

5. REVIEW OF TREASURY MANAGEMENT ACTIVITY 2013/14

REPORT OF: Peter Stuart, Head of Finance

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Wards Affected: All

Key Decision No

Date of Meeting – 24th June 2014

PURPOSE OF REPORT

1. The report sets out the Council's treasury management activity for the year ended 31 March 2014.

SUMMARY

2. All transactions are in order and the performance of the service has been in-keeping with the requirements of the Service Level Agreement (SLA) with our shared services provider.

RECOMMENDATIONS

3. The Committee is requested to note the report.
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BACKGROUND

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2013.
5. The 2013-14 Treasury Management Annual Report produced by the Group Accountant Strategic Finance is attached at Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.
6. For those Members seeking a summary, paragraph 12.2 sets out the report in one sentence:

The Council's performance during the year exceeded the budgeted returns for investment income, and was within the counterparty lending limits approved at the start of the year. All Prudential Limits were adhered to except one, being the upper limit for investments over 364 days duration, which was temporarily and marginally exceeded for the period 20th-31st March 2014 as explained in Para 7.2.
7. The Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

9. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce an annual report by 30 September after the year end.

OTHER OPTIONS CONSIDERED

10. None.

FINANCIAL IMPLICATIONS

11. None.

OTHER MATERIAL IMPLICATIONS

12. None.

BACKGROUND PAPERS

None.

1. SUMMARY

- 1.1 This report summarises the treasury management transactions for the financial year 2013/2014. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as:

“The management of the local authority's cash flows and investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”

- 2.2 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 2013/14. 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).

- 2.3 For 2013/14 the Council's Treasury Management strategy and practices required that a minimum of three main reports be prepared , which incorporate a variety of polices, estimates and actuals. The CIPFA Code of Practice recommends the reports be scrutinised by the relevant committee before being recommended to the Council. Discretion to do this is excercised by the Head of Finance, and where so the scrutiny role is undertaken by the Audit Committee. The reports so prepared are:

- The Annual Treasury Management and Annual Investment Strategy to be approved by full Council in advance of the year – this was submitted in March 2013.
- The mid-year treasury management operations update report – this was submitted in November 2013.
- An annual review (this report) to be presented to the Audit Committee following the end of the year describing the activity compared to the strategy.

- 2.4 Accordingly, this report covers:

- ◆ treasury portfolio position 2013/14
- ◆ borrowing strategy and outturn for 2013/14
- ◆ interest rate movements for 2013/14
- ◆ investment strategy and outturn for 2013/14
- ◆ compliance with treasury limits and Prudential Indicators

2. INTRODUCTION AND BACKGROUND

- ◆ performance measures
- ◆ minimum revenue provisions (MRP) for repayment of debt
- ◆ incidence of other issues & matters

2.5 The regulatory environment places importance on Members for the review and scrutiny of treasury management policy and activities. This report supports such a review, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3. PORTFOLIO POSITION 2013/14

3.1 The Council's position at the beginning and end of year was as follows:-

	Balance at 01.04.13 £m	Raised in Year £m	Repaid in Year £m	Balance at 31.03.14 £m	% of Funds 31.03.14
<u>Borrowing</u>					
PWLB	(1.319)	-	0.144	(1.175)	100%
Temporary Borrowing	-	(2.000)	2.000	-	
TOTAL BORROWING	(1.319)	(2.000)	2.144	(1.175)	100%
<u>Investments:</u>					
In-house:					
Long Term	2.000	8.000	(2.000)	8.000	31%
Short Term	21.500	166.053	(169.553)	18.000	69%
TOTAL INVESTMENTS	23.500	174.053	(171.553)	26.000	100%
NET INVESTMENTS	22.181	172.053	(169.409)	24.825	

3.2 In the year gross borrowing reduced by £144k, and gross investments increased by £2.5m, resulting in an overall movement in funds of £2.644m.

4. BORROWING STRATEGY AND OUTTURN FOR 2013/2014

4.1 The Council's net indebtedness, including finance leases, at 31 March for 2013 and **2014**, was:

Comparison of Net Debt to Capital Financing Requirement (CFR)	2013 Actual £m	2014 Actual £m
Long Term Borrowing	1.319	1.175
Finance Leases	0.739	0.601
Gross Debt at 31 March	2.058	1.776
Less Capital Financing Requirement (CFR)	(2.032)	(1.792)
(Under)/ Over Borrowing	0.026	(0.016)
Total Investments at 31 March	(23.500)	(26.000)
Net (Investments)/Debt	(21.580)	(25.841)

4. **BORROWING STRATEGY AND OUTTURN FOR 2013/2014 (Continued)**

4.2 The Table above compares the Gross Debt against the underlying need to borrow (the Capital Financing Requirement, CFR) thereby highlighting any over or under borrowing. This comparison is one of the Prudential Indicators of affordability under the Prudential Code to show that borrowing levels are prudent over the medium term, and sustained for capital investment purposes – i.e that the Council is not borrowing to support revenue expenditure.

4.3 Accordingly, the amount of borrowing should not exceed the CFR for 2013/14 (plus any expected changes to the CFR over 2014/15 and 2015/16) except in the short term. This requirement has been fully met in 2013/14 as the gross debt is below the CFR by £159k.

4.4 The debt movement for **2013/14** was as follows:

	Average Interest Rate	Balance at 01.04.13 £m	Raised in Year £m	Repaid in Year £m	Balance at 31.03.14 £m
<u>Long Term Indebtedness</u>					
PWLB - Fixed rate	4.47%	(1.319)	-	0.144	(1.175)
Finance Leases		(0.739)	-	0.138	(0.601)
<u>Short Term</u>					
Temporary Borrowing	0.31%	-	(2.000)	2.000	-
TOTAL INDEBTEDNESS	4.78%	(2.058)	(2.000)	2.282	(1.776)

4.5 Although no new long term debt was raised in 2013/14, there was one instance of temporary borrowing of £2m from another Council for the period of 30 days from 20 May to 19 June at a rate of 0.31%. This arose due to uncertainty in cash flows in respect of the new localised business rates regime introduced from 1 April 2013, and related adjustments to Revenue Support Grant. Such borrowing for short term temporary cash flows is entirely permissible within the treasury management policy, and no prudential limits on borrowing were exceeded.

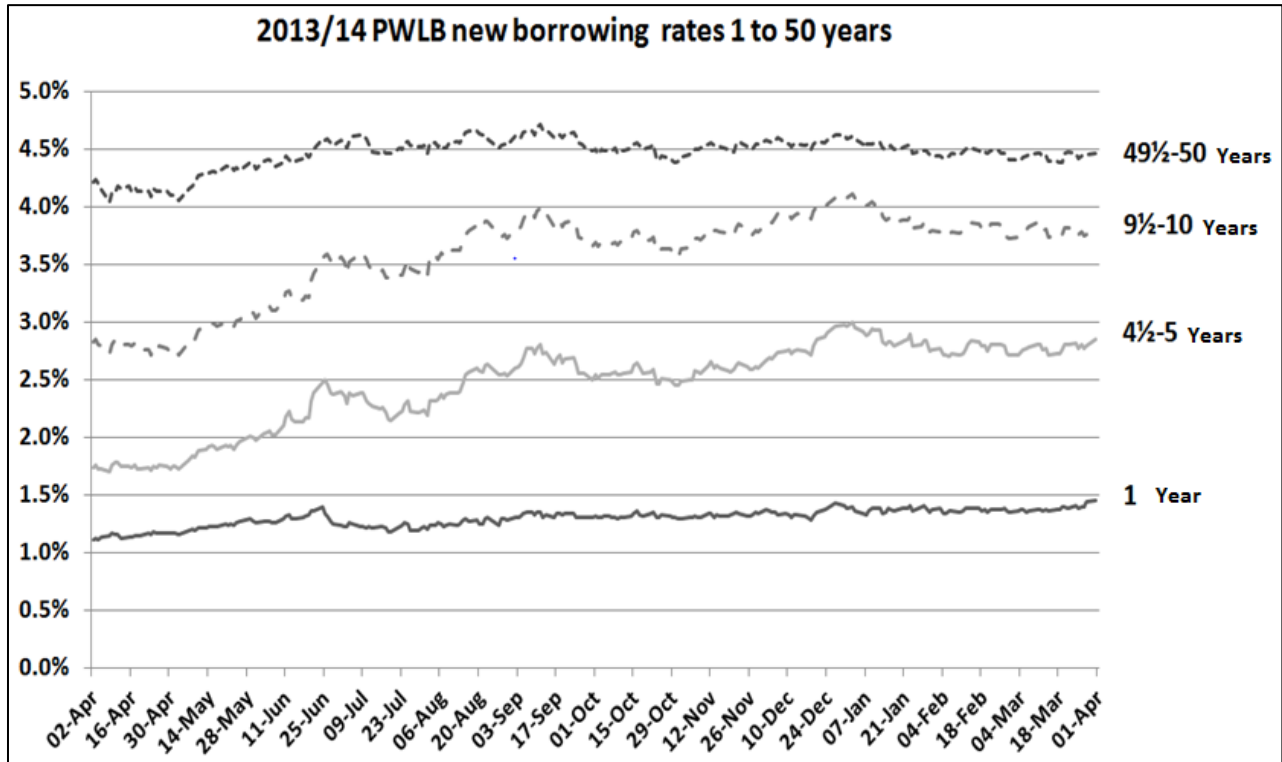
4.6 The Council's long term debt comprises two loans from the Public Works Loans Board (PWLB), being:

Loan Number	Start Date	End Date	Original Loan Amount £	Interest Rate	Balance at 31. 03. 2014*
494369	06/03/2008	01/03/2023	1,700,000	4.55%	1,157,542.48
495726	27/07/2009	30/06/2014	205,000	2.23%	21,657.64
TOTAL LOANS			1,905,000		1,179,200.12
(* includes accrued interest)					

4. BORROWING STRATEGY AND OUTTURN FOR 2013/2014

4.7 The total cost of interest on long term borrowing for 2013/14 was £57,039 (£61,952 for 2012-13) and is within the budgetary estimates provided for at the start of the year.

4.8 Although no new **long term** borrowing was incurred in **2013/14**, the graph below shows how PWLB certainty rates have risen from historically very low levels during the year, thereby increasing the cost of new borrowing.



4.9 The Council's borrowing is at fixed rates of interest and is therefore unaffected by the increases in rates that have occurred for each durational band shown above.

5. THE ECONOMY AND INTEREST RATES 2013/14

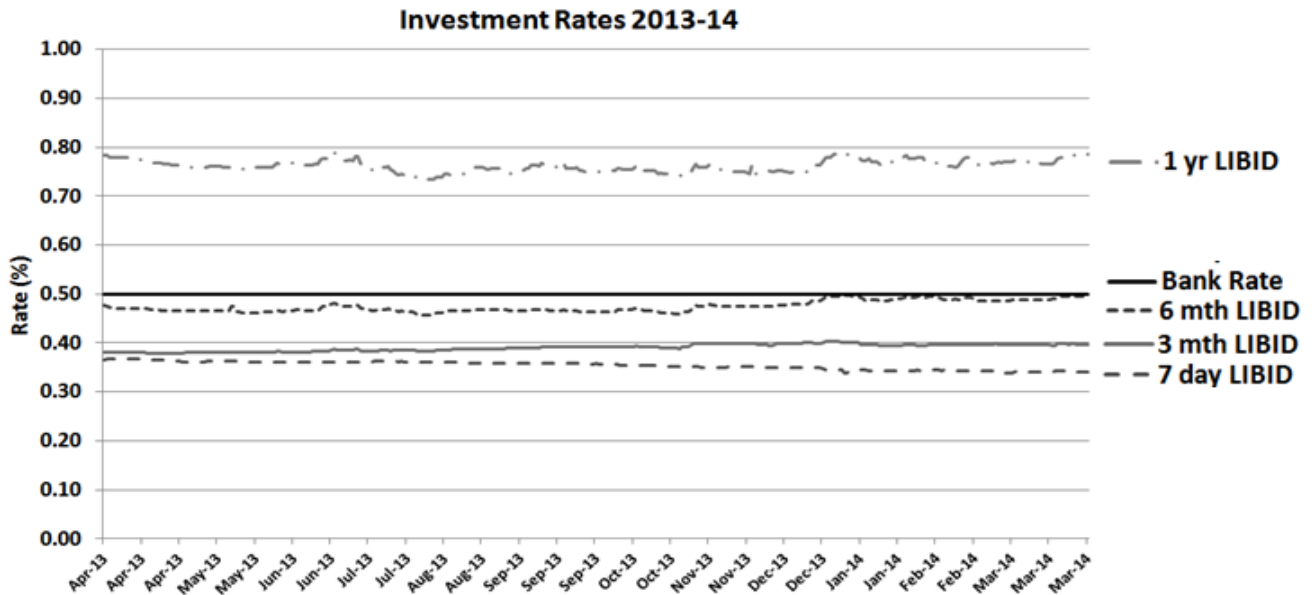
*The following commentary has been supplied by **Capita Asset Services Ltd**, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

5.1 The financial year 2013-14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat.

5.2 The original expectation for 2013-14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 of 2015. This forecast rise has now been pushed back to start in quarter 3 of 2015.

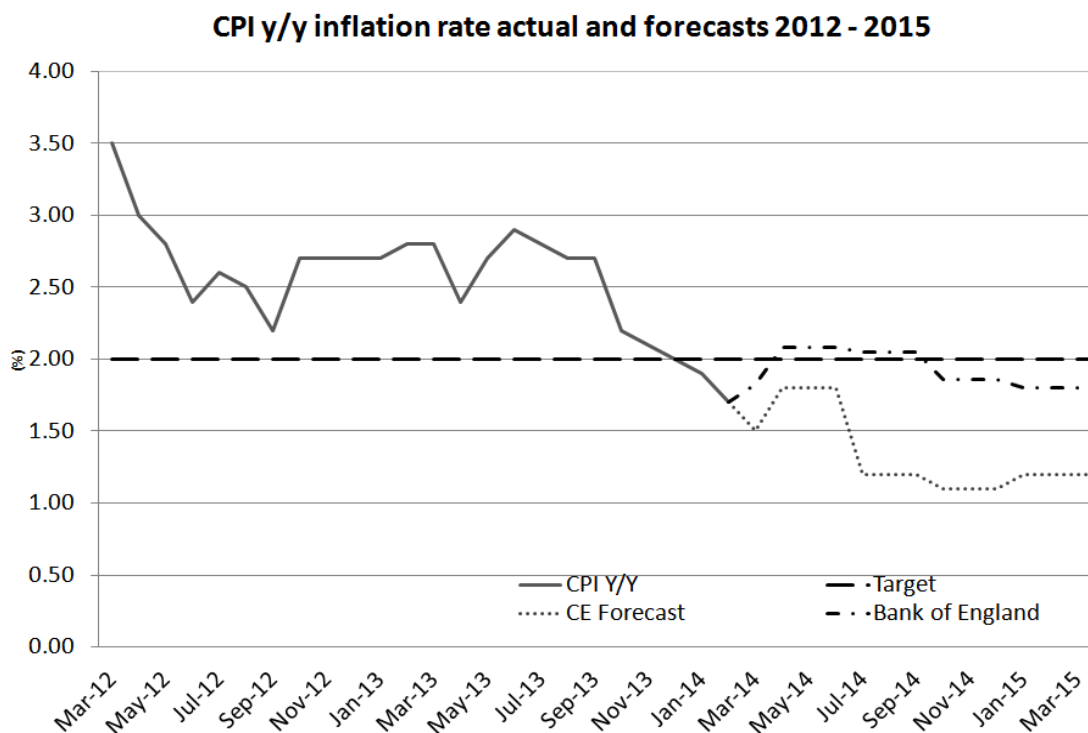
5. THE ECONOMY AND INTEREST RATES 2013/14

5.3 The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which resulted in deposit rates remaining depressed during the whole of the year (although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014). The investment rates pertinent to the Council’s investments largely “flat-lined” during the year as are illustrated below:



5.4 In contrast, Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality.

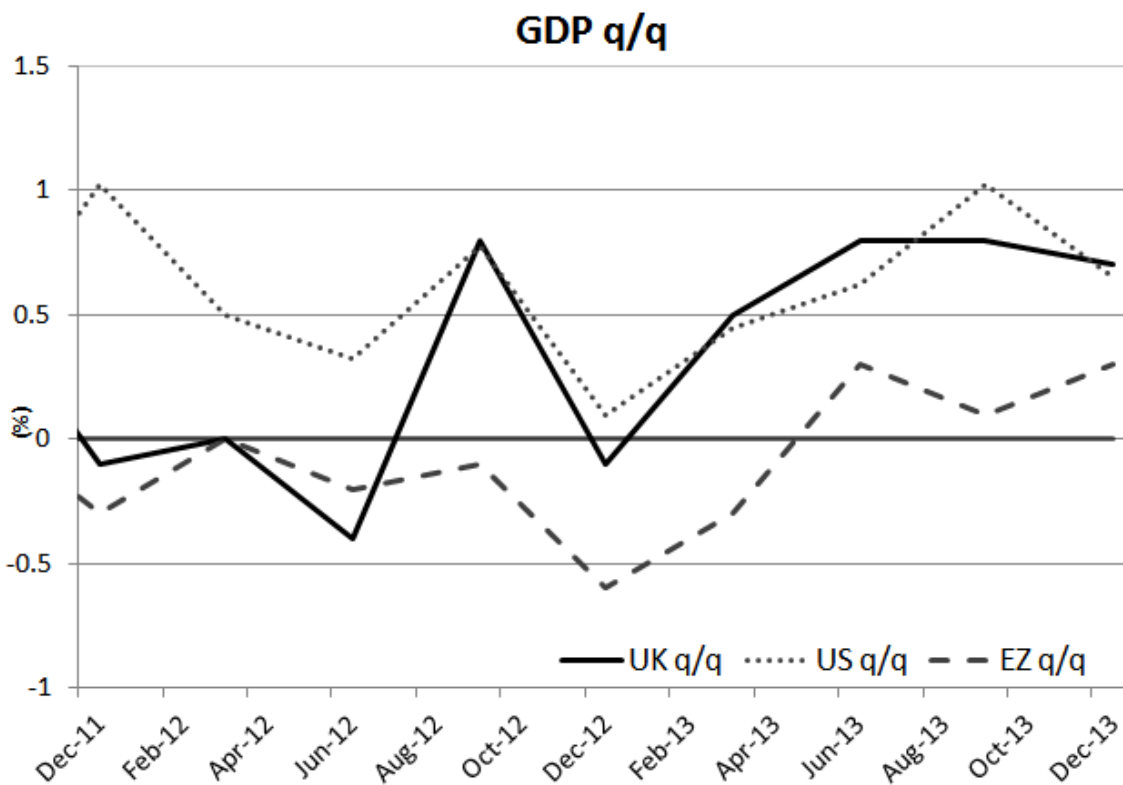
5.5 While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.



5. THE ECONOMY AND INTEREST RATES 2013/14

- 5.5 Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year.
- 5.6 The UK coalition Government maintained its tight fiscal policy but the surge in economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

2013/14 UK GDP Growth compared to the US and Eurozone



- 5.7 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which continued into 2013-14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

6. INVESTMENT STRATEGY AND OUTTURN FOR 2013/14

Investment Strategy

- 6.1 The investment strategy aimed to secure investment interest for 2013/14 of £259,000 as contained in the Council's budget. This equated to expected average returns on all investments of 0.872%. This target was set against the overriding criteria of security of principal sums invested, and liquidity of funds to service the Council's operational cash flow requirements.
- 6.2 The investment returns included in the reported income of the Council for 2013/14 amounts to £376,014, an increase of £117,014 over the budgeted investment returns - albeit that the increase includes £26,570 carried over in the accounts from 2012/13 that was excluded from the outturn reported a year ago. Nevertheless, the outturn in 2013/14 equates to an average return on all investments of 1.06%. The variance between the actual outturn and budget estimate at the start of the year is analyzed as follows:

Investment Duration	2013/14 Estimate	2013/14 Actual	Variance
	(£000)	(£000)	(£000)
Up to 6 Months	22	100	78
6-12 Months	45	202	157
12 months or more	192	74	(118)
Total	259	376	117

- 6.3 The improvement in performance over budgeted returns is reflected in the increased availability of funds for investment during the year. The average balances forecast for 2013/14 (based upon 2012/13 actual balances) was £29.71m. In fact the average balances for 2013/14 were £32.9m, some £3.19m higher than expected.
- 6.4 This translated into higher volume Money Market Fund transactions to provide instant liquidity and more investments in the 6-12 month range than originally anticipated. This outcome was also driven by suppressed interest rates for investments beyond 12 months, which meant that longer term investments were delayed. Indeed £6m of £8m long term investments outstanding at 31 March 2014 were conducted between 20 December 2013 and 18 March 2014 for periods of between 2-5 years. These were conducted to bolster returns all the while interest rates are not predicted to rise before 2015/16.
- 6.5 In all, 189 transactions were conducted in the year, 104 more than the year before, and 100 of which were in respect of Money Market Funds. A significant feature of this was the decision taken early in the year to refrain from investing fixed term deposits with the Council's own banker and maintain near zero overnight bank balances following a ratings downgrade. Hence the turnover of funds amounted to £174m (£124.6m for 2012/13).

6. INVESTMENT STRATEGY AND OUTTURN FOR 2013/14

Investment Strategy

6.6 The composition of investment transactions is shown below (the movement of these transactions during the year is shown in paragraph 3.1).

	No. of Transactions	Amount Invested £m	Average Deal Size £m	Minimum Deal Size £m	Maximum Deal Size £m
Long-term (> 1 year)					
Banks	1	1.000	1.000	1.000	1.000
Building Societies	3	4.000	1.333	1.000	2.000
Local Authorities	2	3.000	1.500	1.000	2.000
Total Long Term	6	8.000	1.333	1.000	2.000
Short-term (< 1 year or less)					
Council's own Bank	-	-	-	-	-
Other Banks	12	12.000	1.000	1.000	1.000
Building Societies	31	43.100	1.390	1.000	2.000
Money Market Funds	140	110.953	0.793	0.025	2.000
Total Short-term	183	166.053	0.907	0.025	3.000
OVERALL TOTAL	189	174.053	0.921	0.025	3.000

6.7 The number of investments placed with other banks and building societies increased by 7 compared to the previous year. The total number of long term investments increased to six during 2013/14 (compared with only one in 2012/13) and were conducted at rates ranging between 1.2% and 2.3%. No new investments were placed with the Council's own banker, as the outstanding investments at the start of the year were all matured and returned on the due date. The composition of investments at 31 March 2014 was as follows:

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Lloyds Bank Plc	1,000,000	1.10%	05/04/2013	04/04/2014	A	0.001%
West Bromwich Building Society	1,000,000	1.10%	05/04/2013	04/04/2014	B	0.035%
Lloyds Bank Plc	1,000,000	1.10%	15/04/2013	14/04/2014	A	0.003%
Bank of Scotland Plc	1,000,000	1.10%	15/04/2013	14/04/2014	A	0.003%
Bank of Scotland Plc	1,000,000.00	1.10%	23/04/2013	22/04/2014	A	0.005%
The Royal Bank of Scotland Plc	1,000,000	0.67%	01/05/2013	30/04/2014	BBB+	0.017%
Barclays Bank Plc	1,000,000	0.86%	02/05/2013	01/05/2014	A	0.008%
Barclays Bank Plc	1,000,000	0.85%	08/05/2013	07/05/2014	A	0.009%
Nottingham Building Society	1,000,000	0.90%	14/05/2013	13/05/2014	BBB	0.025%
West Bromwich Building Society	1,000,000	0.93%	18/07/2013	17/07/2014	B	0.937%
Nationwide Building Society	1,000,000	0.70%	24/07/2013	23/07/2014	A	0.028%
Nottingham Building Society	1,000,000	0.58%	25/03/2014	04/09/2014	BBB	0.091%
Nottingham Building Society	1,000,000	0.83%	07/10/2013	06/10/2014	BBB	0.110%
Lloyds Bank Plc	1,000,000	0.98%	25/10/2013	24/10/2014	A	0.050%
National Counties Building Society	1,000,000	1.15%	14/11/2013	13/11/2014	Not on Credit List	
National Counties Building Society	1,000,000	1.15%	20/11/2013	19/11/2014	Not on Credit List	
National Counties Building Society	1,000,000	1.15%	20/02/2014	19/02/2015	Not on Credit List	
Barclays Bank Plc	1,000,000	0.78%	31/03/2014	19/02/2015	A	0.079%
West Bromwich Building Society	1,000,000	1.40%	12/04/2013	13/04/2015	B	3.323%
Skipton Building Society	1,000,000	1.21%	15/04/2013	15/04/2015	BB+	0.934%
Barclays Bank Plc	1,000,000	1.10%	06/01/2014	06/01/2016	A	0.212%
Skipton Building Society	2,000,000	1.45%	18/03/2014	18/03/2016	BB+	2.315%
Cheshire West & Chester Council	2,000,000	2.30%	20/12/2013	20/12/2018	AA+	0.369%
London Borough of Islington	1,000,000	2.30%	31/01/2014	31/01/2019	AA+	0.383%
Total Investments	£26,000,000	1.17%				0.447%

7. COMPLIANCE WITH TREASURY MANAGEMENT LIMITS AND PRUDENTIAL INDICATORS

- 7.1 The Council operates to approved Prudential Indicators for treasury management as contained in the Treasury Management Strategy Statement (TMSS). The TMSS for 2013/14 was reported to Council in March 2013. The approved limits exist to regulate short-term borrowing for operational cash flow fluctuations, as well as long-term borrowing for financing capital investments. Additionally, the limits aim to mitigate risk against fluctuations in interest rates.
- 7.2 The Council’s treasury management limits and indicators for 2013/14 are compared with the outturn position, and previous year’s outturn in Appendix 2. Actual performance was within the limits determined at the start of the year, except for one indicator, being for the upper limit for investments exceeding 364 days. The actual proportion of investments over 364 days exceeded the limit of 50% on 28 March 2014 and rose to 51.96% on 31 March 2014 – the highest level in the year. This was more attributable to the fall in total investments at this point of the year, rather than any decision to invest over the permitted limit.

8. PERFORMANCE MEASURES

- 8.1 The Council’s outturn performance in 2013/14 has been compared to an independently obtained Benchmark for 39 participating local authorities with the following results:

DEBT	Mid Sussex DC			All Other Member Councils	
	Average Interest Rate % for 2013/14	Debt at 31.03.14 £m	% of Debt at 31.03.14	Average Interest Rate % for 2013/14	% of Debt at 31.03.14
Short-term fixed	-	-	-	-	-
Long term Fixed	4.47%	1.179	100%	4.51%	75%

- 8.2 The comparison shows that the rate of interest charged on the Council’s long term fixed debt is below the average benchmark rate. The Council did hold a higher proportion of long term fixed debt than indicated by the benchmark, but this was more a reflection that the Council did not hold any temporary or variable rate long-term debt at 31 March 2014.
- 8.3 The council’s return on all investments is shown in the Table below and exceeded the benchmark returns, but was below the benchmark for individual durational band. The reason why is difficult to know without further information on the composition of the individual benchmarks of the 39 participating Council’s in the benchmarking club.

8. PERFORMANCE MEASURES (Continued)

INVESTMENTS	Mid Sussex Average Balances Held in Year(£m)	Mid Sussex Rate of Return %	Benchmark Average Return %
Short-term Fixed	29.956	0.66	0.80
Money Market Funds	3.247	0.36	0.38
Long-term Fixed	3.022	1.47	1.75
Combined Balances/ Return	32.978	1.06	0.84

9. AMENDMENTS TO INVESTMENT COUNTERPARTY LENDING LIST

- 9.1 The Counter Party Approved Lending List was last reviewed and reported as part of the Treasury Management Strategy and Annual Investment Strategy Report for 2014/15 which was approved by Council on 9th April 2014.
- 9.2 No counterparties were added to or removed from the Counterparty lending during 2013/14.
- 9.3 The Council's investment exposure to counterparties during 2013/14 is reported in Appendix 1, and the limits of approved dealing for the Council's counterparties is reproduced at Appendix 3.

10. MINIMUM REVENUE PROVISIONS (MRP) FOR REPAYMENT OF DEBT

- 10.1 The Council, in accordance with legislation, makes a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year. MRP is set aside each year at an amount equivalent to the value of debt repaid in the year.
- 10.2 For 2013/14 an amount of £240,110 has been set aside in the annual accounts as the MRP for repayment of debt.

11. OTHER ISSUES AND MATTERS

Shared Services Arrangements

- 11.1 The Council's treasury management services are provided under a shared services arrangement (SSA) performed by the in-house treasury management team formed out of partnership working between Adur District Council and Worthing Borough Council. The treasury management team is based at Worthing Town Hall, but services all three councils' treasury management operations from this location utilising similar banking arrangements.
- 11.2 The SSA is provided under a Service Level Agreement that was renewed from 18th October 2013, and which defines the respective roles of the client and provider authorities for a period of three years.

12. CONCLUSION

- 12.1 This report fulfils the requirements under the CIPFA Code of Practice for Treasury Management, as well as the Council's own treasury management practices, to present an annual outturn report on treasury management activity before 30 September, 2014.
- 12.2 The Council's performance during the year exceeded the budgeted returns for investment income, and was within the counterparty lending limits approved at the start of the year. All Prudential Limits were adhered to except one, being the upper limit for investments over 364 days duration, which was temporarily and marginally exceeded for the period 20th-31st March 2014 as explained in Para 7.2.

13. RECOMMENDATION

- 13.1 The Council is recommended to note the Annual Report for 2013/14.

Principal Author and Contact Officer: Tony Jackson – Extension 1261

Background Papers:

- (1) Treasury Management Strategy Statement and Annual Investment Strategy 2013/14 – 2015/16 (Report To Council, April, 2012)
- (2) Half-Year In-House Treasury Management Operations Report 2013/14 (Audit Committee, November, 2013)
- (3) Template Annual Treasury Report 2012/13 (Capita Asset Services Ltd)
- (4) CIPFA Treasury Management Code of Practice in the Public services and Cross Sectoral Guidance (Nov 2011)
- (5) CIPFA Prudential Code of Practice for Capital Finance in Local Authorities (Nov 2011)

MAXIMUM INVESTMENTS WITH EACH COUNTERPARTY IN 2013/2014

Name of Counterparty	Maximum Individual Investment	Maximum Holdings At Any Time	Balance at 31st March, 2014
	£m	£m	£m
<u>Fixed Term Cash Deposits</u>			
Banks			
Bank of Scotland	1.000	2.000	2.000
Barclays Bank	1.000	4.000	4.000
Lloyds TSB	1.000	4.000	3.000
Royal Bank of Scotland	1.000	3.000	1.000
Building Societies			
Coventry	3.000	3.000	-
Cumberland	1.000	1.000	-
Leeds	1.000	1.000	-
National Counties	1.000	3.000	3.000
Nationwide	3.000	3.000	1.000
Newcastle	1.000	3.000	-
Nottingham	1.000	3.000	3.000
Skipton	1.500	3.000	3.000
West Bromwich	1.000	3.000	3.000
<u>Commercial Money Markets</u>			
Invesco	3.000	3.000	-
Federated Prime Rate	3.000	3.000	-
Royal Bank of Scotland	3.000	3.000	-
<u>Local Authorities</u>			
Cheshire West & Chester	2.000	2.000	2.000
London Borough of Islington	1.000	1.000	1.000
<u>Council's Own Bank</u>			
Co-operative Bank	1.000	4.000	-
TOTAL INVESTMENTS AT 31ST MARCH, 2014			26.000

COMPLIANCE WITH PRUDENTIAL INDICATORS 2013/14

1. PRUDENTIAL INDICATORS	2012/13 Actual	2013/14 Full year Estimate	2013/14 Actuals
Extract from budget	£'000	£'000	£'000
Capital Expenditure Non - HRA	2.508	£5.995	£6.181
Ratio of financing costs to net revenue stream Non - HRA	-1.80%	0.75%	-0.22%
Borrowing Outstanding Brought forward 1 April	1.458	1.324	1.324
Carried forward 31 March	1.324	1.179	1.179
Net in year borrowing / (repayments)	(134)	(145)	(145)
Capital Financing Requirement as at 31 March Non – HRA	2.032	1.708	1.792
Change in Cap. Financing Requirement Non – HRA	-231	-324	-240
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	£-0.66	£0.18	£0.36
2. TREASURY MANAGEMENT INDICATORS			
Authorised Limit for external debt -	Limit £'000	Limit £'000	Actuals (£'000) at 31.03.14
Borrowing	£5.000	£5.000	£1.179
Other long term liabilities	£1.000	£1.000	£601
Total Authorised Limit for external debt	£6.000	£6.000	n/a
Operational Boundary for external debt Borrowing	£3.000	£3.000	£1.179
Other long term liabilities	£1.000	£1,000	£601
Total Operational Boundary for external debt	£4.000	£4.000	n/a
	Actuals at 31.03.13	2013/14 Limit	Actuals (%) at 31.03.14
Upper limit for fixed interest rate exposure Investments net of Borrowing	100%	100%	100%
Upper limit for variable rate exposure Investments net of Borrowing	0%	0%	0%
Upper limit for total principal sums invested for over 364 days	48%	50%	52%

COMPLIANCE WITH PRUDENTIAL INDICATORS 2013/14

The Maturity structure of fixed rate borrowing at 31 March 2014 is :	Proportion of Total Fixed rate Borrowing
under 12 months	2%
12 months and within 24 months	0%
24 months and within 5 years	0%
5 years and within 10 years	98%
10 years and above	0%

APPROVED INVESTMENT INSTITUTIONS

Specified Investments identified for use by the Council

New specified investments will be made within the following limits:

(a) *Banks (Approved Investment Regulation 2 (b))*

Major U.K. and European Banks and their wholly-owned subsidiaries meeting the Council's approved investment criteria.

	<i>Counterparty</i>	Group	Individual Sum and Maximum Period	
1	HSBC Bank Group: .HSBC Bank plc	£5m		
			£4m	5 years
2	The Royal Bank of Scotland Group: .The Royal Bank of Scotland plc .National Westminster Bank plc .Ulster Bank Belfast Limited	£5m		
			£4m	5 years
			£4m	5 years
			£1m	1 year
3	Lloyds TSB Group: .Lloyds TSB Bank plc .Halifax plc .Bank of Scotland plc .HBOS Treasury Services plc	£5m		
			£4m	5 years
			£4m	5 years
			£4m	5 years
			£4m	5 years
4	Barclays Group: .Barclays Bank plc	£5m		
			£4m	5 years
5	Santander Group: . Santander UK plc (incorporating Alliance and Leicester & Abbey)	£5m		
			£4m	5 years
6	The Co-operative Bank p.l.c.		£5m	5 years
7	Clydesdale Bank		£4m	5 years

(b) *Building Societies (Approved Investment Regulation 2 (c))***Building Societies (Assets in excess of £1 billion):**

Rank *	Counterparty	Individual	
		Sum	Period
1	Nationwide	£3m	3 years
2	Yorkshire	£3m	3 years
3	Coventry (incorporating Stroud & Swindon)	£3m	3 years
4	Skipton	£3m	3 years
5	Leeds	£3m	3 years
6	West Bromwich	£3m	3 years
7	The Principality	£3m	3 years
8	Newcastle	£3m	3 years
9	Norwich and Peterborough	£3m	3 years
10	Nottingham	£3m	3 years
11	Progressive	£3m	3 years
12	Cumberland	£3m	3 years
13	National Counties	£3m	3 years

(c) *Money Market Funds (Approved Investment Regulation 2(2) and 2(3)(b))*

Counterparty	Sum	For Short Term Operational Cash Flow Purposes
Invesco Aim – Sterling	£3m	
BlackRock Institutional Sterling Liquidity Fund	£3m	
Ignis Sterling Liquidity Fund	£3m	
Goldman Sachs Sterling Liquidity Reserve Fund	£3m	
Henderson Liquid Assets Sterling Fund	£3m	
Fidelity Institutional Cash Fund plc – Sterling	£3m	
Federated Investors Sterling Liquidity Fund	£3m	
RBS – Global Treasury Fund - Sterling	£3m	

The limit for investing in any one Money Market Fund is £3 million. Except in exceptional circumstances, the total investments in Money Market Funds shall not exceed £5m or 25% of the total investment portfolio, whichever is the higher.

(d) Local Authorities (Approved Investment Regulation 2 (i) and Schedule Part II)

All the following local authorities mentioned in the Regulations

Schedule Part II Ref	Details	Individual	
		Sum	Period
1	<i>County Councils (England and Wales)</i>	£3m	5 years
2	<i>District Councils in England and Wales (including Borough, City, Metropolitan Borough Councils and Unitary Councils)</i>	£3m	5 years
3	<i>London Borough Councils</i>	£3m	5 years
4	<i>The Common Council of the City of London</i>	£3m	5 years
5	<i>The Council of the Isles of Scilly</i>	£3m	5 years
6	<i>(Joint authorities (police, fire, civil defence, transport) - see other public bodies)</i>		
7	<i>Combined police authorities</i>	£3m	5 years
8	<i>(Metropolitan Police - see other public bodies)</i>		
9 - 13	<i>(not permitted)</i>		
14	<i>(Levying body under s.74 LGFA 1988 - see other public bodies)</i>		
15	<i>(Special levying body s.75 LGFA 1988 - see other public bodies)</i>		
16	<i>Regional, Islands, or District Councils in Scotland</i>	£3m	5 years
17	<i>Joint boards under s.235(1) of LG (Scotland) Act 1973</i>	£3m	5 years
18 - 27	<i>(See other public bodies)</i>		
28	<i>District Councils in Northern Ireland</i>	£3m	5 years
29	<i>Police Authorities under s.3 Police Act 1964 as substituted by s.2 Police & Magistrates Courts Act 1994</i>	£3m	5 years

(e) Nationalised Industries and other Public Bodies (Approved Investment Regulation 2 (i) and Schedule Part II)

Permitted lending:

Schedule Part II Ref	Details	Individual	
		Sum	Period
1 - 5	(See local authorities)		
6	Police, Fire, Civil Defence, and Waste Disposal Authorities	£3m	1 year
6	Passenger Transport Authorities	£3m	1 year
7	(See local authorities)		
8	Receiver for the Metropolitan Police	£3m	1 year
9 - 13	(not permitted)		
14	Levying bodies s.74 LGFA 1988:- Residuary Bodies	£2m	1 year
15	Special levying bodies s.75 LGFA 1988		
16 - 17	(See local authorities)		

Schedule Part II Ref	Details	Individual	
		Sum	Period
18	The British Coal Corporation	}	1 year
19	The British Railways Board	}	
20	The British Waterways Board	}	
21	The Civil Aviation Council	}	
22	London Regional Transport	}	
23	The Post Office	} £3m	
24	The Commonwealth Devt. Corporation	}	
25	Nuclear Electric Limited	}	
26	Scottish Nuclear PLC	}	
27	United Kingdom Atomic Energy Council	}	

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
BANK / BANKING INSTITUTION	In order to be called a bank and before it may accept deposits , an institution has to be authorised by the Financial Services Authority, which took over the regulation of banks from the Bank of England as a result of the Financial Services and Market Act 2000.
BROKER	An agent whose purpose is to bring together principals (borrowers and lenders) and facilitate efficient dealing. They charge a commission or brokerage fee (normally a percentage of the sum dealt) to the borrower - the lender pays no commission.
BUILDING SOCIETY	A well-known type of financial institution, authorised under the Building Societies Act 1986, whose traditional business of taking in small savings from individuals ('members') and lending out mortgages for house purchase has expanded in recent years to cover many additional financial services. The rankings given to building societies - e.g. top 5 - refer to the relative size in terms of asset size (published annually in <i>Butlers Building Society Guide</i>).
CALL DEPOSIT	A notice deposit on which the interest rate can be varied or repayment requested on the same day providing notice is given by mid-day.
CLEARING BANK	For the purpose of the Council's permitted lending list there are 7 major 'high-street' clearing banks (Barclays, HSBC, Lloyds-TSB, Abbey National, Royal Bank of Scotland (which now includes National Westminster), Halifax-Bank of Scotland and Co-operative.
CREDIT RATING	A measure of the perceived ability of an organisation (bank or top building society) to meet its interest and debt repayment obligations. Several specialist credit rating agencies exist - e.g. Moodys, Standard & Poors, and Fitch IBCA.
CONSUMER PRICE INDEX	The Consumer Price Index (CPI) is the official measure of inflation of consumer prices of the United Kingdom. It is also called the Harmonised Index of Consumer Prices (HICP) .
DEPOSIT (CASH DEPOSIT)	A non-tradeable interest-paying investment .
FIXED (INTEREST)	Refers to a deposit where the interest rate is determined on the start date and remains in force until maturity.
FOREIGN BANK	A bank which is incorporated outside the UK, but which may have a UK office or UK incorporated subsidiaries .

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
FUND MANAGER	A company providing professional expertise on managing investments in return for a fee, which is normally, a percentage of the funds managed or a fee based on a claimed performance.
GROSS DOMESTIC PRODUCT (GDP)	Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a given period of time.
INTERBANK	See LIBOR and money market .
INVESTMENT	A generic term from the lender's perspective, which includes cash deposits .
LIBID	See LIBOR .
LIBOR / LIBID	LIBOR and LIBID are the <i>averages</i> of the rates of interest at which major banks conduct business in the London interbank money market at 11 a.m. each business day: LIBOR (London interbank offered rate) is the rate at which the major banks are prepared to lend (i.e. offer) money to the money market. LIBID (London interbank bid rate) is the rate at which the reference banks are prepared to borrow (i.e. bid) money from the money market. Both LIBOR and LIBID rates are published daily in the <i>Financial Times</i> for periods ranging from overnight to 1 year. They are important to local authorities as 'benchmark' rates for assessing performance.
LOCAL AUTHORITY	For the purpose of investment, local authority means one of the <i>principal</i> authorities - i.e. County Councils; London Borough Councils and the City of London Corporation; Metropolitan Borough and City Councils; 'shire' and 'unitary' District, Borough, and City Councils (England and Wales); 'unitary', Regional, Islands, and District Councils (Scotland); and District Councils (Northern Ireland).
LONG-TERM DEPOSIT/ INVESTMENT	Normally used to mean an investment for a period of 1 year or more.
MONEY MARKET	The process of wholesale lending and borrowing in the City of London, which is regulated by the Bank of England. The largest market is the interbank market, and other important markets are local authorities and building societies . Much business is arranged via money brokers .

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
MONEY MARKET FUNDS	Stand-alone pooled investment funds that actively invest their assets in a diversified portfolio of high-grade, short-term money market instruments.
NOTICE DEPOSIT	A deposit on which the interest rate can be varied or repayment made by either borrower or lender on giving a required period of notice . The most common types of notice deposits are call , 2 days or 7 days.
OVERNIGHT	The shortest deposit that can be made in the money markets , and which has the most volatile interest rate from day to day. ' Overnight ' refers to banking days - so that, for example, an ' overnight ' deposit made on the day before Good Friday would mature on the following Tuesday, a period of 5 days including the weekend and bank holidays.
QUARTER ON QUARTER (q/q)	The "q/q" expression used in this report denotes the movement of an index or measure (eg. GDP) over a three month i.e. quarterly period of time.
SHORT-TERM DEPOSIT / INVESTMENT	Normally used to mean an investment for a period of between overnight and 364 days - i.e. less than 1 year from start to maturity.
SUBSIDIARY	Normally used to refer to a banking institution , which is wholly owned, by a clearing bank . Examples include Ulster Bank Belfast Ltd (subsidiary of Royal Bank of Scotland).
VARIABLE (INTEREST)	Refers to a deposit where the initial interest rate can be varied by giving the required period of notice .
YEAR ON YEAR (y/y)	The Year-on-year (y/y) expression used in this report indicates the change of an index or measure (eg. inflation) expressed over the corresponding period (i.e. the previous year).

6. EXTERNAL AUDIT BUSINESS

REPORT OF: Head of Finance
Contact Officer: Peter Stuart, Head of Finance, ICT and HR
Email: Peter.Stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected: All
Key Decision No
Date of meeting – 24th June 2014

1. Purpose Of Report

The purpose of this report is twofold: to update the Committee on the audit of our financial year 2013/14, and to present the 'Management Assurance' letter for the Committee's consideration.

2. Recommendations

The Audit Committee is recommended to note the Audit Plan for the Year ended 31 March 2014

3. Audit Plan 2013/14

- 3.1 The Plan attached sets out the current status of the 2013/14 audit. Members will note that Section 2: Financial Statement Risks, sets out two generic areas which the auditor will examine which are peculiar to the year; they are not specific to Mid Sussex but apply to all auditees. The second of these is topical since 2013/14 is the first year of operation of the Rate Retention Scheme and naturally assurance is needed that we are applying appropriate levels of judgement to its administration.
- 3.2 Members should note the report and seek reassurance from the Ernst and Young Director on the nature and extent of their work.

4 Letter of Management Assurance

- 4.1 This letter draws to the Committees attention that the financial statements must be 'owned' by the committee and that whilst the statutory officer of the Council is ultimately responsible for the content of the accounts, there are some responsibilities that are shared
- 4.2 The Committee should be assured that the Head of Finance responds to a similar letter, and for your convenience, a draft response from the Chairman will be circulated. Members are invited to comment upon that response and agree that the Chairman should sign that letter on their behalf
- 4.3 A copy of the Chairman's letter will be presented to this committee in September.

5 Financial implications

- 5.1 There are no financial implications arising from this report. .

6 Equalities implications

6.1 The report raises no implications of this nature.

7 Risk analysis

7.1 No material risks arise from this report

Background Papers

None

Audit Plan

Year end 31 March 2014

Mid Sussex District Council

June 2014

Ernst & Young LLP



Audit Committee
Mid Sussex District Council
Oaklands Road
Haywards Heath
West Sussex
RH16 1SS

11 June 2014

Dear Members of the Audit Committee

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2013-14 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. It also helps ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for Mid Sussex District Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 24 June 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Paul King
Director
For and behalf of Ernst & Young LLP
Enc

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1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ our audit opinion on whether the financial statements of Mid Sussex District Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to our audit, and outline our plans to address these risks.

Our process and strategy

Financial Statement Audit

- ▶ When considering the results of our audit work, we consider them in the context of their materiality to the statements as a whole.
- ▶ Where possible and more efficient we will seek to rely on the controls in your systems, therefore reducing the year-end testing required.
- ▶ To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit.

Arrangements for securing Economy, Efficiency and Effectiveness

- ▶ We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

2. Financial Statement Risks

We outline below our assessment of the financial statement risks facing Mid Sussex District Council, identified through our knowledge of the Council's operations and discussion with members and officers. At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement, and include this risk in all of our audit plans. It is not specific to Mid Sussex District Council.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias; ▶ evaluating the business rationale for significant unusual transactions; and ▶ the Council's arrangements for identifying and properly disclosing significant related party transactions in its financial statements.
National Non-Domestic Rates (NNDR) rateable value appeals provision	
<p>The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of the business rates collected by councils will be retained locally and half paid over to central government.</p> <p>The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).</p> <p>Where local businesses believe the current value for business properties is wrong they can:</p> <ul style="list-style-type: none"> • appeal to the VOA and ask them to correct details • appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal. <p>Where rating appeals are successful, monies to settle appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. This includes both claims from 1 April 2013 and claims that relate to periods before the introduction of the scheme. As appeals are to the VOA, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.</p> <p>The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.</p>	<p>We will seek to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals at the balance sheet date.</p> <p>This will involve consideration of both the completeness and accuracy of the data on the number of appeals and the basis for the assumptions made by the Council on the likelihood of success.</p>

Significant risks (including fraud risks)**Our audit approach**

This risk is common to all billing authorities – it is not specific to Mid Sussex District Council

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at the Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

We have not identified any significant risks to the value for money (VFM) conclusion. However, we have identified the following key areas that we will consider to support our VFM conclusion.

Other risks	Our audit approach	
Financial standing		
The Council continues to experience funding challenges from of national policies to reduce the deficit.	Economy, efficiency and effectiveness Financial resilience	We will review the Council's 2014-15 budget and medium term financial plan and consider the reasonableness of the underlying assumptions.
Council spending		
The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative spending of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area.	Economy, efficiency and effectiveness Financial resilience	We will consider the comparative spending of the Council based on the latest available VFM profile data.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the Code), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the NAO, to the extent and in the form required by them, on your Whole of Government Accounts return.

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls:

- ▶ Cash and bank
- ▶ Accounts payable
- ▶ Accounts receivable
- ▶ Council tax
- ▶ Housing benefits
- ▶ Business rates

- ▶ Payroll

To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of Internal Audit to test controls in its annual programme of work.

We have also identified the following key processes that we will test substantively post year-end:

- ▶ Property, Plant and Equipment
- ▶ Treasury management
- ▶ Financial Statements Close Process.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular for payroll and journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

Use of experts

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and property, plant and equipment valuations.

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

- ▶ Addressing the risk of fraud and error.
- ▶ Reviewing significant disclosures included in the financial statements.
- ▶ Assessing the effectiveness of entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Maintaining auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We have initially determined our overall materiality for the financial statements of the Council as £1.399 million, based on 2% of 2012/13 gross service expenditure.

We will communicate uncorrected audit misstatements greater than £69,900 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act 1998 in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Council is £66,489.

4.5 Your audit team

The engagement team is led by Paul King, who has significant experience of the Council. Paul King is supported by Emma Bryant who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Head of Finance and ICT.


4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government accounts; and the deliverables we have agreed to provide to you through the Audit Committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We provide progress reports to each meeting of the Audit Committee and will provide a formal report detailing the results of our 2013/14 audit to the September meeting of the Committee. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Deliverables
High level planning:	November	Audit Fee Letter
Risk assessment and setting of scope of audit	January – March	Audit Plan
Testing of routine processes and controls	March – April	Audit Plan
Year-end audit	July - September	<ul style="list-style-type: none"> ▶ Report to those charged with governance ▶ Audit report on the financial statements and value for money conclusion ▶ Audit Completion certificate ▶ Whole of government accounts
Reporting	October	Annual Audit Letter
Grant Claims	September – December	Annual certification report



In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However, we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Non audit services provided in 2013/14

To date, we are not providing any non-audit services to the Council.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified. We therefore confirm that EY is independent and the objectivity and independence of Paul King, your audit engagement director and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14	Actual Fee 2012/13	Explanation of variance
	£'s	£'s	
Total Audit Fee – Code work	66,489	66,489	N/a
Certification of claims and returns	*8,888	**25,332	<p>* - for 2013/14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011/12. The fee is also adjusted for claims no longer covered or audited and the reduction in the work required on the Housing benefit subsidy claim.</p> <p>** - includes an additional £3,659 fee variation to cover follow-up work carried out at the request of DWP in response to the 2012-13 Housing benefit and Council Tax benefit Qualification Letter. This additional fee is subject to review and determination by the Audit Commission</p>
Non-audit work	N/a	N/A	No non-audit work was undertaken in either 2012/13 or is planned for 2013/14
Total	75,377	91,821	

The agreed fee presented above is based on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ we are able to place reliance, as planned, on the work of internal audit;
- ▶ the level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ no significant changes being made by the Audit Commission to the use of resources criteria on which our VFM conclusion will be based;
- ▶ our accounts opinion and use of resources conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the audited body; and
- ▶ effective control environment

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. We will discuss with the Chief Accountant and Head of Finance and ICT in the first instance and then the Audit Committee.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

Appendix B UK required communications with those charged with governance.

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach	
Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit	
<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Report to those charged with governance
Misstatements	
<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
Fraud	
<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
Related parties	
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance
External confirmations	
<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
Consideration of laws and regulations	
<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off 	Report to those charged with governance

Required communication	Reference
<ul style="list-style-type: none"> ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	
Independence	
<p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p>	Audit Plan
<p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p>	Report to those charged with governance
<ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	
Going concern	
<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p>	Report to those charged with
<ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Certification work	
<ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
Fee Information	
<ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan 	Audit Plan
<ul style="list-style-type: none"> ▶ Breakdown of fee information at the completion of the audit 	Report to those charged with governance and Annual Audit Letter if considered necessary

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7. INTERNAL AUDIT ANNUAL REPORT 2013/14

Report from: Audit Manager
Contact Officer: Ben Durrant, HW Controls & Assurance LLP
Email: ben.durrant@midsussex.gov.uk
Tel: (01444) 477241
Wards Affected: All
Key Decision No
Date of Meeting – 24th June 2014

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report.

This is the annual report of the Internal Audit function of Mid Sussex District Council for 2013/14.

2. Summary

2.1 The Internal Audit section completed the programme of audits for the year ended 31st March 2014 in accordance with the UK Public Sector Internal Audit Standards (PSIAS). In carrying out its work the full cooperation of management and staff was gratefully received throughout the year.

2.2 All of the audits within the plan have now been completed. Three high priority recommendations were raised as part of the Landscapes audit. Additionally, two high priority recommendations were raised as part of the Benefits audit conducted on behalf of the CenSus Partners by Horsham District Council Internal Audit and two high priority recommendations were also raised as part of the NNDR audit conducted by Adur District Council Internal Audit.

2.3 No significant special investigations were performed during the year.

2.4 It is the opinion of Internal Audit that on the whole the Council had an adequate, effective and reliable framework of internal control.

2.5 We welcome the Audit Committee's role in monitoring the implementation of these recommendations.

3. Recommendations

The Committee is asked to receive the report.

INTERNAL AUDIT ANNUAL REPORT FOR 2013/14

1 Introduction and Background

1.1 Internal Audit is a key part of the Council's internal control environment. Central to its role is assessing the adequacy and effectiveness of the systems and controls that have been put in place by management. To this end the work undertaken is designed to:

- inform the members and senior management to what extent they can rely on the internal controls;
 - to make recommendations to enhance controls where weaknesses are identified; and
 - advise individual managers on the reliability of the systems and associated controls for which they are responsible.
- 1.2 The internal control environment comprises the whole network of systems and controls established to ensure that the Council's objectives are met. It includes financial and other controls and also arrangements for ensuring that the Council is achieving value for money from its activities.
- 1.3 There have been no restrictions imposed on the scope of the internal audit function.

Specific requirements for Internal Audit

- 1.4 The Accounts and Audit (England) Regulations 2011 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practices as stated within the Regulations are now defined as the Public Sector Internal Audit Standards (PSIAS). The PSIAS replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) with effect from 1 April 2013.
- 1.5 The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS included an updated definition of internal auditing, further emphasising the role of internal audit in reviewing all systems of risk, governance and internal control. The definition also focuses on the role of Internal Audit in assisting the organisation to achieve its objectives.
- 1.6 The PSIAS require the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter. Additionally, internal auditors must conform to a Code of Ethics: Integrity; Objectivity; Confidentiality; and Competency. The Code of Ethics includes two components:
- 1) Principles that are relevant to the profession and practice of internal auditing; and
 - 2) Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.
- 1.7 The PSIAS are split into two groupings. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated:

Attribute standards

- 1 Purpose, Authority and Responsibility;
- 2 Independence and Objectivity;
- 3 Proficiency and due professional care; and
- 4 Quality assurance and improvement programme.

Performance standards

- 5 Managing the internal audit activity;
- 6 Nature of work;
- 7 Engagement planning;
- 8 Performing the engagement;
- 9 Communicating results;
- 10 Monitoring progress; and
- 11 Communicating the acceptance of risks.

Annual Governance Statement

- 1.8 Regulation 4 of the Accounts and Audit (England) Regulations 2011 requires the Council to carry out an annual review of its systems of internal control, and for a committee of the Council to consider the outcome of the review. This requirement has now been replaced by the Annual Governance Statement (AGS). The Annual Governance Statement was included within the Statement of Accounts for the Year ended 31st March 2013.

This report

- 1.9 This annual report has been produced in accordance with the requirements of the PSIAS. It covers the effectiveness of internal control for the period 1st April 2013 to 31st March 2014.
- 1.10 Whilst the report contributed towards the process outlined above, it should be noted that the Annual Governance Statement can provide only reasonable assurance that, for example: assets are safeguarded; transactions authorised and properly recorded; and that material errors or irregularities are either prevented or would be detected within a timely period.
- 1.11 It should be noted that it is not Internal Audit's responsibility to operate the system of internal control; that is the responsibility of management. Furthermore, it is management's responsibility to determine whether to accept and implement recommendations made by internal audit or, alternatively, to recognise and accept any risks arising from not taking action.

2. Internal Audit activity during 2013/14

Significant events during the year

- 2.1 The most significant events and circumstances during the year, from a control perspective, were:
- the processing of the MSDC Bank Reconciliations;
 - continued development of the CenSus Partnership arrangements for both ICT and Revenues & Benefits; and
 - continuing pressure on resources impacting on segregation of duties in a small number of areas.

Factors affecting the extent of our internal audit work

- 2.2 There were no factors which have affected the extent of our internal audit work during the year. However, the continued working arrangements with the external auditors (Ernst & Young) have reduced the duplication of some aspects of the audit

coverage. Our work included specific testing in respect of the Fundamental Audits to ensure the external auditors were able to place the relevant assurances on the areas covered.

The Audit Plan

- 2.3 The 2013-2014 audit plan was agreed by the Head of Finance, ICT and HR (Council's S151 Officer) and the Audit Committee was asked to receive the report.
- 2.4 The 2013-2014 audit plan was completed in full and included audits of the Council's fundamental systems, operational audits and computer audits, along with ad-hoc reviews.

3. Assurance

- 3.1 As the provider of an internal audit service to Mid Sussex District Council we are required by the PSIAS to provide the Council with assurance on the whole system of internal control. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control. In assessing the level of assurance to be given we have taken into account:
 - (a) the findings arising from audits undertaken during 2013/14 and in previous years;
 - (b) the results of management action taken in respect of recommendations made in audits from the current and previous years;
 - (c) whether or not any high or medium recommendations have not been accepted by management, and the consequent risks;
 - (d) the effects of any material changes in the Council's objectives or systems;
 - (e) matters arising from previous reports of the external auditor;
 - (f) whether or not any limitations have been placed on the scope of internal audit;
 - (g) whether or not there have been any resource constraints that may impinge on the Head of Finance, ICT and HR's ability to meet the full audit needs of Mid Sussex District Council; and
 - (h) what proportion of the audit needs has been covered to date.
- 3.2 The matters raised in this report are only those that came to our attention during our internal audit work during the course of the year, and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all improvements that may be required.
- 3.3 This report is prepared by HW Controls & Assurance LLP solely for the use of Members and Officers of Mid Sussex District Council. Details may be made available to the specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Overall assurance

- 3.4 In our opinion, for the 12-month period to 31st March 2014, Mid Sussex District Council had an adequate, effective and reliable framework of internal control that

provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

- 3.5 Internal Audit made three recommendations classed as high priority during 2013/14. A further two were made by Horsham District Council Internal Audit as a result of the CenSus Benefits audit and another two were made by Adur District Council Internal Audit as a result of the CenSus NNDR audit. These are detailed in separate monitoring reports provided to the Audit Committee throughout the year.

Operational assurance

- 3.6 The internal audit service examined systems operating to achieve the Council's objectives in several areas.

- 3.7 During the conduct of our audit work we have had regard to the following objectives of internal audit:

- (a) to review and appraise the soundness, adequacy and application of the whole system of internal control;
- (b) to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
- (c) to ascertain the extent to which the assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses of all kinds;
- (d) to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
- (e) to ascertain the integrity and reliability of information provided to management including that used in decision making; and
- (f) to ascertain that systems of control are laid down and operate to achieve the most economic, efficient and effective use of resources.

- 3.8 The level of assurance given by an individual audit is directly related to the significance of the findings and categories given to the resultant recommendations. The findings and recommendations ranked as high were reported in detail to the Audit Committee.

4 Policy Context

- 4.1 Receiving this report enables the Committee to perform its duties under the Accounting and Auditing regulations

5. Other Options Considered

- 5.1 None.

6. Financial Implications

- 6.1 This is a report on the activity of Internal Audit in the previous year and as such does not have any financial implications. The budget for Internal Audit relating to work undertaken during 2013/14 has been discussed previously in the Revenue Budget Management reports for the year.

.7. Risk Management Implications

- 7.1 None.

8. INTERNAL AUDIT – 2013/14 Recommendations 24th June 2014

Report from: Audit Manager
Contact Officer: Ben Durrant, HW Controls & Assurance LLP
Email: ben.durrant@midsussex.gov.uk
Tel: (01444) 477241
Wards Affected: All
Key Decision No
Date of meeting – 24th June 2014

1. PURPOSE OF REPORT

The purpose of this report is to update the Committee on the types of recommendations raised across all of the audits during 2013/14.

2. SUMMARY

- 2.1.1 Recommendations are raised based on weaknesses in the systems of control identified during audit fieldwork. Recommendations are rated according to their priority – high, medium or low.
- 2.2 High priority recommendations are reported to Audit Committee and should be implemented immediately. Generally, medium priority recommendations should be implemented within 3 to 6 months and low priority recommendations within 6 to 12 months. Specific deadlines for the implementation of recommendations are agreed at the time of audit.

3. RECOMMENDATIONS

- 3.1 **The Audit Committee is asked to receive the report.**
-

4. REPORT TO AUDIT COMMITTEE

Progress on implementing previous recommendations

- 4.1 During 2013/14, 16 audit reports were issued, not including the CenSus audits. Included within these reports are a total of 34 recommendations of which three were rated as high priority, 22 as medium priority and nine as low priority.
- 4.2 The CenSus audits of Benefits, Council Tax and NNDR produced a total of 22 recommendations of which four were rated as high priority, 15 as medium priority and three as low priority.
- 4.3 Appendix A shows a breakdown of the recommendations across each audit by the following types:
- Policies and procedures
 - Staff training
 - Record keeping/ maintenance
 - Data/ financial security
 - Authorisation of transactions
 - Contract/ budget monitoring

- System error

- 4.4 Recommendations are discussed with the auditees at exit meetings held following the conclusion of the fieldwork. At these meetings the actions to be taken by the auditees in order to implement the recommendations, together with deadline dates, are agreed. All of the recommendations raised during 2013/14 were agreed with the auditees.

Other Options Considered

- 5 None.

Financial Implications

- 6 This report has no such implications.

Risk Management Implications

- 7 None.

Equality and Customer Service Implications

- 8 None within this report.

Other Material Implications

- 9 None.

Background Papers

Internal Audit reports relating to 2013-2014
Working papers relating to 2013-2014.

Mid Sussex District Council
Internal Audit Recommendations 2013/14
Progress Report 24th June 2014

Audit Area	Draft Report	Final Report	Rating of Recommendations				Nature of Recommendations						
			High Priority	Medium Priority	Low Priority	Total	Policies and procedures	Staff training	Record keeping/maintenance	Data/Financial security	Authorisation of transactions	Contract/budget monitoring	System error
CenSus Benefits (HDC)	N/A	4/3/14	2	5	1	8	4	2	1	-	1	-	-
CenSus Council Tax (MSDC)	12/12/13	13/1/14	-	5	-	5	1	1	-	-	2	-	1
CenSus NNDR (ADC)	N/A	6/6/14	2	5	2	9	3	1	3	-	2	-	-
Income Collection (Cashiers)	29/11/13	29/11/13	-	-	-	-	-	-	-	-	-	-	-
Sundry Debtors	18/10/13	18/10/13	-	1	-	1	-	-	-	-	1	-	-
Budgetary Control	12/12/13	12/12/13	-	-	-	-	-	-	-	-	-	-	-
Payroll	7/3/14	20/3/14	-	-	2	2	-	-	2	-	-	-	-
Payments (Creditors)	22/1/14	31/1/14	-	-	-	-	-	-	-	-	-	-	-
Capital Accounting & Asset Management	30/1/14	31/1/14	-	-	-	-	-	-	-	-	-	-	-
Treasury Management	7/3/14	17/3/14	-	-	-	-	-	-	-	-	-	-	-
Procurement	12/11/13	15/11/13	-	1	1	2	-	-	-	-	1	1	-
Pitches and Pavilions	24/5/13	12/9/13	-	3	2	5	3	-	2	-	-	-	-
Anti Fraud Work	1/10/13	28/10/13	-	2	-	2	1	-	-	1	-	-	-
Land and Property	12/9/13	17/9/13	-	-	2	2	2	-	-	-	-	-	-
Landscapes	13/9/13	1/11/13	3	6	-	9	4	-	1	-	2	2	-
Back-up and Disaster Recovery	9/4/14	Awaited	-	5	-	5	3	-	-	2	-	-	-
Change and Configuration Management	9/4/14	Awaited	-	2	-	2	2	-	-	-	-	-	-
BACS	30/8/13	3/2/14	-	2	2	4	1	-	1	-	2	-	-
PSN	9/4/14	6/6/14	-	-	-	-	-	-	-	-	-	-	-

9. INTERNAL AUDIT – MONITORING REPORT 24th June 2014

Report from: Audit Manager
Contact Officer: Ben Durrant, HW Controls & Assurance LLP
Email: ben.durrant@midsussex.gov.uk
Tel: (01444) 477241
Wards Affected: All
Key Decision No
Date of Meeting – 24th June 2014

1. PURPOSE OF REPORT

The purpose of this report is twofold; to update the Committee on the progress of the 2013-2014 Internal Audit Plan and to report on the progress made in implementing previously agreed recommendations.

2. SUMMARY

- 2.1 The audit plan provides for a mix of coverage on fundamental systems, IT systems and service systems, which have been identified as potential risk areas. Appendix A summarises the progress to date on the plan.
- 2.2 Appendix B provides an update on the implementation of previously agreed recommendations.

3. RECOMMENDATIONS

The Audit Committee is asked to receive the report.

4. REPORT TO AUDIT COMMITTEE

Progress on implementing previous recommendations

- 4.1 The outstanding recommendations from previous Internal Audit reports have been reviewed, with the latest situation and relevant comments included in Appendix B.
- 4.2 The two high priority recommendations arising from the CenSus Benefits audit conducted by Horsham District Council have not been included in Appendix B as these will be followed up as part of the 2014/15 audit. These were brought to the attention of the Audit Committee at the last meeting on 18th March 2014 and included weaknesses in relation to insufficient quality assurance checks and the inaccurate classification of overpayments.
- 4.3 The CenSus NNDR audit conducted by Adur District Council was issued 6th June 2014 and included two high priority recommendations. Although not included in Appendix B as they will also be followed up as part of the 2014/15 audit they are stated below for the attention of the Audit Committee as part of this report:
- 4.3.1 The award of charitable and discretionary reliefs should be reviewed on an annual basis to ensure eligibility.

4.3.2 Management should confirm whether the practice of retrospectively authorising write-offs is in line with the Council's Constitution.

Progress against the 2013-14 Internal Audit plan as at 24th June 2014

4.4 In line with the audit programme for 2013/14 we have now issued reports for all of the audits. All reports are final with the exception of the following which are still in draft form and awaiting responses from management:

- Back-up and Disaster Recovery; and
- Change and Configuration Management.

4.5 The Use of Data audit was removed from the audit plan following discussions with the Assistant Chief Executive and Performance and Partnerships BUL. This audit was originally included in the 2012/13 Internal Audit Plan at the request of the former Assistant Chief Executive but having postponed the work until 2013/14 it was felt that officers in post were already conducting sufficient exploratory work in this area and so an internal audit would not offer the Council any further assurance than it already receives.

4.6 Other Options Considered

None

4.7 Financial Implications

This report has no such implications.

4.8 Risk Management Implications

None.

4.9 Equality and Customer Service Implications

None

4.10 Other Material Implications

None.

4.11 Background Papers

Internal Audit reports relating to 2013-2014
Working papers relating to 2013-2014

**Mid Sussex District Council
Internal Audit Plan 2013/14
Progress Report 18th March 2014**

Audit Area	Rating	Budget/ Days	Provisional Timing – commencing	Fieldwork Commenced	Draft Report Issued	Management Responses Received	Target date for issue of Final	Final Report Issued	High Findings Reported to Audit Committee	Comments
Fundamental Systems										
NNDR – CenSus Partners	High	N/A	Qtr 3	N/A	N/A	N/A	N/A	6 June 2014	24 June 2014	Audit conducted by Adur
Council Tax – CenSus Partners	High	20	Qtr 3	28 Oct 2013	12 Dec 2013	13 Jan 2014	20 Jan 2014	13 Jan 2014	N/A	Audit conducted by Mid Sussex
Housing Benefits – CenSus Partners	High	N/A	Qtr 3	N/A	N/A	N/A	N/A	4 March 2014	18 March 2014 (verbal)	Audit conducted by Horsham
Payroll	High	5	Qtr 4	20 Jan 2014	7 March 2014	19 March 2014	26 March 2014	20 March 2014	N/A	
Income Collection (Cashiers)	High	10	Qtr 3	18 Nov 2013	29 Nov 2013	29 Nov 2013	6 Dec 2013	29 Nov 2013	N/A	
Treasury Management	High	5	Qtr 4	24 Feb 2014	7 March 2014	17 March 2014	24 March 2014	17 March 2014	N/A	
Payments (Creditors)	High	5	Qtr 4	13 Jan 2014	22 Jan 2014	31 Jan 2014	7 Feb 2014	31 Jan 2014	N/A	
Sundry Debtors	High	5	Qtr 3	7 Oct 2013	17 Oct 2013	18 Oct 2013	25 Oct 2013	18 Oct 2013	N/A	
Capital Accounting & Asset Management	Medium	7	Qtr 4	20 Jan 2013	30 Jan 2014	31 Jan 2014	7 Feb 2014	31 Jan 2014	N/A	
Budgetary Control	Medium	4	Qtr 3	9 Dec 2013	12 Dec 2103	12 Dec 2013	19 Dec 2013	12 Dec 2013	N/A	
Computer Audit										
Back-up and Disaster Recovery	High	5	Qtr 3	20 Dec 2013	9 Apr 2014					Awaiting management response
Change and Configuration Management	High	7	Qtr 4	17 Jan 2014	9 Apr 2014					Awaiting management response
BACS		5	Qtr 2	25 July 2013	30 Aug 2013	27 Jan 2014	3 Feb 2014	3 Feb 2014	N/A	
PSN		3	Qtr 1	17 June 2013	9 Apr 2014	2 June 2014	9 June 2014	6 June 2014	N/A	Awaiting management response

Audit Area	Rating	Budget/ Days	Provisional Timing – commencing	Fieldwork Commenced	Draft Report Issued	Management Responses Received	Target date for issue of Final	Final Report Issued	High Findings Reported to Audit Cttee	Comments
Required by Senior Management										
Procurement		6	Qtr 3	29 Oct 2013	12 Nov 2013	13 Nov 2013	20 Nov 2013	15 Nov 2013	N/A	
Pitches and Pavilions		6	Qtr 1	13 May 2013	24 May 2013	12 Sept 2013	19 Sept 2013	12 Sept 2013	N/A	
Anti Fraud Work		7	Qtr 2	9 Sept 2013	1 Oct 2013	21 Oct 2013	28 Oct 2013	28 Oct 2013	N/A	
Land and Property		7	Qtr 2	15 July 2013	12 Sept 2013	17 Sept 2013	24 Sept 2013	17 Sept 2013	N/A	
Use of Data		40	Qtr 3							Removed from the plan
Landscapes		10	Qtr 2	5 Aug 2013	13 Sept 2013	23 Oct 2013	30 Oct 2013	1 Nov 2013	20 Nov 2013	See Appendix B

Draft report should be issued no more than 20 working days after debrief meeting.

Management Responses should be received no later than 10 working days after issue of draft report.

Final Report should be issued no later than 5 working days after Management Responses are received.

Landscapes

Issued: 1st November 2013

	Management Response, Responsible Officer and Current Status.	Implementation Dates Original Revised	
<p><u>1. Cumulative expenditure in common areas</u></p> <p>The Senior Engineering Officer confirmed Contract Procedure Rules had not always been adhered to, particularly in cases where, for example, the need to get the job done quickly did not allow sufficient time for a local tender process to be formally carried out.</p> <p>He was also aware that accumulated expenditure with the same supplier or in the same areas may be exceeding the thresholds above which formal contract tendering exercises should be undertaken.</p> <p><u>Risk</u></p> <p>Staff may not be complying with the Council's Financial Procedure Rules.</p> <p>This could lead to purchases being made which are not offering the Council value for money.</p> <p><u>Recommendation</u></p> <p>Where staff suspect that cumulative expenditure with the same suppliers in the same areas is exceeding thresholds over which contract tendering procedures should be followed, they should be notifying the appropriate Business Unit Leader(s) and contacting Procurement officers in order to obtain suitable advice.</p>	<p>Management Response – 1st November 2013</p> <p>Staff endeavour to comply with all of the Council's Financial Procedure Rules. A further clarification and reminder of standing orders has been issued to all staff in Property and Landscapes.</p> <p>The issue of cumulative expenditure is known to officers and discussions are underway with the Procurement team to enter into already established framework agreements for playground works initially, followed by civil-related works.</p> <p><i>[Principal Landscape Manager and Property & Asset Maintenance Manager]</i></p> <p>Management Response – 18th March 2014</p> <p>In September 2013, a project team was set up to look at how we procure the work that the Senior Engineering Officer deals with. The general thinking is that we would look to pursue a framework agreement for the playground maintenance work along the same lines at the Espo contract entered into by Crawley Borough Council. Our procurement team at Horsham District Council has suggested this and we are trying to get agreement on this matter from the project team to take this forward.</p> <p>We are also looking at doing a tender for other work packages to include gritting, general fencing, bins, tarmac surfacing on car parks etc. as part of a separate tender which will include individual work packages whereby tenderers can bid for individual or all of the packages. We are working on putting these specifications together and doing a suppliers engagement day in order to tender this work as well.</p> <p><i>[Property & Asset Maintenance Manager]</i></p> <p>Management Response – 24th June 2014</p> <p>We had a suppliers' day on 21st May 2014 to get feedback from suppliers on the specifications, how the works are to be packaged up and how we are asking for pricing to be done. We are collating the feedback in order to finalise the specifications. It is intended to issue tender documents third week in July with tenders to be returned end of August.</p>	<p>31/3/14</p>	<p>30/11/14</p>

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	<p>Evaluation of tenders then to take place with a report to Cabinet on 20th October 2014. Award of contract due in November 2014.</p> <p>All team members are carrying out procurement of works in accordance with the note issued to them immediately following the initial audit. This ensures that all contract procedure rules are adhered to and all jobs over £5,000 are competitively tendered and three prices obtained to ensure best value for the Council.</p> <p><i>[Property & Asset Maintenance Manager]</i></p>		
<p><u>2. Analysis of non-contracted expenditure</u></p> <p>Testing carried out during the audit indicated that expenditure in this area has not been periodically analysed in the past. However, discussion with the Landscapes BUL and the Property & Asset Maintenance BUL indicated that such an exercise had recently been commenced at the time of audit.</p> <p>Reports of all expenditure within Landscapes between August 2011 and August 2012, and also between August 2012 and August 2013 were reviewed and the following identified:</p> <ul style="list-style-type: none"> - During 2011/12, seven suppliers were paid in excess of £20,000 for non-contract works; - During 2012/13 the corresponding figure was ten suppliers; and - Five suppliers received more than £20,000 during both one-year periods. <p><u>Risk</u></p> <p>The Council might be making purchases on a one-off basis which could be made through a contract or framework agreement. Value for money may not be achieved.</p> <p><u>Recommendation</u></p> <p>A comprehensive analysis of non-contracted expenditure on works of this nature should be undertaken to identify opportunities where efficiency savings could be made.</p>	<p>Management Response – 1st November 2013</p> <p>This is a reflection of regular one-off jobs being given to reliable local contractors that are known to do a good job at a competitive price and within timescales needed by the client.</p> <p>The use of already established framework agreements will assist in rectifying this. It is intended to start using these agreements from next year.</p> <p>A monitoring system will be put in place to check expenditure patterns.</p> <p><i>[Principal Landscape Manager and Property & Asset Maintenance Manager]</i></p> <p>Management Response – 18th March 2014</p> <p>I should have a schedule from our Finance Systems team by the end of April detailing all expenditure by the Senior Engineering Officer for 2012/13 plus up to date information and a monthly report to follow detailing all orders made, for what, how much and with which contractor in order for me to monitor and analyse the work and expenditure.</p> <p><i>[Property & Asset Maintenance Manager]</i></p> <p>Management Response – 24th June 2014</p> <p>Finance is providing a monthly report on expenditure/orders for monitoring whilst the procurement exercise is conducted. These are available to the relevant service area BUL. Orders are being monitored until the award of the new contract.</p> <p><i>[Property & Asset Maintenance Manager]</i></p>	31/3/14	N/A

10. COMMITTEE WORK PROGRAMME 2014/15

Date	Agenda Item
24 June 2014	Review of Treasury Management Activity External Audit Business Internal Audit Annual Report 2013/14 Internal Audit – 2013 Recommendations 24th June 2014 Internal Audit – Monitoring Report 24th June 2014 Committee Work Programme
23 September 2014	Approval of Financial Statements. Committee Work Programme
19 November 2014	Internal Audit Monitoring Report Committee Work Programme
17 March 2015	