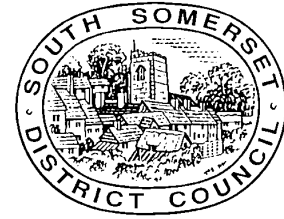


South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 25th February 2016

10.00 am

**Main Committee Room
Council Offices
Brympton Way
Yeovil
BA20 2HT**

(disabled access and a hearing loop are available at this meeting venue)



The public and press are welcome to attend.

If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Becky Sanders 01935 462596**, website: www.southsomerset.gov.uk

This Agenda was issued on Tuesday 16 February 2016.

A handwritten signature in black ink that reads 'Ian Clarke'.

Ian Clarke, Assistant Director (Legal & Corporate Services)

This information is also available on our website
www.southsomerset.gov.uk



INVESTORS IN PEOPLE

Audit Committee Membership

The following members are requested to attend the meeting:

Chairman: Derek Yeomans
Vice-chairman: Tony Lock

Jason Baker
Mike Beech
Mike Best

Carol Goodall
Val Keitch
Graham Middleton

David Norris
Colin Winder

South Somerset District Council – Council Plan

Our focuses are: (all equal)

- Jobs – We want a strong economy which has low unemployment and thriving businesses
- Environment – We want an attractive environment to live in with increased recycling and lower energy use
- Homes – We want decent housing for our residents that matches their income
- Health and Communities – We want communities that are healthy, self-reliant and have individuals who are willing to help each other

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting.

Any member of the public has the right not to be recorded. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

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Information for the Public

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;
14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Assistant Director – Finance and Corporate Services (S151 Officer), the Assistant Director – Legal and Corporate Services (the Monitoring Officer), or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are held monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at www.southsomerset.gov.uk

The Council's Constitution is also on the web site and available for inspection in council offices.

Further information can be obtained by contacting the agenda co-ordinator named on the front page.

Audit Committee

Thursday 25 February 2016

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on 28 January 2016.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (adopted July 2012), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting. A DPI is defined in The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 (SI 2012 No. 1464) and Appendix 3 of the Council's Code of Conduct. A personal interest is defined in paragraph 2.8 of the Code and a prejudicial interest is defined in paragraph 2.9.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on 24 March 2016 in the Main Committee Room, Brympton Way, Yeovil.

Items for Discussion

6. Certification of Claims Report (Pages 6 - 9)

7. Treasury Management Performance to December 2015 (Pages 10 - 21)

8. 2015/16 SWAP Internal Audit Quarter 3 Update Report (Pages 22 - 33)

9. Audit Committee Forward Plan (Pages 34 - 35)

Agenda Item 6

Certification of Claims Report

Assistant Director: Donna Parham, Finance and Corporate Services
Lead Officer: As above
Contact Details: donna.parham@southsomerset.gov.uk or (01935) 462225

Purpose of the report

This report introduces the annual report from our external auditors Grant Thornton on their findings from the signing off of the Housing Benefit Subsidy Claim for 2014/15.

Recommendation

The Audit Committee is asked to note the contents of the Certification of Claim Report for 2014/15.

Introduction

The Certification of Claims Report is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider the effectiveness of SSDC’s risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken”

“To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken”

Grant Claim

The external auditors certify the subsidy claim for the Housing Benefit Scheme. The report from Grant Thornton is attached at Appendix A. The total claim was £45.2 million and because there were errors the claim has been qualified. However, as members can see the amendments required were very minor. We will continue to provide training and further testing on the areas highlighted in the report.

Financial Implications

The final outcome of the claim was an additional payment from the Department of Works and Pensions (DWP) of £4,899.

The fees of £13,990 did not change and have been budgeted for in 2015/16.

Background Papers: *Housing Benefit Subsidy Claim*



Grant Thornton

An instinct for growth™

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www.grant-thornton.co.uk

29 January 2015

Dear Donna

Certification work for South Somerset District Council for year ended 31 March 2015

We are required to certify certain claims and returns submitted by South Somerset District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

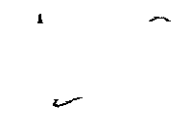
The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit Subsidy claim for the financial year 2014/15 relating to expenditure of £45.2 million. Further details of the claim certified are set out in Appendix A.

There were no issues arising from our certification work other than those which we wish to highlight for your attention in appendix A. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claim for audit certification. We are satisfied that any recommendations raised in previous years have been addressed.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £13,990. This is set out in more detail in Appendix B.

Yours sincerely


Elizabeth Cave
For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£45.2m	Yes	Cell 095 (£1) Cell 102 (£78) Cell 103 (£1) Cell 113 £80	Yes	<ul style="list-style-type: none"> • The claim has been qualified for the second year in succession • Errors identified in 13-14 that were repeated in 14-15 related to misclassification of overpayment and incorrect calculation of earnings • Other errors identified were to pension credit savings credit input incorrectly and incorrect uprating of industrial injuries disablement benefit • Additional testing was performed on each of these areas, resulting in extrapolation and amendment to the claim

Appendix B: Fees for 2014/15 certification work

Claim or return	2013/14 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	10,736	13,990	13,990	0	
Total	10,736	13,990	13,990	0	

Agenda Item 7

Treasury Management Performance to December 2015

Assistant Director: Donna Parham – Finance and Corporate Services
Service Manager: Donna Parham – Finance and Corporate Services
Lead Officer: Karen Gubbins, Principal Accountant - Exchequer
Contact Details: Karen.gubbins@southsomerset.gov.uk or (01935) 462456

Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the nine months ended 31st December 2015.

Recommendations

2. The Audit Committee are asked to:
 - Note the Treasury Management Activity for the nine-month period ended 31st December 2015.
 - Note the position of the individual prudential indicators for the nine-month period ended 31st December 2015.

The Investment Strategy for 2015/16

3. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. Treasury management in this context is defined as:

"The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".
5. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
6. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.
7. In order to diversify the authority's investment portfolio which is largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure

and higher yielding asset classes during 2015/16. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved

Interest Rates 2015/16

8. Base rate began the financial year and remains at 0.5%.
9. Arlingclose is now projecting the first rise in Bank Rate in Q3 of 2016, with the risks weighted to the downside. When interest rates do rise they are expected to do so gradually. The Bank Rate is forecast to peak at a lower level than the previous norm, currently estimated to be between 2% and 3%:

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Average
Official Bank Rate														
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.31
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.12
Downside risk			-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73

Investment Portfolio

10. The table below shows the Council's overall investments as at 31st December 2015:

	Value of Investments at 01.04.15 £	Value of Investments at 31.12.15 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
Money Market Fund (Variable Net Asset Value)	1,001,247	1,001,247	Variable
Property Fund	3,363,303	4,363,303	Variable
Total	4,364,550	5,364,550	
Internal Investments			
Certificates of Deposit	4,512,371	6,500,858	Fixed
Corporate Bonds	11,271,639	8,632,150	Fixed
Floating Rate Notes (FRNs)	9,972,584	10,059,504	Variable
Short Term Deposits (Banks)	7,500,000	17,400,000	Variable
Short Term Deposits (Other LAs)	8,000,000	10,000,000	Variable
Money Market Funds (Constant Net Asset Value) & Business Reserve Accounts	3,720,000	2,240,000	Variable
Total	44,976,594	54,832,512	
TOTAL INVESTMENTS	49,341,144	60,197,062	

Returns for 2015/16

11. The returns to 31st December 2015 are shown in the table below:

Investments advised by Arlingclose		£'000	
Payden Money Market Fund (VNAV)		7	
Property Fund (CCLA)		127	
Total		134	4.43%
Internal Investments			
Certificates of Deposit (CD's)/T Bills		31	
Corporate Bonds		111	
Floating Rate Notes (FRNs)		54	
Fixed Term Deposits		93	
Money Market Funds (CNAV) & Business		17	
Reserve Accounts			
Total		306	0.82%
Other Interest			
Miscellaneous Loans		3	
Total		3	
TOTAL INCOME TO 31ST DECEMBER 2015		443	
PROFILED BUDGETED INCOME		346	
FORECAST SURPLUS FOR YEAR END			

12. The table above shows investment income for the year to date compared to the profiled budget. The annual budget is set at £461,320. We currently estimate that the position at the end of the financial year will be an overall favourable variance in the order of £106,548. This is assuming SSDC receive a dividend of 3p per unit each quarter for its investment in the property fund, however if there is a dip in the economy this could affect the forecasted return.

13. The outturn position is affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of capital expenditure and the collection of council tax and business rates.

Investments

14. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15. New investments can be made with the following institutions:

- Other Local Authorities;
- AAA-rated Money Market Funds;
- Certificates of Deposit (CDs) and Term Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australian, Canadian and American);
- T-Bills and DMADF (Debt Management Office);
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank;

- Commercial Paper
- Other Money Market Funds and Collective Investment Schemes meeting the criteria in SI 2004 No 534, SI 2007 No 573 and subsequent amendments.

15. The graph shown in Appendix A shows the performance of the in-house Treasury team in respect of all investments for the quarter ending 31st December 2015 in comparison to all other clients of Arlingclose.

16. The graph shows that SSDC is in a satisfactory position in terms of the risk taken against the return on investments.

Borrowing

17. An actual overall borrowing requirement (CFR) of £9.7 million was identified at the beginning of 2015/16. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 31st December 2015 the Council had no external borrowing.

Breakdown of investments as at 31st December 2015

Date Lent	Counterparty	Amount	Rate	Maturity Date
5 Nov 15	Lancashire County Council	1,000,000	0.60	26 Sep 16
11 Dec 15	Barclays Bank Plc	1,000,000	0.54	18 Mar 16
11 Sep 15	IPA SCB TD Incoming (Santander)	1,000,000	0.65	11 Mar 16
9 Sep 15	United Overseas Bank Ltd	2,000,000	0.60	9 Mar 16
9 Oct 15	Barclays Bank Plc	1,000,000	0.53	11 Jan 16
23 Oct 15	Bank of Scotland	1,000,000	0.64	21 Mar 16
5 Nov 15	DBS Bank Ltd	2,000,000	0.56	7 Mar 16
26 Nov 15	Rabobank International	1,000,000	0.45	17 Feb 16
28 Aug 15	Bank of Scotland	1,000,000	1.00	30 Aug 16
30 Sep 15	Nationwide Building Society	1,000,000	0.65	21 Mar 16
15 Jul 15	Toronto Dominion Bank	2,000,000	0.54	15 Jan 16
19 Oct 15	Nationwide Building Society	1,000,000	0.59	18 Mar 16
28 Aug 15	Commonwealth Bank of Australia	1,400,000	0.65	29 Feb 16
7 Oct 15	Coventry Building Society	2,000,000	0.57	18 Mar 16
29 Oct 15	Eastleigh Borough Council	2,000,000	0.50	29 Jun 16
15 Oct 15	Lancashire County Council	1,000,000	0.60	6 Oct 16
2 Nov 15	Conwy County Borough Council	2,000,000	0.50	2 Jun 16
15 Dec 15	North Tyneside Council	2,000,000	0.65	13 Dec 16
18 Dec 15	London Borough of Waltham Forest	2,000,000	0.45	15 Jan 16
	Corporate Bonds/Eurobonds			
10 Dec 13	GE Capital UK Funding	1,038,020	1.42	18 Jan 16
17 Jan 14	Places for People Capital Markets	603,877	2.67	27 Dec 16
17 Jan 14	Places for People Capital Markets	459,287	2.67	27 Dec 16
4 Aug 14	Leeds Building Society (Covered)	560,713	2.13	17 Dec 18
22 Oct 14	Yorkshire Building Society (Covered)	1,729,543	1.56	12 Apr 18
17 Apr 15	Heathrow Funding Ltd	1,109,810	0.85	31 Mar 16
5 Jun 15	European Investment Bank	2,105,188	0.66	7 Sep 16
3 Aug 15	Bank Nederlandse Gemeenten	1,025,712	0.68	26 Feb 16

	Certificates of Deposit (CDs)			
31 Jul 15	Landesbanken Hessen-Thuringen	2,000,298	0.69	29 Jan 16
7 Aug 15	Standard Chartered	1,000,149	0.70	5 Feb 16
1 Oct 15	Nordea Bank AB	1,000,149	0.62	31 Mar 16
23 Oct 15	Credit Suisse AG London	1,000,075	0.55	22 Jan 16
30 Oct 15	Standard Chartered	1,000,149	0.70	29 Apr 16
9 Nov 15	Nordea Bank AB	500,038	0.52	9 Feb 16
	Floating Rate Notes (FRNs)			
25 Nov 13	HSBC Bank PLC	1,004,169	0.82	16 May 16
3 Apr 14	Yorkshire Building Society *Covered*	1,005,441	0.98	23 Mar 16
22 Oct 14	Abbey National Treasury Services *Covered*	1,034,829	0.71	5 Apr 17
21 Nov 14	Barclays Bank Plc *Covered*	1,000,341	0.68	15 Sep 17
25 Mar 15	Lloyds Bank Plc *Covered*	2,006,200	0.64	16 Jan 17
29 Apr 15	Toronto Dominion *Covered*	1,002,572	0.66	20 Nov 17
26 Jun 15	Nationwide Building Society *Covered*	1,001,774	0.68	17 Jul 17
2 Jul 15	National Australia bank Ltd	1,503,339	0.67	12 Aug 16
9 Nov 15	HSBC Bank PLC	500,839	0.66	16 May 16
	Pooled Funds & Money Market Funds			
	Payden Fund VNAV	1,001,247	0.88	
	CCLA Property Fund	4,363,303	5.68	
	Federated Money Market Fund	500,000	0.47	
	Blackrock Money Market Fund	1,100,000	0.44	
	Invesco Aim Money Market Fund	500,000	0.43	
	Handelsbanken Business Reserve	140,000	0.45	
	TOTAL	60,197,062		

* Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate

Prudential Indicators – Quarter 3 monitoring

Background:

18. In February 2015, Full Council approved the indicators for 2015/16, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allowed local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

Prudential Indicator 1 - Capital Expenditure:

19. The revised estimates of capital expenditure to be incurred for the current year compared to the original estimates are:

	2015/16 Original Estimate £'000	Expected Outturn £'000	2015/16 Variance £'000	Reason for Variance
Approved capital schemes	5,568	1,866	(3,702)	Re-profiling of the expenditure to future years
Reserves	404	219	(185)	Re-profiling of the reserves from 2015/16 into 2016/17
Total Expenditure	5,972	2,085	(3,887)	

20. The above table shows that the overall estimate for capital expenditure has increased.

Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:

21. A comparison needs to be made of financing capital costs compared to the revenue income stream to support these costs. This shows how much of the revenue budget is committed to the servicing of finance.

Portfolio	2015/16 Revised Estimate £'000	Expected Outturn £'000	2015/16 Variance £'000	Reason for Variance
Financing Costs*	(338)	(420)	(82)	Better return on the Property fund is expected but this is dependent on the economy
Net Revenue Stream	17,390	17,742	352	Carry forwards approved of £303k, £44k contribution from the Somerset Rivers Authority, £5k contribution from Somerset Growth Board
%*	(1.9)	(2.4)		

*figures in brackets denote income through receipts and reserves

22. The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figure in brackets is due to investment income

outweighing financing costs significantly for SSDC but is nevertheless relevant since it shows the extent to which the Council is dependent on investment income.

Prudential Indicator 3 - Capital Financing Requirement:

23. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Estimates of the year-end capital financing requirement for the authority are:

	2015/16 Original Estimate £'000	Expected Outturn £'000	2015/16 Variance £'000	Reason for Variance
Opening CFR	9,484	9,447	(37)	
Capital Expenditure	5,192	2,966	(2,226)	See explanation for Prudential Indicator 1 above
Capital Receipts*	(5,046)	(1,866)	3180	
Grants/Contributions*	(146)	(1,100)	(954)	
Minimum Revenue Position (MRP)	(123)	(148)	(25)	One lease has been amended to be repaid over a shorter period hence an increase in the current years MRP
Closing CFR	9,361	9,299	(62)	

*Figures in brackets denote income through receipts or reserves.

Prudential Indicator 4 – Gross Debt and the Capital Financing Requirement:

24. The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the gross external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period. This is a key indicator of prudence.

	2015/16 Original Estimate £'000	2015/16 Qtr 3 Actual £'000	2015/16 Variance £'000	Reason for Variance
Borrowing	0	0	0	
Finance Leases	248	186	(62)	Amendment to the MRP has reduced the amount outstanding on the finance leases
Total Debt	248	186	(62)	

25. Total debt is expected to remain below the CFR.

Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

26. The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. For this purpose, term deposits of less than 365 days are deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

	2015/16 % Limit	2015/16 Qtr 3 Actual %	2015/16 Variance %	Reason for Variance
Fixed	80	3.38	(76.62)	Within limit
Variable	100	96.62	(3.38)	Within limit

27. The Council must also set limits to reflect any borrowing we may undertake.

	2015/16 % Limit	2015/16 Qtr 3 Actual %	2015/16 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

28. The indicator has been set at 100% to maximise opportunities for future debt as they arise.

Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:

29. SSDC must also set upper limits for any investments of longer than 364 days. The purpose of this indicator is to ensure that SSDC, at any time, has sufficient liquidity to meet all of its financial commitments.

Upper Limit for total principal sums invested over 364 days	2015/16 Maximum Limit £'000	2015/16 Qtr 3 Actual (Principal amount) £'000	Reason for Variance
Between 1-2 years	25,000	6,000	Within limit
Between 2-3 years	20,000	2,000	Within limit
Between 3-4 years	10,000	0	Within limit
Between 4-5 years	10,000	0	Within limit
Over 5 years	5,000	0	Within limit

30. The table above shows that the Council adopts a policy of safeguarding its investments by minimising investments that are redeemable more than five years ahead.

Prudential Indicator 7 – Credit Risk:

31. The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council’s assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country’s net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

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

Prudential Indicator 8 - Actual External Debt:

32. This indicator is obtained directly from the Council’s balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2015	£’000
Borrowing	0
Liabilities arising from finance leases	334
Total	334

Prudential Indicator 9 - Authorised Limit for External Debt:

33. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy. Borrowing will arise as a consequence of all the financial transactions of the Council not just arising from capital spending.

34. This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A ceiling of £12 million was set to allow flexibility to support new capital projects over and above the identified borrowing requirement.

	2015/16 Estimate	2015/16 Qtr 3 Actual	2015/16 Variance	Reason for Variance
	£'000	£'000	£'000	
Borrowing	11,000	0	(11,000)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	1,000	186	(814)	Within limit
Total	12,000	186	(11,814)	

Prudential Indicator 10 – Operational Boundary for External Debt:

35. The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million was set.

	2015/16 Estimate	2015/16 Qtr 3 Actual	2015/16 Variance	Reason for Variance
	£'000	£'000	£'000	
Borrowing	9,200	0	(9,200)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	800	186	(614)	Within limit
Total	10,000	186	(9,814)	

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

36. This indicator is relevant to highlight the existence of any large concentrations of fixed rated debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest changes in any one period. When we borrow we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

Maturity structure of fixed rate borrowing	2014/15 Actual	2015/16 Qtr 3 Actual	Lower Limit	Upper Limit
	%	%	%	%
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed rate external borrowing at present the above upper and lower limits have been set to allow flexibility.

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

37. SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figure below actually shows the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Decrease in Band D Council Tax	0.07	0.17	0.17

Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:

38. This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 th April 2002.

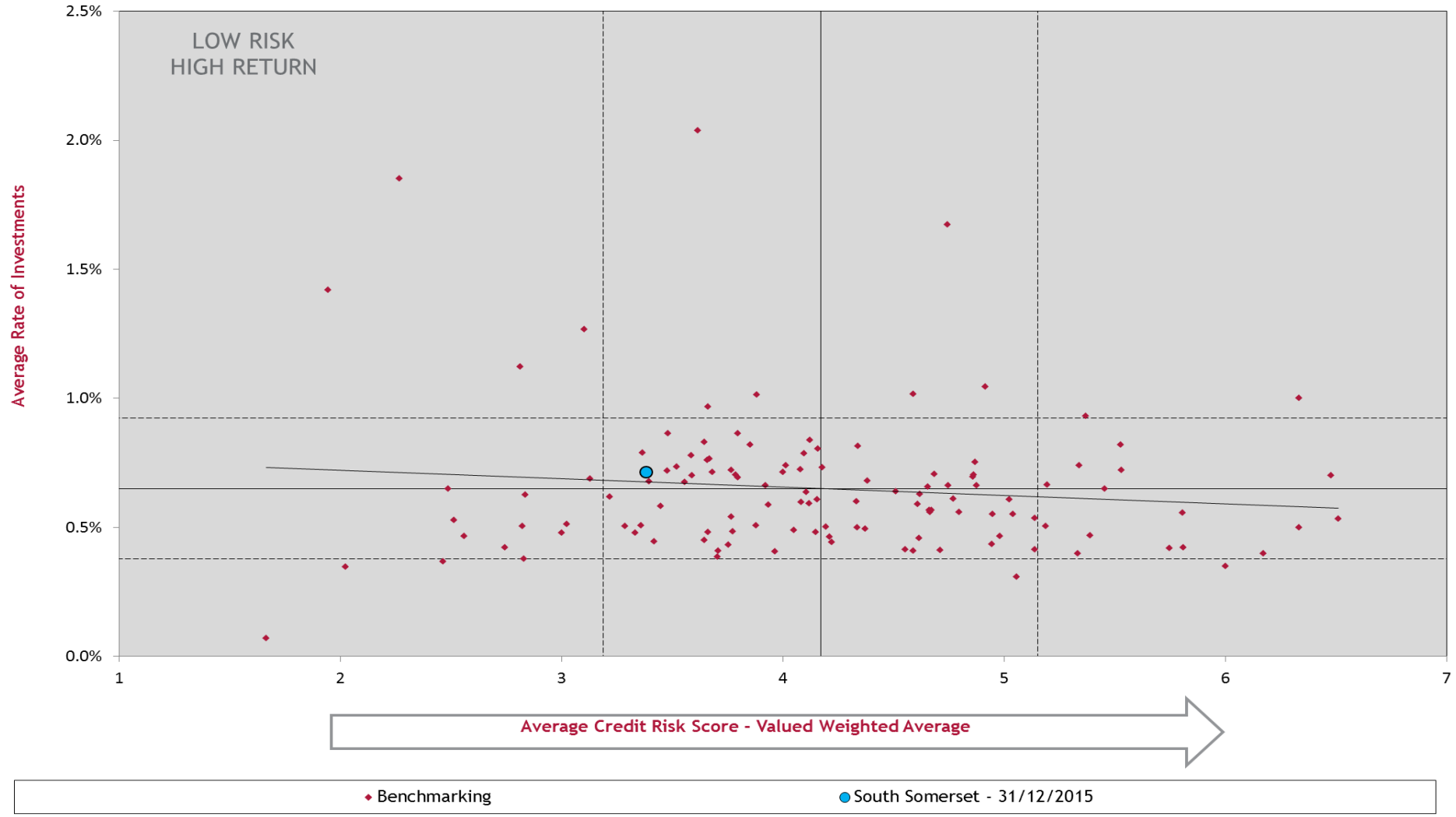
Conclusion

39. The council is currently within all of the Prudential Indicators and is not forecast to exceed them.

Background Papers: Prudential Indicators Working Paper, Treasury Management Strategy Statement 2015/16, Quarter 3 2015/16 Capital Programme.

Appendix A

Average Rate vs Credit Risk (value-weighted)



Agenda Item 8

2015/16 SWAP Internal Audit Quarter 3 Update Report

Head of Service: Gerry Cox, Chief Executive - SWAP
Lead Officer: Moya Moore - Assistant Director
Contact Details: moya.moore@southwestaudit.co.uk

Purpose of the Report

This report has been prepared for the Audit Committee to review the progress made on the 2015/16 Annual Internal Audit Plan.

Recommendation

To note the progress made.

Background

The Audit Committee agreed the 2015/16 Internal Audit Plan at its March 2015 meeting. This is the third quarter update report to inform the Audit Committee of progress against the plan for October - December 2015.

Appendix A - Detailed Update Report
Appendix B - Annual Audit Plan Progress Table
Appendix C - Audit Assurance Definitions

Financial Implications

There are no financial implications associated with these recommendations.

Please note: There will be a short training session about Internal Audit at the end of this item.

Background Papers: None

APPENDIX A



South Somerset District Council

Report of Internal Audit Activity
Quarter 3 Update, 2015-16

Contents

The contacts at SWAP in connection with this report are:

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Our audit activity is split between:

- Operational Audit
- Key Controls, Finance
- Key Controls, Income
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

Role of Internal Audit

The Internal Audit service for South Somerset District Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA Code of Practice for internal audit. The Partnership is also guided by the Internal Audit Charter, last approved in March 2015.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes;

- Operational Audit Reviews
- Annual Review of Key Financial System Controls
- Annual Review of Main Income Stream System Controls
- Cross Cutting Fraud and Governance Reviews
- IT Audit Reviews
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer following consultation with Directors, Assistant Directors, Service Managers and External Audit. This year's Audit Plan was approved by the Audit Committee at its meeting in March 2015. Since March, a number of minor scheduling changes have been made to the audit plan. An updated list of all audits planned for 2015/16 and their status at the end of Quarter 3 is detailed in [Appendix B](#).

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Quarter 3 Outturn:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

- **Operational Audits**

Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2015/16. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “control assurance” opinions together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in Appendix C.

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a less than significant risk to the Council’s operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these.

Operational Audits

Operational Audits are a detailed evaluation of a Service’s control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. In Quarter 3 there were 3 Operational Audits scheduled, 2 of which are in progress.

Audit Area	Audit Area	Audit Area
New Payroll System – In progress	Asset Register & Land Record Management – In Progress	Debt Management - Deferred

Debt Management has been deferred to later in Quarter 4 by the Section 151 Officer because the team currently has a vacancy. It is anticipated that this audit will be commenced in March. Remote and Mobile Working (originally scheduled for Quarter 4 has been commenced this Quarter to replace it.)

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

- **Operational Audits (continued)**

- **Key Controls; Main Income Stream Audits**

The following Audits originally scheduled for earlier quarters, have been finalised in the Quarter 3:

- Private Sector Housing - Environmental Health - Final – Substantial Assurance
- Business Continuity – Final – Reasonable Assurance
- Choice Based lettings –Final – Reasonable Assurance (2014/15 Audit)

Work has been ongoing on audits originally scheduled for Quarters 1 and 2 as follows:

- Yeovil Innovation Centre – Discussion Document Stage
- S106 Discharge of Planning Obligations – In Progress
- Key Income Stream Management – In Progress
- Local Tax Collection – In Progress

It is anticipated that the following audit will be commenced shortly.

- Housing & Council Tax Benefit – Not started.

Main Income Stream Audits

In previous years a significant number of audit days were allocated to undertake a separate audit of each of the Councils main income streams. This is because shortfalls in income have a significant impact on the budget and are considered higher risk areas

For 2015/16 it was felt that as Substantial and Reasonable assurance had been provided for most of the income areas that a combined audit requiring less days was possible. This audit has been scheduled as an operational review (see above – Key Income Stream Management).

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

- **Key Controls; Finance**
- **Governance, Fraud and Corruption Audits**

Key Controls, Finance Audits

In 2013/14 it was agreed by the Audit Committee to replace Key Control Audits with Operational and Governance Audits. This reflected the positive assurance opinions awarded in relation to Key Control Audits over the previous few years along with an appetite to explore other risks and processes at the Council.

Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. There were 2 Governance audits originally scheduled for Quarter 3.

Audit Area	Opinion	Audit Area	Opinion
Contract Compliance - PPR Compliance	Not Started	Leisure Centre / Hub Contract Compliance	Removed
Lean Thinking Benefit Realisation	Removed		

It was agreed with the Section 151 Officer that the Leisure Centre audit should be removed as the 14/15 audit on this area was not completed until Quarter 2 of 15/16. Lean Thinking was also removed at the request of the Section 151 Officer. It is anticipated that the Contract Compliance PPR Audit will commence shortly.

Work has commenced on the following audits originally scheduled for Quarter 4:

- Ninesprings Café – In Progress
- Imprest Accounts – In Progress

Quarter 3 Outturn:

Audit Assignments undertaken in the Quarter

- Information Systems

Information Systems

Information Systems – IT audits provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given.

There was 1 IT Audit scheduled for Quarter 3:

- Physical and Environmental Controls – Not Started

It is anticipated that this audit will commence shortly.

The following Audit scheduled for Quarter 2 has been finalised in the period:

- Telephony - Final – Reasonable Assurance

- Special Reviews

Special Reviews

I am pleased to report that since April 2015 there have been no irregularities reported to SWAP that have required investigation on behalf of SSDC.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Future Planned Work

This is detailed in [Appendix B](#) and is subject to any changes in agreement with the S151 officer.

Conclusions

For the audits completed to report stage, each report contains an action plan with a number of recommendations which are given service priorities. Definitions of these priorities can be found in the Categorisation of Recommendations section of [Appendix C](#).

The Committee will be aware that in June 2015, SWAP were pleased to provide an Audit Opinion for the Annual Governance Statement for 2014/15 that gave Reasonable Assurance. Work carried out to date in Quarter 3 largely supports this level of assurance for 2015/16 to date.

There have been no significant Corporate Risks identified from the work completed so far in Quarter 3.

Our approach to the audits for 2015/16 reflects this positive assurance and we are seeking to undertake more challenging and cross-cutting reviews rather than traditional service reviews that we have done over recent years, given that these areas have now proven themselves to have adequate and often good internal controls.

A list of all audits planned for 2015/16 and their status at the end of Quarter 3 are detailed in [Appendix B](#).

South Somerset District Council Audit Plan Progress 2015/16 - Qtr 3 Update (as at 27 Jan)

APPENDIX B

Audit Type	Audit Title	Quarter	Status	Opinion	No. of recs	Major - Recommendations - Minor				
						5	4	3	2	1
Follow Up	Printing & Copying Follow Up	1	Final	Non Opinion	0	0	0	0	0	0
Follow Up	Streetscene Enforcement Follow Up	1	Final	Non Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Expenses & Reimbursements Fraud Prevention	1	Final	Reasonable	4	0	0	4	0	0
Governance, Fraud & Corruption	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts 2015-16	1	Final	Non Opinion	0	0	0	0	0	0
ICT	Mobile and Remote Working_SSDC	1	Final	Reasonable	5	0	0	5	0	0
Operational	NDR - New Business Rates System	1	Final	Reasonable	6	0	0	3	3	0
Operational	Business Continuity	1	Final	Reasonable	4	0	0	4	0	0
Governance, Fraud & Corruption	Lean Thinking Benefit Realisation	2	Removed		0	0	0	0	0	0
ICT	Telephony	2	Final	Reasonable	6	0	1	5	0	0
Operational	Private Sector Housing - Environmental Health	2	Final	Substantial	1	0	0	0	1	0
Operational	Yeovil Innovation Centre	2	Discussion Document		0	0	0	0	0	0
Operational	Council Tax Collection	2	In Progress		0	0	0	0	0	0
Operational	S106 Discharge of Planning Obligations	2	In Progress		0	0	0	0	0	0
Operational	Key Income Stream Management	2	In Progress		0	0	0	0	0	0
Operational	Housing & Council Tax Benefit	2	Not started		0	0	0	0	0	0
Governance, Fraud & Corruption	Contract Compliance - PPR Compliance	3	Not started		0	0	0	0	0	0
Governance, Fraud & Corruption	Leisure Centre / Hub Contract Compliance	3	Removed		0	0	0	0	0	0
ICT	Physical and Environmental Controls	3	Not started		0	0	0	0	0	0
Operational	New Payroll System	3	In Progress		0	0	0	0	0	0
Operational	Asset Register & Land Record Management	3	In Progress		0	0	0	0	0	0
Operational	Aged Debt Management	3	Not started		0	0	0	0	0	0

Governance, Fraud & Corruption	Imprest Accounts	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Ninesprings Cafe	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Property Services	4	Not started		0	0	0	0	0	0
Operational	Mobile and Remote Working_H&S	4	In Progress		0	0	0	0	0	0
Operational	Risk Strategy & TEN Risk Management	4	Not started		0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★★★ I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★★ I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Agenda Item 9

Audit Committee Forward Plan

Assistant Director: Donna Parham, Finance and Corporate Services
Lead Officer: Becky Sanders, Democratic Services Officer
Contact Details: becky.sanders@southsomerset.gov.uk or 01935 462596

Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendation

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee – Forward Plan

Committee Date	Item	Responsible Officer
24 Mar '16	<ul style="list-style-type: none"> • Risk Management Update/Procurement Strategy Update • Health, Safety and Welfare (Annual Report) • Internal Audit Plan – approve 16/17 plan • Internal Audit – Charter • External Audit – Audit Plan • Annual Fraud Programme 	Gary Russ Pam Harvey Jo George Jo George Donna Parham Lynda Creek
28 Apr '16	<ul style="list-style-type: none"> • Statement of Accounting Policies for 2015/16 Accounts • 2015/16 Annual Governance Statement • Review of Internal Audit • Review Exemptions from Procurement Procedure Rules 	Karen Gubbins Donna Parham Donna Parham Gary Russ
26 May '16	<ul style="list-style-type: none"> • Debt Write Offs report • E:Procurement 	Donna Parham Gary Russ
23 Jun '16	<ul style="list-style-type: none"> • Register of staff interests – annual review • Annual Treasury Management Activity Report 2015/16 – Needs to go on to Full Council 	Ian Clarke Karen Gubbins
22 Jul '16	<ul style="list-style-type: none"> • Approve Annual Statement of Accounts • Approve Summary of Accounts • External Audit - Annual Governance Report • External Audit – VFM Conclusion 	Karen Gubbins Karen Gubbins Donna Parham Donna Parham
25 Aug '16	<ul style="list-style-type: none"> • Treasury Management – First Quarter monitoring report • Internal Audit – First Quarter Update 	Karen Gubbins Jo George
22 Sep '16	<ul style="list-style-type: none"> • Treasury Management Practices 	Karen Gubbins
27 Oct '16	<ul style="list-style-type: none"> • Mid-year review of Treasury Strategy – Needs to go on to Full Council 	Karen Gubbins
24 Nov '16	<ul style="list-style-type: none"> • Treasury Management – Second Quarter monitoring report • Internal Audit – second Quarter update • Annual Audit Letter 	Karen Gubbins Jo George Donna Parham