknesses in control would prevent the Council placing reasonable reliance on the systems of internal control in respect of those systems reviewed during the year. These areas were:

- **Business Continuity** – Recommended actions to strengthen controls in this area have been collated from a number of assurance provider reports, including those of Internal Audit and have been included in a Corporate Information Management Action Plan. A Project Group was set up in September 2012 to determine the best approach to implementing the required actions identified. At the end of 2012/13 the work of the Project Group was on going. The Council still does not have a formal ICT Disaster Recovery Policy and work was still in progress at the end of the period to finalise the Council's Business Continuity arrangements.
- **Risk Management** - The Council is in the process of developing its Risk Management Framework and, in September 2012 the Audit Committee recommended the adoption of the draft Risk Management Strategy and Draft Guidance to the Executive. The Executive subsequently adopted the Strategy and Guidance at its meeting held on 15 October 2012. The period also saw a joint Audit and Scrutiny Committee Risk Management training session. The Risk Management Work Group has yet to consider new and emerging risks or to review the Service level Risk Registers.

Work has progressed on the Corporate Risk Register but at the end of the period the Corporate Risk Register still lacked recorded mitigating actions and calculated residual risk scores. Discussions were still on going as to the reporting of the Corporate Risk Register when it is in a more complete format.

- **Governance** - Issues relating to non-compliance with key corporate policy and procedure were identified again in 2012/13, for example in relation to corporate procurement. Review also found that there has been limited use of the Council's system for electronic sign off of policies which records users as having read, understood and agreed to abide by policies. Without such record of sign off it is more difficult to show that the policies have been adequately disseminated to relevant staff. A report concerning these issues was issued in 2011/12, however, a number of key recommendations remained unimplemented at the end of 2012/13.

Policy and procedure and compliance with them is a key component of the Council's Governance framework. Failure to adequately ensure that staff are made aware of such policies and procedures increases the risk of non-compliance.

- **Information Management** – A review of the Council's Information Management arrangements were reported in June 2012 and concluded that 'the Council's current arrangements for the management of its information asset is weak and limit the Council's ability to improve.' Internal Audit undertook three reviews in 2012/13 in the areas of Modern Records Management, Data Security and Business Continuity and reported significant weaknesses in these areas. As stated above, under Business Continuity these weaknesses were at the end of the period in the process of being addressed by a Project Group set up for this purpose. During 2012/13, there have continued to be incidences of breaches of the Data Protection Act and a number have been reported to the Information Commissioner's Office.

Information Management, therefore continues to be a risk to the Authority in terms of reputation and financially in terms of the potential for significant fines to be imposed.

These are considered important issues for the Council which need on-going work to address them in 2013/14.

- 4.5** It should be noted that any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The audits undertaken and completed did not identify any other areas of concern which are considered significant or business critical for the Council as a whole beyond those stated at 4.4 above.

5. STATEMENT ON INTERNAL CONTROL

- 5.1** The outcome of all completed Internal Audit reports is reported to the Audit Committee via the Audit Manager's quarterly Internal Audit Progress reports. Any system based review receiving a 'Red' assurance opinion, is reported in detail to the Audit Committee.
- 5.2** Three such reports were presented to the Audit Committee in 2012/13. These reviews related to Business Continuity, Data Security and Modern Records Management. The recommendations from all of these reports have been included in the Corporate Information Management Action Plan referred to in paragraph 4.6 above under Business Continuity.

Review Title	Service Area	IA Plan Year	Status	RAG Opinion
Risk Based / System Reviews		2011-12		
Industrial Units Rents	Property	2011/12	FINAL	GREEN/AMBER

Schools		2011-12		
Ysgol Llanfechell	Education	2011/12	FINAL	GREEN/AMBER

Review Title	Service Area	IA Plan Year	Status	RAG Opinion
Fixed Asset Report	Finance	2012/13	FINAL	Verification
Follow Up High Recommendations	Corporate	2012/13	FINAL	Reasonable Progress
Information Governance – Follow Up	Corporate	2012/13	FINAL	Little Progress
Penalty Charge Notices	Finance	2012/13	FINAL	ADVISORY
Meals on Wheels	Provider Unit	2012/13	FINAL	RED/AMBER
WG Free Breakfasts	Education	2012/13	FINAL	GREEN
Outcome Agreements - Property	Property	2012/13	FINAL	GREEN
Out of County Fees	Social Services	2012/13	FINAL	ADVISORY
Business Continuity	ICT/Planning	2012/13	FINAL	RED
Data Security	ICT/Legal	2012/13	FINAL	RED
Oriel Ynys Môn	Leisure	2012/13	FINAL	GREEN/AMBER
Modern Records Management	Lifelong Learning	2012/13	FINAL	RED
BMU Procurement	Housing	2012/13	FINAL	ADVISORY
Carbon Targets and Energy Efficiency	Property	2012/12	FINAL	GREEN
Follow Up – School Recommendations	Education	2012/13	FINAL	Little Progress
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	FINAL	GREEN/AMBER
Budget Setting & Monitoring	Corporate	2012/13	FINAL	RED/AMBER
Public Transport	Transportation	2012/13	FINAL	GREEN/AMBER
Car Park Income	Highways	2012/13	FINAL	GREEN
Council Tax	Finance	2012/13	FINAL	GREEN/AMBER
National Non Domestic Rates	Finance	2012/13	FINAL	GREEN/AMBER
Housing Benefit	Finance	2012/13	FINAL	GREEN/AMBER
Sundry Debtors	Finance	2012/13	FINAL	GREEN/AMBER
Creditors	Finance	2012/13	FINAL	GREEN
Treasury Management	Finance	2012/13	FINAL	GREEN
Student Finances	Education	2012/13	FINAL	ADVISORY
Case Files Compliance	Social Services	2012/13	FINAL	ADVISORY
Members' Allowances	Corporate	2012/13	DRAFT	FOLLOW-UP
Payroll and Overtime	Finance	2012/13	DRAFT	GREEN/AMBER
Accounting System	Finance	2012/13	DRAFT	GREEN
Cash Receipting	Finance	2012/13	DRAFT	GREEN
Housing Rents	Housing	2012/13	DRAFT	RED/AMBER
Maritime - Income	Highways	2012/13	WIP	N/A
Civica Implementation	Finance	2012/13	WIP	N/A

Schools				
Ysgol Y Bont	Education	2012/13	FINAL	GREEN/AMBER
Ysgol Rhosybol	Education	2012/13	FINAL	GREEN/AMBER
Ysgol Bodffordd	Education	2012/13	FINAL	GREEN/AMBER
Ysgol David Hughes	Education	2012/13	WIP	N/A
Ysgol Gyfun Llangejni	Education	2012/13	WIP	N/A
Ysgol Biwmares	Education	2012/13	WIP	N/A
Ysgol Llanfachraeth	Education	2012/13	WIP	N/A
Ysgol Kingsland	Education	2012/13	WIP	N/A

Referrals				
Referral Report 1 12-13	Human Resources	2012/13	FINAL	N/A
Referral Report 2 12-13	Property	2012/13	FINAL	N/A
Referral Report 3 12-13	Property	2012/13	FINAL	N/A
Referral Report 4 12-13	Social Services	2012/13	FINAL	N/A
Referral Report 5 12-13	Property	2012/13	FINAL	N/A
Referral Report 6 12-13	Lifelong Learning	2012/13	FINAL	N/A
Referral Report 7 12-13	Social Services	2012/13	FINAL	N/A
Referral Report 8 12-13	Finance	2012/13	FINAL	N/A
Referral Report 9 12-13	Education	2011/12	FINAL	N/A
Referral Report 10 12-13	Transportation	2012/13	FINAL	N/A
Referral Report 11 12-13	Leisure	2012/13	FINAL	N/A
Referral Report 14 12-13	Central	2012/13	FINAL	N/A
Referral Report 15 12-13	Highways	2012/13	FINAL	N/A

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**CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL**

INTERNAL AUDIT

**INTERNAL AUDIT STRATEGIC PLAN 2012/2015
AND PERIODIC PLAN 2013/2014**

ISLE OF ANGLESEY COUNTY COUNCIL

DRAFT

Draft Report presented at the Audit Committee of: 23 July 2013

1 Internal Audit Strategic Plan 2012/2015

The current Internal Audit Strategic Plan covers the period 2012/13 to 2014/15 and was approved by the Audit Committee held on 24 May 2012. The Internal Audit Operational Plan 2012/13 was also approved on that date and updates on progress against that Operational Plan have been presented to the Committee during 2012/13.

Internal Audit Plans are living documents and need to be constantly updated as new systems are developed, significant changes to existing systems occur, legislation changes, objectives change and new risks are identified.

Resource issues also affect the analysis on an ongoing basis. Fewer resources than planned will result in the need to prioritise further and reduce the number of reviews, or the coverage of each individual audit. Increased resources will allow more areas to be reviewed or individual planned reviews to be increased in depth.

2 The Audit Needs Assessment Process

Our audit approach is risk based. In order to identify the areas that require internal audit coverage, we need to understand the risks facing the organisation. We have undertaken a revised needs assessment for 2013/14 to 2014/15 using the following processes:

- We reviewed the Council's Corporate Risk Register with specific regard to risks categorised as High risk to the Council;
- We confirmed the core objectives of the organisation and the specific key risks associated with the achievement of those objectives through liaison with the management of the Council;
- We used cumulative knowledge of the organisation from previous internal audit work to identify areas that would benefit from internal audit coverage;
- The Audit Needs Assessment also identified areas of coverage that do not appear as high priority risks but where internal audit coverage can provide a tangible input to assurance, for example:
 - Requirements of Public Sector Internal Audit Standards and the CIPFA Code of Practice for Internal Audit;
 - Work required in order for external audit to place reliance on internal audit work on core financial systems in accordance with the managed audit concept;
 - Areas of concern flagged by management or the Audit Committee;
 - Emerging issues; and
 - Need for ongoing assurance in relation to key aspects of risk management, governance and internal control.

Other documents consulted in developing the Plan included, but were not limited to: IOACC Annual Governance Statement 2011/12; the PWC Audit of Accounting Statements; Corporate Risk Register; IOACC Single Integrated Plan 2013/2025; and liaison with External Audit (WAO), PWC and Scrutiny on their work plans for 2013/14.

Our preferred risk based approach is to use the Council's Corporate Risk Register to drive the Internal Audit Strategic and Operational Plans and to use our limited resources to provide assurance over the greatest risks to the Council where possible and where appropriate. Assurance will then be reported against risks familiar to the management and Members of the Council through their knowledge of corporate risk.

At the time of this Audit Needs Assessment, the Corporate Risk Register was still in development and did not include the controls in place to mitigate the identified risks and, therefore, any residual risk scores after mitigation. Although use was made of the Register, this could only be limited to the identification of potential high risk areas.

A review of the Risk Management framework and of the effectiveness of actions to mitigate the Council's highest risks has been included in the 2013/14 Internal Audit Operational Plan.

3 Annual Operational Internal Audit Plan

For each year of the Internal Audit Strategic Plan, an annual Operational Plan is produced to provide Internal Audit with its work programme for the year. The Audit Needs Assessment is reviewed and the input of Directors, Heads of Function and Heads of Service is sought to identify any risks not currently covered. The revised Audit Needs Assessment is used to direct Internal Audit resources to those aspects of the organisation that are assessed as generating the greatest risk to the achievement of its objectives.

As part of the process of developing the 2013/14 Internal Audit Operational Plan, we have met with the Deputy Chief Executive, the Section 151 Officer and liaised with the other Directors, Head of Function and with Heads of Service to discuss their requirements. The External Auditor (WAO), PWC and the Scrutiny Manager have also been consulted on the proposed Operational Plan for 2013/14.

The proposed Internal Audit Operational Plan at Appendix A reflects the results of this year's review of the Audit Needs Analysis and the resource available to the Internal Audit Service in 2013/14.

4 Resource Issues

The Internal Audit budget for 2013/14 has been based upon a full Internal Audit team complement. The number of programmed audit days has, again, been reviewed to provide a challenging target for the section in 2013/14 and represents a prioritised plan developed to allow coverage across all Departments and Services and include identified new, or enhanced risk areas for 2013/14.

Resource Targeting - The targeting of limited Internal Audit resources is paramount to ensure that resources are utilised where they are most needed. In this respect, Internal Audit uses a number of methods to assist management including: consultancy; compliance; assurance; risk management; governance; internal control and value for money. In order to truly add additional value Internal Audit looks at the key risks, work streams and priorities of the Council and concentrates effort into these areas.

However, this is only possible where an organisation has sound risk management, governance and control frameworks in place and operating effectively. Our work in these areas in the past few years has recorded ongoing development in these areas but has also identified and reported significant areas of weakness in these processes which are still being addressed. Therefore, the limited Internal Audit resources that we have will need to continue to be used in strengthening these frameworks in terms of design of controls, compliance and assurance.

‘Additional Value’ - There is, therefore, a reduced amount of resource to provide the ‘additional value’ that the Service has the potential to provide. We have however, been able to include in the Operational Plan areas where we believe that we can assist management and add additional value in relation to Corporate Health; Information Management and the efficiency agenda. We have also included in the 2013/14 Internal Operational Plan additional resource for reviews in Social Services and Education in order to assist with providing assurance on the Council’s responses to adverse third party reports in 2012/13 and in providing a way forward to identify and address such issues internally before they are brought to our attention by external regulators.

Referral increases - During 2012/13, the Service received an increasing number of referrals relating to weaknesses in governance and control systems which required a level of Internal Audit involvement. It is envisaged that this level of referral will continue and an element of resources has been allocated for this type of work in 2013/14.

However, it will be necessary during 2013/14 to be more selective in terms of the referrals which we take forward to investigation and report.

5 Annual and Strategic Plans

The Strategic Internal Audit Plan for 2012/13 to 2014/15 which includes the Internal Operational Plan for 2013/14 has been updated and is presented for consideration by senior management and by Members, in accordance with the CIPFA Code of Audit Practice for Internal Audit in Local Government (please see Appendix A). The Strategic Internal Audit Plan can be found at Appendix C and resource issues are detailed at Appendix B.

6 Considerations required of the Audit Committee

- Does the Strategic Internal Audit Plan 2012/13 to 2014/15 continue to reflect the areas that the Audit Committee believe should be covered in the period?
- Does the detailed Internal Audit Operational Plan 2013/14 reflect the areas that the Audit Committee believe should be covered as priority?
- Is the level of audit resource accepted by the Committee and agreed as appropriate, given the level of assurance required?

APPENDIX A

ISLE OF ANGLESEY COUNTY COUNCIL

INTERNAL AUDIT OPERATIONAL PLAN - 2013/2014

The Internal Audit Operational Plan 2013/14 sets out the internal audit coverage planned for the financial year. The plan is based on the Audit Need Assessment and upon the resources available to Internal Audit in the period. The Plan has been compiled after consultation with the Deputy Chief Executive, Directors, Heads of Function and Heads of Service. The Scrutiny Manager, External Auditor (WAO) and PWC were also consulted when compiling the plan to avoid any duplication of audit resource use.

The Council's Corporate Risk Register has been used to identify the highest risks to the Council and to prioritise the work of Internal Audit during the period. Delivery of the Operational Plan will provide a level of assurance to senior management and Members on the adequacy of the internal control framework and procedures in place within the Council to manage these risks effectively.

Other documents consulted in developing the Plan included, but were not limited to: IOACC Annual Governance Statement 2011-12; the PWC Audit of Accounting Statements; Corporate Risk Register; IOACC Single Integrated Plan 2013-2025; and liaison with External Audit (WAO), PWC and Scrutiny on their work plans for 2013/14.

INTERNAL AUDIT OPERATIONAL PLAN - 2013-14

CORPORATE		Version 4	
Auditable Area	Review Source	Review Type	
Risk Management – Action to mitigate SLT Identified Five highest risks & Education PI Action Plan	Top five risks plus	Risk based	
Human Resources Systems – Self Service and Payroll - Contract and Support - Reporting of Corp Health Indicators - Staffing ; sickness; leave; etc.	New System	Risk Based	
Mid Term Financial Plan – Robustness of Efficiency Saving calculations.	Risk YM28 & YM33	Compliance	
Information Management / Governance – Follow Up	Risk YM7 & YM20	Follow Up	
Corporate Recovery, Arrears and Write Off Management and Current Position	IA Assessed	Risk based	
Overtime - Processes and Monitoring - Efficiencies - Include Flexi System	IA Assessed	Risk based	
Partnerships - Governance Arrangements - Liabilities and Assurance (Auditing) - new Committee.	SD & LL Directors	System	
Include: Education Service GWE and Children's and Young People's Partnerships			7
POLICY UNIT			
Auditable Area	Review Source	Review Type	
Corporate Complaints System - after Qtr 2 13-14	Service Request	System	1
HOUSING SERVICES			
Auditable Area	Review Source	Review Type	
Housing Rents	External Assurance	Key Controls	
Housing Management - including Lettings	IA Risk Assessed	System	
Homelessness	IA Cyclical	Risk Based	3

SOCIAL SERVICES			
Auditable Area	Review Source	Review Type	
Out of County Fees – Children’s Services	Service request	System	
Procurement – Providers including Tyddyn Môn – Grant Funded providers - specs front end	IA Cyclical	Compliance - VFM	
Appointees / Deputies Practices	Service request	System	
Direct Payments - Follow Up	Service request	Follow Up	
Client Finance Unit - CIVICA Opportunities - Verification of HR and Finance Data Quality	Service request	System	
Adult Services - Provision and Costings	DCE Request	Risk Based	
Service Continuity Plans - Inc. independent sector and carers- Lists and contacts of providers?	Com Director	System	
Case Files - Compliance - Cross check a sample to ledger and verify	Service request	Compliance	
Thematic - Statutory Key Work Streams - Meeting statutory responsibilities.	Service request	Thematic	9
FINANCE SERVICE			
Auditable Area	Review Source	Review Type	
Cash Collection	External Assurance	Key Controls	
Sundry Debtors	External Assurance	Key Controls	
Creditor Payments	External Assurance	Key Controls	
Financial Ledger & Bank Reconciliation	External Assurance	Key Controls	
Civica Ledger – Post Implementation Review	IA Risk Assessed	PIR	
Housing Benefits	External Assurance	Key Controls	
Treasury Management	External Assurance	Key Controls	
Council Tax	External Assurance	Key Controls	
NNDR	External Assurance	Key Controls	
Payroll - including the payment of non-employees	External Assurance	Key Controls	
Teachers Payroll	IA Risk Assessed	System	
Accounts Closure Timetable – Assurance	Service request	Compliance	
Grant Claim Processes	Service request	Compliance	13
ICT SERVICES			
Auditable Area	Review Source	Review Type	
ICT Health Check - Including Logical access controls / audit trails of key applications / ICT Strategy	HofF Resources Request	Advisory	
Internet Usage Policy and supporting processes	IA Risk Assessed	Risk Based	2
HIGHWAYS & TRANSPORT			
Auditable Area	Review Source	Review Type	
Car Park Fees and Excess Charge Notices - Collaborative	Collaborative	Key Controls	
Waste Disposal – including a look at Trade Waste	DCE Request	Risk Based	
Fleet Maintenance Arrangements - Including VFM of using Council vehicles v own - compliance with current policy	Risk YM6	Risk based	
Blue Badges - Procedures NFI - Does Trading Standards one stop for deceased cover this area?	NFI	Risk Based	4
PLANNING SERVICES			
Auditable Area	Review Source	Review Type	
Property & Environment Grant (PEG) Scheme	IA Risk Assessed	System	1

ECONOMIC DEVELOPMENT			
Auditable Area	Review Source	Review Type	
Post 2013 - European Funding Governance - Matched to work streams?	Service Requested	System	1
Property			
Auditable Area	Review Source	Review Type	
Asset Management - Use of Buildings - Empty Buildings	Referral	Risk Based	1
LIFELONG LEARNING			
Auditable Area	Review Source	Review Type	
Audit Certification – LA sixth form and adult continuing Education	IA Risk Assessed	Compliance	0
LEISURE & COMMUNITY			
Auditable Area	Review Source	Review Type	
David Hughes Leisure Centre - Include percentage of internal / external use by school / community	IA Risk Assessed	Establishment	1
EDUCATION			
Auditable Area	Review Source	Review Type	
Primary school 1	IA Cyclical	School	
Primary school 2	IA Cyclical	School	
Primary school 3	IA Cyclical	School	
Primary school 4	IA Cyclical	School	
Primary school 5	IA Cyclical	School	
Primary school 6	IA Cyclical	School	
Secondary school 1	IA Cyclical	School	
Schools – Follow Up Red and Red/Amber	IA Cyclical	School	
WG Free Breakfast	External Assurance	Key Controls	
Financial Management Arrangements - Review of Schools Audit Methodology - Including meetings re self-assessment in 2014-15	IA Risk Assessed	System	
Ysgol Uwchradd Caergybi - Budget deficit to be made up by Sept 2014 - more lean and mean - Staff utilisation etc.	LL Director Request	Compliance	
School Thematic Review	IA Risk Assessed	System	12

APPENDIX B

Resources

1 Assessing Resource Level Requirements

Our professional judgement has been applied in assessing the level of resource required for the audits identified in the strategic cycle. The level of resource applied is a product of:

- The complexity of the system in place;
- Factors such as number of locations, number of transactions or frequency of transactions;
- The assurance which can be brought forward from previous year's audits;
- The type of audit undertaken.

2 Available Resources within Internal Audit Section

The available resources in the Internal Audit Service for 2013-14 are based on:

Audit Manager	144 days
Senior Internal Auditor	260 days
Internal Auditor x 2	520 days
Auditors x 2	520 days

Total: 1444

The Plan is based on the above available resources for 2013/14 less an element of 548 non chargeable days relating to annual and sick leave, training, administration Audit Committee work etc. duties that are necessary for the function of the Section but which are not directly involved with audit reviews. A further 210 days has been planned for the undertaking of non programmed work which includes referrals, contingency, advice, follow up etc.

The total number of Internal Audit Days available for programmed Internal Audit work against the 2013/14 Plan is therefore 686 days.

3 Resource Coverage

The allocation of the percentage of audit days available across the Council's activities is detailed below. The allocation reflects the current corporate high risk areas identified from the Audit Needs Analysis. Therefore the highest percentage of days in 2013/14 is scheduled to be spent on reviews in the areas of Finance and ICT, Community and Lifelong Learning.

Council Area	No. of Reviews	% Plan Allocated
Corporate & Central Services	8	14%
Finance and Information Technology	16	29%
Lifelong Learning	13	23%
Community	12	21%
Sustainable Development	7	13%
Total No. of programmed reviews in Plan	56	

4 **Collaboration**

A North and Mid Wales Audit Partnership consisting of the six North Wales local authorities and four other public sector organisations has been created to allow the partner organisations to work more closely together with the aim of increasing efficiency. The intention of the Partnership is to work collaboratively on new and emerging areas of audit interest and to share the results of this work.

The Internal Audit Service also participates in meetings of the Welsh Chief Auditors Group and aims to further develop these links in 2013/14.

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APPENDIX C

Isle of Anglesey County Council

STRATEGIC INTERNAL AUDIT PLAN 2012/13 to 2014/15 AS AT APRIL 2013

Audit Area	Actual 2012/13	Planned 2013/14	Planned 2014/15
CORPORATE AND CENTRAL SERVICES			
Risk Management Framework and Corporate Risk Register - High Risk related reviews			
Human Resources Self Service – including Corporate Health Indicators			
Travel & Subsistence Policy			
Overtime processes including Flexi-time system			
Performance Management			
Outcome Agreements			
Car Loans	Not in Plan		
Members' Allowances			
Information Governance and Data Security			
Data Protection / FOI / Privacy Impact Assessments			
Photocopying - VFM			
Training Allowances			
Inventories			
ICT Disaster Recovery and Business Continuity			
Recommendation Tracking – IA Self Assessments Verification Review		Ongoing	Ongoing
Recommendation Tracking – Non IA			
Corporate Health Review including sickness		See HR Above	
Business Planning Processes			
Record Management & Storage			
Data Security			
Safeguarding Framework Recruitment			
Energy - VFM	Not in Plan		
National Fraud Initiative (NFI) - System			
Corporate Manslaughter – Fleet Management+			
Community Safety			
Gofal Môn			
Mid Term Financial Plan			
Corporate Recovery , Arrears and Write Off Management			
Partnerships – Governance Arrangements			
Electoral Register			
<i>Legal Services</i>			
Complaints process			
SUBTOTAL	8	8	10

FINANCE & INFORMATION TECHNOLOGY			
<i>Finance</i>			
Grant Claim Process			
Civica Ledger Implementation Review			
Civica Ledger – Post Implementation Review			
Accounts Closure Timetable - Assurance			
Teachers Payroll			
NNDR			
Housing Benefit			
Council Tax			
Payroll Including Payment of Non Employees			
Sundry Debtors			
Creditors			
Financial Ledger & Bank Reconciliation			
Treasury Management			
Imprest Accounts & Reconciliation			
Cash Collection			
Budget Setting & Monitoring			
VAT			
Corporate Procurement Cards			
Fixed Asset Report			
Procurement Procedures, Compliance and E-Tendering			
<i>Information Technology</i>			
ICT Health Check			
Internet Access / Usage			
ICT Strategy			
Networks			
SUBTOTAL	13	15	15

LIFELONG LEARNING			
<i>Lifelong Learning & Information</i>			
Oriel Ynys Môn			
Uned Llyfryddol			
Archives			
Plas Arthur Leisure Centre			
Sports Development			
Amlwch Leisure Centre			
Beaumaris Leisure Centre			
Audit Certification – LA Sixth Form			
David Hughes Leisure Centre			
SUBTOTAL	1	2	3

<i>Education</i>			
Ysgol Bodedern			
Ysgol Bodffordd			
Ysgol Llanbedrgoch			
Ysgol Rhosneigr			
Ysgol Goronwy Owen			
Ysgol y Tywyn			
Ysgol y Morswyn			
Ysgol Pencarnisog			
Ysgol David Hughes			
Ysgol Y Bont			
Ysgol Bryngwran			
Ysgol Llanfechell			
Ysgol Llanfairpwll			
Ysgol Kingsland			
Ysgol Llanfawr			
Ysgol Beaumaris			
Ysgol Dwyran			
Ysgol Esceifiog			
Ysgol Gyfun Llangefni			
Ysgol Llanerchymedd			
Ysgol Llanfachraeth			
Ysgol Llangristiolus			
Ysgol Moelfre			
Ysgol Niwbwrch			
Ysgol Ffrŵd Win			
Ysgol Uwchradd Bodedern			
Ysgol Syr Thomas Jones			
Ysgol Uwchradd Caergybi			
SUBTOTAL	8	7	7
Follow up – Schools (All Red or Red Amber in previous year)			
WG - Clothing Grants			
School Meals Income			
Free School Meals			
Schools Thematic Review			
WG – Free Breakfast			
Sixth Form Funding - PLASC / Learning Network	In Schools	In Schools	In Schools
School Transport Income			
Financial Management Arrangements –Including Audit Methodology			
Integration			
Ysgol Uwchradd Caergyb - Budget			
Student Fees			
SUBTOTAL	4	5	6

COMMUNITY			
<i>Housing</i>			
Homelessness			
Housing Grants			
Communities First			
BMU Procurement			
Asbestos Management			
BMU Job Costing			
Housing Management - including Lettings			
Housing Rents			
<i>Social Services</i>			
Out of County Fees - Children's Services			
Adult Services – Provision and Costing			
Service Continuity Plans			
Case Files – Compliance			
Thematic – Statutory Key Work Streams			
Client Finance Unit – CIVICA Opportunities			
Children's Services – Assessment and Monitoring			
Appointees / Deputies			
Beaumaris Day Centre			
Social Services - Procurement			
Canolfan Byron			
Plas Penlan Elderly Home			
Meals on Wheels			
Suspense Accounts & Amenity Funds			
Direct Payments to Clients			
Ucheldre Community Living			
Plas Crigyll Elderly Home			
Garreglwyd Elderly Home			
Hafan Day Care			
SUBTOTAL	6	12	10

SUSTAINABLE DEVELOPMENT			
Blue Badges – Procedures NFI			
Fleet Maintenance / Management			
Asset Management Arrangements			
Post 2013 European Funding Governance			
Waste Contracts			
Excess Charge Notices			
Car Park Fees & Income			
Maritime			
Industrial Units Rent			
Carbon Trading			
Public Transport			
Waste Management Targets			
Highways Rechargeable Works			
Grounds Maintenance			
Highways Fees & Charges			
Markets			
Pavement Term Contract			
Small Holdings Rents			
Economic Development Grants			
Property & Environment Grant (PEG) Scheme			

SUBTOTAL	6	7	5
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OTHER AREAS			
Provision for special investigations			
Provision for ad-hoc requests from Section 151 Officer			
Provision for General Advice to Services			
Follow Up Work			
Contingency			
SUBTOTAL			

TOTAL FOR YEAR

46

56

56

NB – Six Primaries each year on a risk basis and five Secondaries over a three year period.
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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	23 JULY 2013
TITLE OF REPORT:	PROGRESS REPORT ON INTERNAL AUDIT 01 APRIL 2013 – 30 JUNE 2013
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER
ACTION:	Decisions / approval as detailed in report

1. INTRODUCTION

- 1.1 The Operational Plan for 2013-14 is to be presented to the Audit Committee at its meeting to be held on 23 July 2013. 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 30 June 2013 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 if 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

	2012/13		
Members' Allowances – Follow Up	2012/13	FINAL	'Good Progress'
Main Accounting System	2012/13	FINAL	GREEN
Cash Receipting	2012/13	FINAL	GREEN
Payroll	2012/13	FINAL	GREEN/AMBER
Housing Rents	2012/13	FINAL	RED/AMBER
CIVICA Implementation	2012/13	FINAL	ADVISORY
Maritime Income	2012/13	WIP	
	2013/14		
HR Procurement	2013/14	FINAL	ADVISORY
Appointees and Deputies	2013/14	FINAL	ADVISORY
Partnership Framework	2013/14	FINAL	ADVISORY
HR MyView	2013/14	DRAFT	
WAG Free Breakfasts	2013/14	DRAFT	
Grants - Compliance	2013/14	WIP	
Homelessness	2013/14	WIP	
Blue Badges	2013/14	WIP	
Direct Payments – Follow Up	2013/14	WIP	
David Hughes Leisure Centre	2013/14	WIP	
Schools			
	2012/13		
Ysgol David Hughes	2012/13	FINAL	GREEN
Ysgol Beaumaris	2012/13	FINAL	GREEN/AMBER
Ysgol Llanfachraeth	2012/13	DRAFT	
	2013/14		
Ysgol Kingsland	2013/14	FINAL	GREEN
Ysgol Llangefni	2013/14	DRAFT	
Referrals			

Report 1	2013/14	N/A
Report 2	2013/14	N/A
Report 3	2013/14	N/A

2.2 Key Findings from Reports Issued

2.2.1 Members' Allowances -

As part of the approved internal audit periodic plan for 2012/13 we have undertaken a review to follow up progress made by management in implementing internal audit recommendations made in the Members' Allowances Report 1554.10/11 issued in May 2011.

The Members' Allowances Report 1554.10/11 included **15 recommendations** of which nine were categorised as Medium and six as Low category recommendations. All the recommendations made had implementation dates prior to the date of the field work for this follow up report.

Opinion: Managers have demonstrated good progress in implementing actions agreed to address Medium and Low category internal audit recommendations.

2.2.2 Main Accounting System -

The review had been included in the annual audit plan for the purpose of internal and external audit reliance and that of senior management within Finance. The review is undertaken on an annual basis, and the previous review during 2011/12 resulted in (Green) assurance.

The FinanceLink system was replaced with a Civica ledger system in April 2013 and therefore this is the last review of the FinanceLink application. A separate report of the implementation of the Civica system was issued during April 2013.

Opinion: An overall Green audit opinion resulted from the review with three Medium and one Low category recommendation being made.

2.2.3 Cash Receipting -

The Council's cash offices were closed to the public in this year with residual income collected directly by services and income received by post continuing to be processed by the Cashiers.

The implementation of the new financial ledger and changes in the system including electronic data matching of income received / receipt of electronic bank statements will result in further changes to the work of Cashiers in the next financial year.

Opinion: An overall Green audit opinion resulted from the review with two Medium and three Low category recommendations being made.

2.2.4 Payroll

The Payroll system currently in use is 'Resourcelink' provided by Northgate and is an integrated Human Resources and Payroll system. The Council has an internal

Team of six staff involved with Payroll functions. Staff within Human Resources are also involved with the initial set up of new starters on the integrated system.

Opinion: An overall Green/Amber audit opinion resulted from the review with four Medium and ten Low category recommendations being made.

2.2.5 Housing Rents –

An audit of Housing Rents - First Review of Orchard System was undertaken as part of the approved internal audit periodic plan for 2012/13. The Council's Housing Services manages 3810 dwellings, 766 garages and 93 leased properties across the County.

The estimated rental income for 2012/13 was reported to be £12.5M (excluding estimate voids and future right to buys) in the Board of Commissioners meeting in February 2012.

Opinion: An overall Red/Amber audit opinion resulted from the review with one High; six Medium and four Low category recommendations being made.

The Red/Amber opinion reflects the control weaknesses identified around logical access controls to the Orchard system and the current segregation of roles set up within the system.

2.2.6 CIVICA Implementation –

The Council's previous FinanceLink ledger system was in use until the end of March 2013 along with an in house debtors system. A project was implemented to replace this system with a CIVICA system. This review was undertaken to provide assurance over the implementation project and the migration of data from the previous to the new system.

Opinion: This was an advisory review and no overall opinion was provided. Fourteen recommendations and seven learnt lessons from implementation were reported to management.

2.2.7 HR Procurement –

Internal Audit was requested by the Section 151 Officer to carry out a review of the contractual and support arrangements for the Northgate HR Module. The review concentrated on ascertaining and recording the contractual and support arrangements in place for the Northgate Human Resources system including MyView.

Opinion: This was an advisory review and no overall opinion was provided. Seven recommendations were agreed with management.

2.2.8 Appointees and Deputies –

The review concentrated on the evaluation of the adequacy of risk management and controls within the current and proposed banking arrangements of Appointee cases and Deputy Bank accounts of the Community Department.

Opinion: This was an advisory review and no overall opinion was provided. Seven recommendations were agreed with management.

2.2.9 – Partnership Framework -

The Council works in partnership with a number of partner organisations to deliver its strategic and local objectives. Such partnership arrangements give rise to potential financial, governance and performance related risks. Our review aimed to ascertain record and evaluate the Council's arrangements in place to manage, mitigate, monitor and report on these risks.

Our review found an absence of a formal Partnership Governance Framework to address partnership governance, management and performance related risks.

Opinion: This was an advisory review and no overall opinion was provided; however the lack of a formal partnership framework is considered a significant risk and the report's three key recommendations for improvement have been accepted by senior management.

2.2.10 Schools Key Controls Audit - Finance and Governance

Final reports from audit work at three schools were completed in the period. The reviews resulted in two Green audit opinions and a Green/Amber opinion. Recommendations to strengthen internal control weaknesses identified have been made with the relevant Headteachers concerned.






2.3 Summary of Outcomes of Reports Issued to Date – since the 01 April 2013 we have issued eight final reports from the Internal Audit Operational Plan 2012-13; four from the 2013-14 plan and three referral reports. To date a total of twelve final reports has been issued in 2013/14.

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 June 2013
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.	5	5
Green Amber (C Grade)	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.	2	2
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	1
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	0
Advisory / Investigation	Advisory review designed to provide best practice advice – No formal opinion.	4	4

3 PERFORMANCE AGAINST TARGETS FOR PERIOD 01/04/13 – 30/06/13

3.1 The table below shows the Internal Audit Service’s performance against agreed targets set out in the Service’s Delivery Plan for 2013/14. Reporting progress against these targets is also made to the corporate Performance Unit.

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 (56 reviews in plan – 3 to Draft in period & 4 Finals– excluding referrals)	90%	50%		↔
Overall customer satisfaction levels from questionnaires	90%	100%		↔
% of High & Medium IA recommendations implemented – from 01-04-11	80%	51%		↔
Review the Council’s Risk Management framework and evaluation of the effectiveness of mitigating actions on reducing the top five risks on the Corporate Risk Register.	1	0		↔
Audit Committee Training Sessions in period	2	0		↔

3.2 The percentage of the Audit Plan completed figure is 50% for quarter 1 2013-14. This is expected due to this quarter starting with the completion and issuing of eight Final reports relating to the previous financial year and not included in this percentage target figure here.

The reported progress against plan also reflects the amount of referral work taking place in quarter 1.

3.3 The percentage of High and Medium categorised recommendations implemented is below target at 51% which compares with the 68% reported to the last Committee.

3.4 Internal Audit has reviewed the reporting lines for implementation of recommendations and will be reporting back to the next Audit Committee on the results of this work. The intention is to raise the profile of recommendation implementation amongst senior managers and thus to improve implementation rates.

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 Three reports relating to referrals have been issued in the period to date in 2013/14. None of the work on these referrals has identified any evidence of fraud or irregularity.
- 4.3 One referral from 2012/13 has been referred to the Police and the Committee will be informed of the outcome of this case in due course.

5. RECOMMENDATION TRACKING

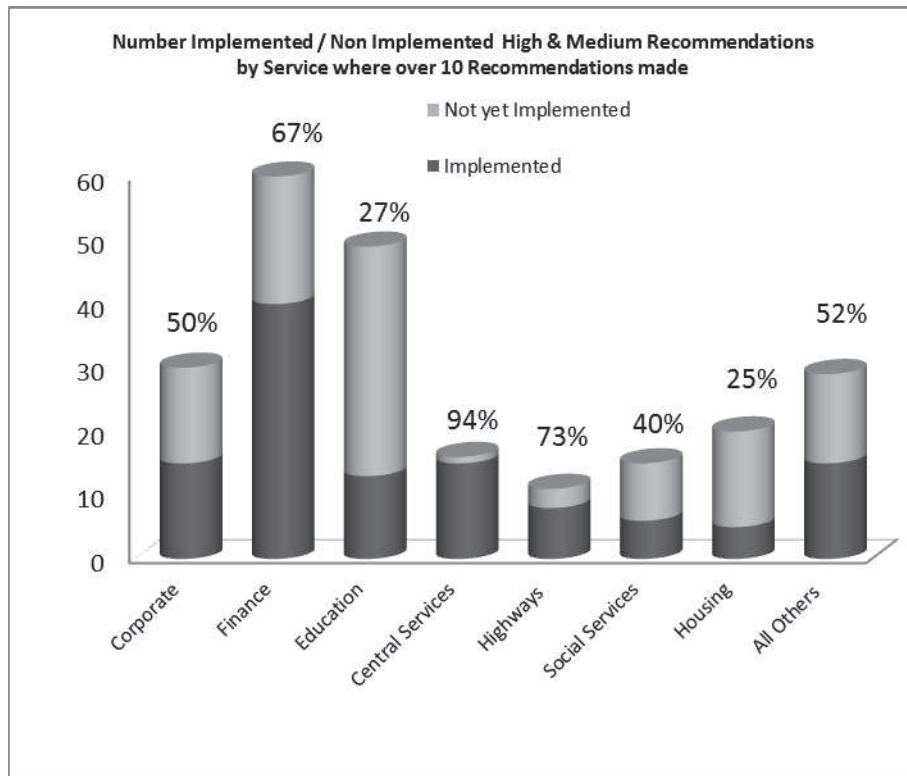
- 5.1 For reporting to this Committee only recommendations made since 01-04-2011 have been included in the recommendation tracking analysis.
- 5.3 The performance in implementing recommendations in the period is below target with 51% of High and Medium recommendations having been recorded as implemented. Reference to a review of the processes involved for recommendation tracking has been made in paragraph 3.4 of this report.
- 5.4 A graph showing the breakdown of recommendation implementation by Service is provided at Appendix A.

AUDIT MANAGER
12 July 2013

APPENDIX A

Recommendation Tracking Table – All Recommendations Created Since 01-04-2011

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 **51%** of all such recommendations.

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to	Audit Committee
Date	23 July 2013
Subject	Annual Treasury Management Review for 2012/13
Portfolio Holder(s)	Councillor H E Jones
Lead Officer(s)	CLARE J WILLIAMS
Contact Officer	CLARE J WILLIAMS (Ext. 2601)
Nature and reason for reporting	
<p>To comply with regulations issued under the Local Government Act 2003.</p> <p>This report is due to be presented to the Council at the next available opportunity. The Council has resolved that the report is also considered by the Audit Committee.</p>	

Summary

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2012/13. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The report also includes borrowing and investment performance during the year.

Under the Prudential Code it is a requirement that all local authorities set Prudential Indicators for borrowing and investing among other factors each year. The Council confirmed its limits for 2012/13 on 5 March 2012 and outturn information is provided in this report.

During 2012/13 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year;
- a mid year (minimum) treasury update report;
- an annual review following the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

Member training on treasury management issues was undertaken during October 2012 in order to support the scrutiny role of the members of the Audit Committee.

During 2012/13, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2011/12 Actual £000	2012/13 Original Indicator £000	2012/13 Actual £000
Gwariant Cyfalaf Gwirioneddol	21,619	27,800	25,428
Cyfanswm gofynion ariannu Cyfalaf:			
• Dim-CRT	78,849	85,300	81,347
• CRT	21,811	28,400	25,062
• Cyfanswm	100,660	113,700	106,409
Dyled Allanol	96,103	113,717	96,097
Buddsoddiadau *			
• Mwy na blwyddyn	-	-	-
• O dan flwyddyn	16,152	25,932	13,468
• Cyfanswm	16,152	25,932	13,468

* estimates and actuals, not a prudential indicator

Other prudential and treasury indicators are to be found in the main body of this report. The s151 Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit), was not breached.

The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened counterparty risk.

RECOMMENDATIONS

The Committee is recommended to:-

- (i) Note the actual 2012/13 prudential and treasury indicators in this report;
- (ii) Consider the annual treasury management report for 2012/13 and pass on to the next meeting of the County Council with any comments.

Appendices:

Appendix 1 – Summary Portfolio Valuation

Appendix 2 – Investment Counterparty Credit Ratings as at 31 March 2013

Appendix 3 - Equivalent Credit Ratings

Appendix 4 – The Economy and Interest Rates – A Commentary by Sector

Background papers

Treasury Strategy 2012/13

Prudential Indicators 2012/13

1. INTRODUCTION

This report summarises the following functions / activities / outcomes in financial year 2012/13:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2012/13

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- Financed from borrowing; this may be through planned borrowing or otherwise. If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2011/12 Actual (£m)	2012/13 Estimate (£m)	2012/13 Actual (£m)
Non-HRA capital expenditure	13	18	17
HRA capital expenditure	9	10	9
Total capital expenditure	22	28	26
Resourced by:			
• Capital receipts	1	1	1
• Capital grants	10	11	12
• Revenue	3	2	3
Unfinanced capital expenditure	8	14	10

3. THE COUNCIL'S OVERALL BORROWING NEED

3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2012/13 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

3.3 Reducing the CFR

3.3.1 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

3.3.2 The total CFR can also be reduced by:-

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

3.3.3 The Council's 2012/13 MRP Policy (as required by WG Guidance) was approved as part of the Treasury Management Strategy Report for 2012/13 on 5 March 2012.

3.3.4 The Council's CFR for the year is shown below, and represents a key prudential indicator. This would include any PFI and leasing schemes on the balance sheet, which would increase the Council's borrowing need, the CFR. There were no such schemes during the year.

CFR: Council Fund	2011/ 12 Actual (£m)	2012/ 13 Budget (£m)	2012/ 13 Actual (£m)
Opening balance	79	80	79
Add unfinanced capital expenditure (as above)	4	8	6
Less MRP/VRP*	(4)	(3)	(4)
Closing balance	79	85	81

CFR: HRA	2011/ 12 Actual (£m)	2012/ 13 Budget (£m)	2012/ 13 Actual (£m)
Opening balance	19	24	22
Add unfinanced capital expenditure (as above)	4	6	4
Less MRP/VRP*	(1)	(2)	(1)
Closing balance	22	28	25

* Includes voluntary application of capital receipts

3.3.5 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

3.4 Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2012/13. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

3.4.1 It should be noted that this indicator is changing to compare gross borrowing to the CFR with effect from 2013/14; this is expected to provide a more appropriate indicator.

	31 March 2012 Actual (£m)	31 March 2013 Budget (£m)	31 March 2013 Actual (£m)
Gross borrowing position	96.1	113.7	96.1
Net borrowing position	79.9	87.8	82.6
CFR	100.7	113.7	106.4

3.4.2 As part of the financing of capital expenditure for 2012/13 borrowing was used to finance the gap between available resources (capital receipts, capital grants, capital contributions and revenue contributions), net of contingency, and the capital expenditure. Additionally, given the PWLB rates on offer and the market rates available for investments, it was decided, in the short term at least, to continue internalising borrowing in order to maximise net income and to minimise counterparty risk. The same strategy was adopted as for 2011/12 where the CFR switched from being £4.9m below external borrowing (31 March 2011) to being £4.6m above. As a result of continuing with this strategy, the gap between CFR and external borrowing increased during 2012/13 to £10.3m. The net current borrowing is less than the forecast CFR for the following 2 years.

3.5 The other debt related indicators are:

3.5.1 The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2012/13 the Council maintained gross borrowing within its authorised limit.

3.5.2 The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

3.5.3 Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2012/13
Authorised limit	£123.0m
Maximum gross borrowing position	£96.1m
Operational boundary	£118.0m
Average gross borrowing position	£96.1m
Financing costs as a proportion of net revenue stream - CF	5.99%
Financing costs as a proportion of net revenue stream - HRA	16.19%

On balance sheet leasing would also count against authorised limits. A second set of limits was approved, giving scope for £2m leasing. There was no requirement in the year.

4. TREASURY POSITION AS AT 31 MARCH 2013

4.1 The borrowing and investment figures for the council as at the end of the 2012/13 and 2011/12 financial years are as follows:

	31 MARCH 2012			31 MARCH 2013		
	£'000	Average Rate (%)	Average Maturity (yrs)	£'000	Average Rate (%)	Average Maturity (yrs)
Debt: All Public Works Loans Board (all fixed rate)	96,102	5.53	26.5	96,096	5.53	26.5
Investments (all < 1 year, managed in house and fixed rate)	5,000	1.32		10,000	1.63	
Deposits (all no notice and managed in house)	11,151	0.77		3,468	0.79	
Net position	79,951			82,628		

These are disclosed in the Council's Statement of Accounts at "fair value": see a more detailed analysis in Appendix 1.

4.2 Borrowing is further broken down by maturity as:-

	31 MARCH 2012		31 MARCH 2013		Limits	
	£m	% of total	£m	% of total	% of total (upper)	% of total (lower)
Total borrowing	96.1	100	96.1	100		
Under 12 months	0.0	0	6.5	7	20%	0%
12 months and within 24 months	6.5	7	0.0	0	20%	0%
24 months and within 5 years	0.0	0	5.5	6	50%	0%
5 years and within 10 years	20.1	21	16.8	17	75%	0%
10 years and above	65.5	72	67.2	70%	100%	0%

4.3 The average borrowing rate of the loan portfolio remained constant during the year as there were no loan maturities, no debt rescheduling and no new borrowing. No debt rescheduling took place during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

- 4.4 Part of the Council's deposits are held in no notice deposit accounts which pay interest at rates near the prevailing base rate (£3.5m at 0.79% (31 March 2012: £11.2m at 0.77%). Of the remaining deposits, £10m was being held for a period of less than 1 year at an average rate of 1.63% (31 March 2012: £5m at 1.32%).

5. TREASURY STRATEGY FOR 2012/13

- 5.1 Our treasury strategy for 2012/13, adopted on the 5 March 2012, was based on the expectation that, in the medium term, investment rates would be short of long term borrowing rates and so value could be best obtained by postponing new external borrowing and adopting internal borrowing. Additionally, this strategy was adopted so as to minimise counterparty risks. This strategy was subject to caution, with regular monitoring of the interest rate market and a pragmatic approach to changing circumstances so as to avoid long term costs outweighing any short term gains from not externalising.
- 5.2 The economic position was as outlined in Appendix 4 and PWLB rates were as shown at Appendix 4. These rates favoured the internalisation strategy and so no debt rescheduling took place (no debt matured in the year).

6. INVESTMENT

- 6.1 The base rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.
- 6.2 Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which was an ongoing issue throughout the year.
- 6.3 The expected investment strategy was to keep to shorter term deposits (up to 364 days) although the ability to invest out to longer periods was retained (although not used). I expected available cash balances of £40m and ranging between £25m and £45m. The budget was set at 0.83% or £332k after adjusting for the higher rates on existing investments. As it turned out, average balances of £24.0m returned £249k (1.03%). The lower than budgeted average cash balance was the result of continuing to internalise borrowing. The higher than budgeted return was due to better than anticipated rates of return on fixed term investments.
- 6.4 The investment performance against the benchmark has yet to be measured, with the return to be submitted this July. We will report on the outstanding matters later in the year.

7. INVESTMENT SECURITY AND CREDIT QUALITY

- 7.1 No institutions in which we had made investments had any difficulty in repaying investments and interest on time and in full during the year.

- 7.2** During 2012/13, credit ratings remained poor across the range of our usual counterparties, including building societies. Since late 2008 it has become increasingly difficult to place deposits with appropriate counterparties. In December 2008, the Council's approval was obtained to extend flexibility with counterparties to deal with market changes; this included the ability to invest all our surplus funds with central government if necessary. The list was further widened in April 2010 to include nationalised and partly nationalised institutions (and in March 2012 this list was approved, unchanged, for 2012/13). Previous decisions had extended flexibility for investing with local authorities. Our approach of listening to expert advice, taking account of market sentiment and being cautious enabled us to improve credit quality within existing counterparty lists.
- 7.3** The practical effect of these policies was as follows: during the year we continued to use no notice accounts with major high street institutions (Santander, HSBC and Bank of Scotland) for day to day cash flow.
- 7.4** The only fixed term investment (Royal Bank of Scotland (RBS), £5.0m) at the start of the year, matured during the year. This was reinvested with RBS upon maturity for a further 6 months at a rate of 1.16%. On the same date a further £5m was invested with the same institution for 364 days, at a rate of 1.68%. The investment at 1.16% matured during the year and was re-invested for a further 6 months at a rate of 1.58%. The decision to invest with RBS was made primarily due to them being one of the few creditworthy institutions given their UK government backing. No other investments were made during the year.
- 7.5** During 2011/12 the credit ratings for Santander UK were downgraded bringing the institution below the thresholds in the approved lending list. Deposits continued to be made with Santander during 2012/13 consistent with the decision made by the County Council in March 2012 and endorsed by the Audit Committee. This decision was made in light of wider considerations of market conditions and taking into account the views of this Authority's appointed treasury advisors (Sector Treasury Services). 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. However, in line with current advice and wider market considerations, Santander continues to be used for depositing monies, on a call basis only.

**Summary Portfolio Valuation
As at 31 March 2013**

FINANCIAL ASSETS

	Nominal / Principal (£)	Fair Value (£)
Cash (interest bearing accounts) (1)	3,468,455	3,541,166
Fixed Term Deposits (2)	10,000,000	10,141,947

FINANCIAL LIABILITIES

WLB loan – Maturity	95,815,764	122,953,603
WLB loan – Annuity	280,875	470,130

Counterparties

(1) Cash (interest bearing accounts)		
Santander	3,418,352	
Bank of Scotland	103	
HSBC	<u>50,000</u>	
	3,468,455	
(2) Fixed Term Deposits		
Royal Bank of Scotland	10,000,000	

Credit Ratings of Investment Counterparties at 31 March 2013

Institution	Fitch Long Term Rating	Fitch Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Standard & Poor's (S&P) Long Term Rating	Standard & Poor's (S&P) Short Term Rating	Sector Colour	Sector Suggested Duration
Santander Bank Plc	A	F1	A2	P-1	A	A-1	Green	3 months
Bank of Scotland Plc	A	F1	A2	P-1	A	A-1	Blue	12 months
HSBC Plc	AA-	F1+	Aa3	P-1	AA-	A-1+	Orange	12 months
The Royal Bank of Scotland Plc	A	F1	A3	P-2	A	A-1	Blue	12 months

- It can be seen from the above that the Bank of Scotland and the Royal Bank of Scotland were given a blue colour coding by Sector as they were part nationalised throughout 2012/13. This meant that they were eligible to have up to £10m invested, for up to 364 days, under the approved lending list (by credit rating), Section 4.1- Si (a iii). The Lending List can be found in Appendix 6 of the 2012/13 Treasury Management Strategy Statement / Annual Investment Strategy.
- It can also be seen that HSBC met the credit criteria for investment throughout the year.
- The only institution not to meet the credit criteria was Santander. This is discussed in Section 7.5.
- The equivalent credit ratings for the 3 rating agencies referred to above are found in Appendix 3.

Equivalent Credit Ratings (Fitch, Moodys, S&P)

Fitch Long Term	Moodys Long Term	S&P Long Term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
Fitch Short Term	Moodys Short Term	S&P Short Term
F1+	n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3

THE ECONOMY AND INTEREST RATES

The EU sovereign debt crisis was an ongoing saga during the year. However, the ECB statement in July that it would do “whatever it takes” to support struggling Eurozone countries provided a major boost in confidence that the Eurozone was (at last) beginning to get on top of its problems. This was followed by the establishment of the Outright Monetary Transactions Scheme in September. During the summer, a €100bn package of support was given to Spanish banks. The crisis over Greece blew up again as it became apparent that the first bailout package was insufficient. An eventual very protracted agreement of a second bailout for Greece in December was then followed by a second major crisis, this time over Cyprus, towards the end of the year. In addition, the Italian general election in February resulted in the new Five Star anti-austerity party gaining a 25% blocking vote; this has the potential to make Italy almost ungovernable if the grand coalition formed in April proves unable to agree on individual policies. This could then cause a second general election – but one which could yield an equally ‘unsatisfactory’ result! This result emphasises the dangers of a Eurozone approach heavily focused on imposing austerity, rather than promoting economic growth, reducing unemployment, and addressing the need to win voter support in democracies subject to periodic general elections. This weakness leaves continuing concerns that this approach has merely postponed the ultimate debt crisis, rather than provide a conclusive solution. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody’s followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March. Key to retaining the AAA rating from Fitch and S&P will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe.

2012/13 started the first quarter with negative growth of -0.4%. This was followed by an Olympics boosted +0.9% in the next quarter, then by a return to negative growth of -0.3% in the third quarter and finally a positive figure of +0.3% in the last quarter. This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing (QE) by £50bn in July to a total of £375bn on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. In the March 2013 Budget, the Office of Budget Responsibility yet again slashed its previously over optimistic growth forecasts, for both calendar years 2013 and 2014, to 0.6% and 1.8% respectively.

UK CPI inflation has remained stubbornly high and above the 2% target, starting the year at 3.0% and still being at 2.8% in March; however, it is forecast to fall to 2% in three years time. The MPC has continued its stance of looking through temporary spikes in inflation by placing more importance on the need to promote economic growth.

Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PwLB rates depressed for much of the year at historically low levels.

Bank Rate was unchanged at 0.5% throughout the year, while expectations of when the first increase would occur were pushed back to quarter 1 2015 at the earliest.

The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do “whatever it takes” to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

Chart 1: Borrowing Rates 2012-13

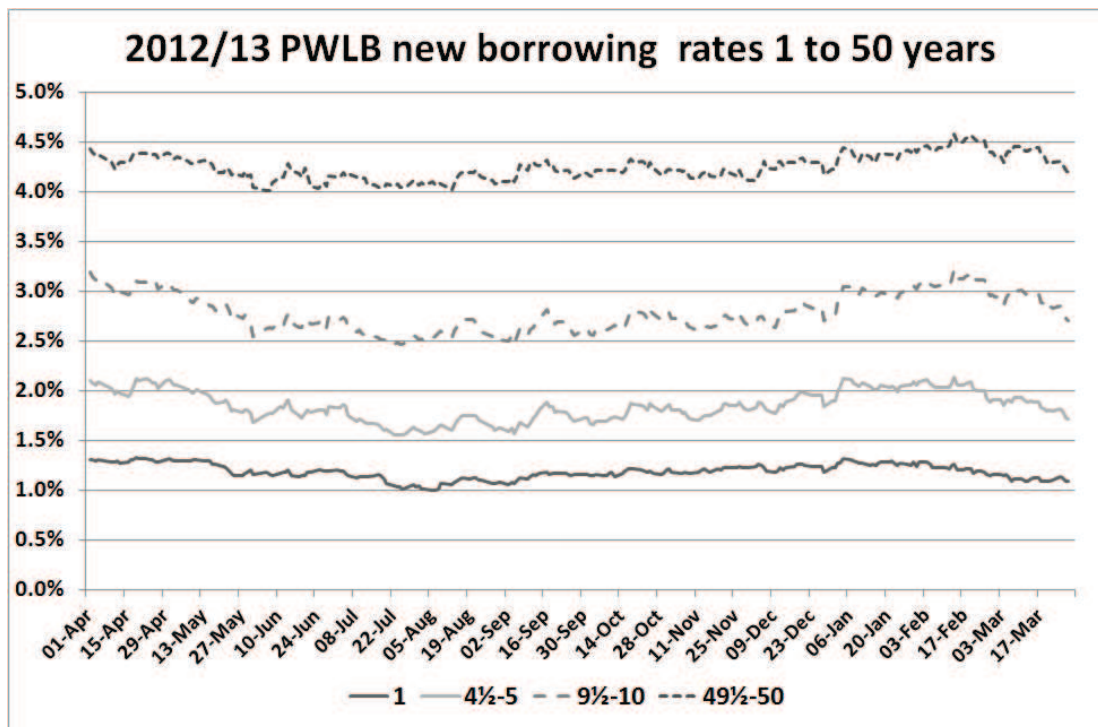
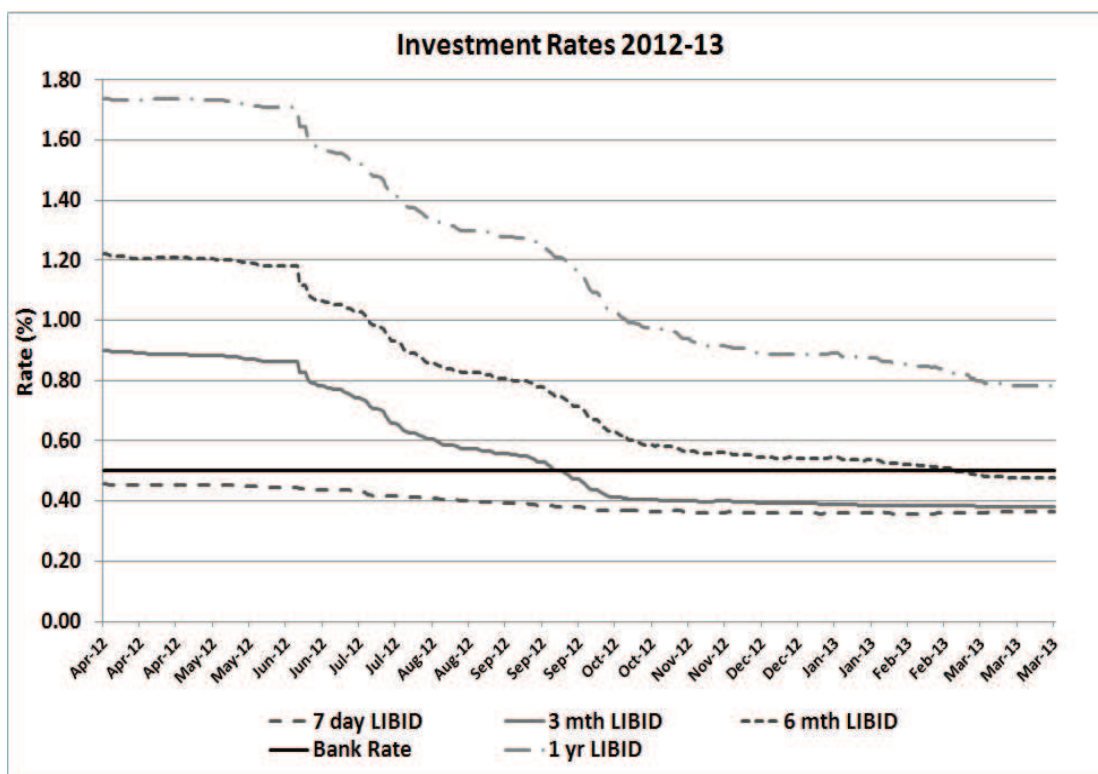


Chart 2: Investment Rates 2012-13



Extracts from report by SECTOR, Treasury Management Consultants

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