

**AUDIT AND GOVERNANCE COMMITTEE
Monday, 14th February, 2011**

Place: Civic Offices, High Street, Epping

Room: Council Chamber

Time: 7.00 pm

Democratic Services Officer Gary Woodhall (Office of the Chief Executive)
Tel: 01992 564470
Email: gwoodhall@eppingforestdc.gov.uk

Members:

Councillors: A Green (Chairman), A Watts and J M Whitehouse.

Independent: Mrs M Peddle (Vice-Chairman) and R Thompson.

1. WEBCASTING INTRODUCTION

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 15 November 2010 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. CORPORATE GOVERNANCE GROUP - 8 DECEMBER 2010 (Pages 5 - 10)

(Director of Finance & ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 8 December 2010.

7. CORPORATE GOVERNANCE GROUP - 26 JANUARY 2011 (Pages 11 - 16)

(Director of Finance & ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 26 January 2011.

8. BENEFITS SERVICE - ANTI-FRAUD STRATEGY & INVESTIGATION TEAM UPDATE (Pages 17 - 26)

(Director of Finance & ICT) To consider the attached report (AGC-025-2010/11).

9. STANDARDS FOR ENGLAND - DIRECTION IN RESPECT OF NAZEING PARISH COUNCIL (Pages 27 - 30)

(Deputy Monitoring Officer) To consider the attached report (AGC-028-2010/11).

10. AUDIT COMMISSION - NATIONAL LOCAL GOVERNMENT STUDIES (Pages 31 - 82)

(Director of Finance & ICT) To consider the attached report (AGC-023-2010/11).

11. REPORTS OF THE EXTERNAL AUDITOR (Pages 83 - 132)

(Director of Finance & ICT) To consider the attached reports from the External Auditor (AGC-024-2010/11).

12. TREASURY MANAGEMENT STRATEGY STATEMENT & INVESTMENT STRATEGY 2011/12 - 2013/14 (Pages 133 - 158)

(Director of Finance & ICT) To consider the attached report (AGC-026-2010/11).

13. INTERNAL AUDIT MONITORING REPORT - OCTOBER TO DECEMBER 2010 (Pages 159 - 192)

(Chief Internal Auditor) To consider the attached report (AGC-027-2010/11).

14. ANY OTHER URGENT BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item

raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

15. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:

Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

- (1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;
- (2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and
- (3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:

Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer

Audit and Governance Committee

Monday, 14 February 2011

responsible for the item.

**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 8 DECEMBER 2010
(9.00 - 10.45 AM)**

Present: D Macnab (Acting Chief Executive) (Chairman) C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT), I Willett (Assistant to the Chief Executive) and B Bassington (Chief Internal Auditor)

**Apologies for
Absence:**

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

52. DECLARATIONS OF INTEREST

R Palmer declared an interest in Item 11(a) in so far as it related to Case 1/2010 where he was the complainant.

53. MINUTES OF THE PREVIOUS MEETING - 27.10.10

Agreed.

54. MATTERS ARISING

None for report.

55. TERMS OF REFERENCE

Noted.

56. AUDIT COMMISSION - NATIONAL LOCAL GOVERNMENT STUDIES

Noted that recent Audit Commission studies had been received as follows:-

(a) Protecting the Public Purse 2010 (Fraud)

Agreed that this study be referred to the next Audit and Governance Committee with comments indicating that most of the recommended items were already carried out by this Council and that Internal Audit were currently engaged in a study on recruitment processes for permanent and temporary staff.

Agreed that A Hall should advise on the recommendations contained on page 21 relating to registered housing providers.

(b) "Against the Odds" (Young People)

Agreed that this Council had no direct involvement in the subject matter of this report except in terms of a general overview.

Agreed that the report to the Audit and Governance Committee be amended to indicate the Council's lack of involvement in this issue and to state that the document will be referred to the Child Protection Working Party.

ACTION:

S Tautz to pursue.

J. Chandler to note.

57. DRAFT ANNUAL AUDIT LETTER 2009/10

Noted that R Palmer had already made a preliminary comments on the draft letter including the following:-

(a) Paragraph 1.4 (Health Inequalities) – More context required in the conclusions column of the table to clarify that this section related to the Local Strategic Partnership;

(b) Paragraph 3.5 (Financial Statements) – Clarification in the text that the errors identified and corrected during the course of the audit had no effect on the overall General Fund situation.

ACTION:

R Palmer to pursue.

58. CORPORATE RISK MANAGEMENT DOCUMENTS

Agreed that the proposed amendments and risk management documents be approved and presented to the Finance and Performance Management Cabinet Committee on 17 January 2010:

(a) Corporate Risk Register

No significant changes.

(b) Risk Management Group – Terms of Reference

Addition of Business Continuity.

(c) Risk Strategy – Management

Addition of Business Continuity, deletion of reference to brokers and the provision of training updated.

(d) Risk Management Policy – Statement

Reference to Corporate Executive Forum (CEF) deleted.

ACTION:

R Palmer to pursue.

59. NORWAY HOUSE, NORTH WEALD - INTERNAL AUDIT STUDY OF ESTABLISHMENT

Noted that as a result of an Internal Audit review of establishment matters at Norway House, a limited assurance level had been given in the report.

Noted that four Priority 1 recommendations relating to petty cash income collection banking procedures and staff time recording had been registered.

Agreed that Internal Audit should revisit the study in January 2011.

ACTION:

B Bassington to pursue.

60. STATUTORY OFFICERS - PROTOCOLS

Noted that the Constitution and Member Services Standing Scrutiny Panel had requested changes to the draft protocols for Head of Paid Service, Monitoring Officer and Chief Finance Officer at its last meeting.

Noted that the main changes were requested in respect of the roles of Deputy Statutory Officers, how conflicts of interest involving a Statutory Officer will be dealt with, budgetary arrangements for carrying out the functions of Statutory Officers and a request that the protocols be reviewed every two years.

Agreed that the draft protocols be amended as follows:

(a) text to be amended to indicate that Statutory Officers have access to directorate or corporate budgets for the purpose of carrying out their statutory tasks subject to the usual budget constraints;

(b) that, in terms of conflicts of interest, these should be notified direct to the Statutory Officer concerned or to the Head of Paid Service;

(c) that if conflicts of interest were suggested in respect of the Head of Paid Service these could be notified direct to the Post Holder or the Monitoring Officer;

(d) reflect in the protocol the question of accepting that a conflict of interest existed was a matter for each individual holder of the designation;

(e) challenges on conflict of interests in respect of Statutory Officers should not be raised in public meetings but discussed beforehand and a resolution found;

(f) any of the Statutory Officers where there was suggestion of a conflict of interest should be under duty to consider the comments made, if necessary seeking advice from other Statutory Officers or the Corporate Governance Group and to indicate the action proposed to be taken as a result.

(g) if a conflict of interest of a Statutory Officer were acknowledged, arrangements could be made by that officer for the discharge of functions in relation to that matter, whether by a Deputy or one of the other Statutory Officers.

ACTION:

I Willett to revise protocols and submit to the Constitution and Member Services Standing Scrutiny Panel following circulation of a final draft.

61. STANDARDS COMMITTEE

(a) Complaint Assessments, Reviews and Adjudication

Schedule noted.

(b) Standards for England Direction – Nazeing Parish Council

Noted that the Deputy Monitoring Officer had written to Nazeing Parish Council giving notice that this Council may wish to seek a financial contribution (on a voluntary basis) in respect of the cost of training currently being undertaken.

(c) Future of the Ethical Framework – Recent Advice from the Department for Communities and Local Government

Agreed that this document be submitted to the next Standards Committee in order that they consider whether they wish to make a recommendation to the Council about the options available for the future of the Standards Committee and of a local Code of Conduct.

ACTION:

I Willett to report to Standards Committee.

62. LOCAL GOVERNMENT BOUNDARY COMMISSION - CONSULTATION ON ELECTORAL REVIEWS

Noted that two Consultation documents had been published by the Local Government Boundary Commission concerning electoral reviews and boundary changes.

Agreed that a response be submitted to the Commission welcoming the clarification of procedures for the various types of reviews and asking for consideration to be given to more clarification regarding the relationship between these and Parliamentary and Community Governance Reviews affecting authorities and boundaries.

Agreed that this item be raised at the forthcoming meeting of Management Board with Cabinet Members.

ACTION:

I Willett to pursue.

63. LOCAL GOVERNMENT & HOUSING ACT 1989 - ALLOCATION OF COMMITTEE AND OUTSIDE ORGANISATION PLACES

Noted that one Conservative member had not signed the group membership form and that an item had been placed on the next Council Agenda to report the issue and recommend a process to deal with a situation.

ACTION:

I Willett to pursue.

64. FORMER CHIEF EXECUTIVE - CONTRACT OF EMPLOYMENT

Noted that after negotiation with external solicitors engaged to advise the Council in respect of contract negotiations with the former Chief Executive, the final bill was now likely to be £23,000 and that fresh invoices were being issued.

Noted that the bill for the former Chief Executive's own legal costs (approximately £1,500) was also in the process of being settled.

65. PARISH COUNCILS - DEFAULT POWERS

Noted it had been suggested that the District Council might have default powers to exercise where any Parish or Town Council in the district be likely to fall into significant financial problems.

Agreed that the matter be checked with CIPFA.

Agreed that relevant statutes be checked to see if there are any such default powers in operation.

ACTION:

R Palmer to check with CIFA.

C O'Boyle to check legal position.

66. NORTH WEALD PARISH COUNCIL - COUNCILLOR QUALIFICATION FOR OFFICE

Noted that the legal costs incurred by this Council be clarified for the legal status of a Councillor with North Weald Parish Council had now been repaid in the sum of £1,500 by the member concerned.

67. ELECTED MAYOR - PETITION

Noted that the latest information on the number of signatures on the petition for an elected mayor was approximately 1,000.

68. DATE FOR FUTURE MEETINGS

Next Meeting: 26 January 2011 at 9.00 a.m. in the Acting Chief Executive's Office.

Agreed that the schedule of future meetings of CGG be approved.

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**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 26 JANUARY 2011
(9.00 - 10.40 AM)**

Present: D Macnab (Acting Chief Executive) (Chairman) C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT), I Willett (Assistant to the Chief Executive) and B Bassington (Chief Internal Auditor)

**Apologies for
Absence:**

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

69. DECLARATIONS OF INTEREST

R Palmer declared an interest in item 15(a) insofar as it related to Case 1/2010 where he was the complainant.

70. MINUTES OF THE PREVIOUS MEETING - 8.12.10

Agreed subject to a correction in the First Action Note under Minute 65 (Parish Councils – Default Powers) to substitute “CIPFA” for “CIFA”.

71. MATTERS ARISING

(a) Norway House, North Weald – Internal Audit Study of Establishment

Noted that a follow-up audit was now in progress and that a report would be submitted to the next meeting on interim findings.

Action:

B Bassington to pursue.

(b) Former Chief Executive – Contract of Employment (Minute 64)

Noted that the net cost to the Council in respect of the engagement of external solicitors in this matter had been reduced from £31,250 to £19,500 following recent negotiations.

Noted that the net cost of external solicitors advising the former Chief Executive had been reduced from £3672 to £3607.50 as a result of recent negotiations

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(c) Parish Councils – Default Powers (Minute 65)

Noted that enquiries had been made regarding any default powers falling on the Council as a result of significant financial problems in a Parish or Town Council.

Noted that advice seemed to be contradictory and that the matter was still being pursued.

Action:

C O'Boyle to report back.

72. TERMS OF REFERENCE

Noted.

73. PKF - AUDIT LETTER 2009/10

Agreed.

Action:

R Palmer to pursue.

74. PKF - FEE OUTTURN SUMMARY 2009/10

Agreed.

Action:

R Palmer to pursue.

75. PKF - CERTIFICATION OF GRANT CLAIMS

Agreed.

Action:

R Palmer to pursue.

76. PKF - ANNUAL AUDIT PLAN 2010/11

Agreed.

Action:

R Palmer to pursue.

77. TREASURY MANAGEMENT

Draft report for Audit and Governance Committee on 14 February 2011 agreed.

Action:

R Palmer/B Moldon to pursue.

78. BENEFITS - FRAUD STRATEGY

Agreed that a draft report for the Audit and Governance Committee be approved subject to the following:

- (a) Report – check figure tabulation in paragraph 4;
- (b) Strategy
 - (i) delete first paragraph;
 - (ii) fraud prevention (last paragraph) – amend to “likely to include 640 home visits”.

Action:

R Palmer/J Twinn to finalise report.

79. INTERNAL AUDIT - DRAFT QUARTERLY MONITORING REPORT (OCTOBER - DECEMBER 2010)

Agreed that the Monitoring Report be submitted to the next Audit and Governance Committee meeting subject to the following comments:

(a) Planning Fees

Issue corporate advice on reconciliation of accounts.

(b) Freedom of Information Act

Refer the importance of complying with procedure for recording FOI requests to the next Extended Management Board meeting.

Noted that a programme of FOI rep meetings was being compiled and that further training/guidance would be given in the use of the software recording system.

Agreed that consideration be given to responsibility for entering FOI cases in the IT system.

Agreed that responsibility for the service be amended to Acting Chief Executive in the report.

Agreed that D Macnab should attend the next meeting of the Audit and Governance Committee.

Action:

B Bassington to finalise report.

I Willett to pursue FOI initiatives.

80. RE-USE OF PUBLIC SECTOR INFORMATION

Agreed that the sub-delegation of applications under these regulations to the Director of Environment and Street Scene in respect of CCTV material be supported and included for approval by the Council as part of the forthcoming review of officer delegation.

Agreed that the proposed charges be updated to reflect current hourly rates for the designated officers.

Agreed that the policy documents submitted to the meeting be updated including hourly rates.

Agreed that the policy be amended by including the Information Commissioner's advice on these applications.

Agreed that consideration be given to charging for extracts from webcast meetings of the Council subject to no charge being made in respect of persons who do not have access to the internet.

Action:

I Willett to pursue amendment of policy, uprating of hourly rates and possible charges for webcast extracts.

J Gilbert to make reference to Information Commissioner guidance in dealing with CCTV requests.

81. AUTHORISED SIGNATORY LISTS

Revised template agreed.

Action:

R Palmer to pursue.

Directors to note.

82. STANDARDS COMMITTEE

(a) Complaints, Assessments, Reviews and Adjudications

Noted that an assessment of the investigator's report in respect of EFDC 9/2009 had now taken place and no further action was to be taken.

Noted that in respect of Case EFDC 1/2010, a formal adjudication had been held and no breach of the Code had been found.

Noted that the Panel had asked for details of the cost of the investigation which had been conducted externally in respect of EFDC 1/2010.

(b) Nazeing Parish Council – Direction from Standards for England

Noted that a report was awaited from the trainer dealing with the first phase of implementing the Direction indicating concerns about the limited chance for a positive outcome from the programme.

Noted that the report, when received, would be the basis for discussion with Standards for England regarding the future of the Direction.

Noted that in the event that Standards for England were persuaded to lift the Direction, two complaints which had been deferred pending the outcome of action on the Direction would also need to be dealt with.

Noted that in the meantime the rest of the current training programme had been deferred.

Action:

C O'Boyle/I Willett to report back.

(c) Standards Committee (18.1.11)

Noted that there had been a preliminary discussion at the Standards Committee meeting on 18 January 2011 concerning the Government's intention to disband Standards for England and Local Standards Committees.

Noted that in discussion, some members of the Committee had favoured the replacement of the present mandatory code with a local code in respect of those elements which did not depend on the present Standards for England regime but there seemed little support for the continuation of a voluntary Standards Committee.

Noted that the relevant legislation had still to complete its passage through Parliament so the Committee had deferred any formal approach to the Council on these matters but at this stage there remained issues to be clarified about granting dispensations from the effect of interest and how these would be dealt with within the Council's organisation.

83. DATE FOR FUTURE MEETINGS

Next meeting – 23 February 2011.

Agreed that future meetings of the Corporate Governance Group be held at 9.30 am in the Acting Chief Executive's office.

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Report to Audit and Governance Committee



**Epping Forest
District Council**

Report reference: **LDF-025-2010/11**

Date of meeting: **14 February 2011**

Portfolio: **Finance and Economic Development**

Subject: **Benefits Service – Anti-fraud Strategy & Investigation Team Update**

Responsible Officer: **Janet Twinn (01992 564215).**

Democratic Services: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

- (1) To agree the Benefits Division Anti-Fraud Strategy; and**
- (2) To note the progress on the Investigation Team performance.**

Executive Summary:

The Audit Commission carried out an inspection of the Authority's Benefit Service in January 2010 on behalf of the Department for Work and Pensions. The Inspection Report was issued in May 2010 and presented to the Audit and Governance Committee on 21 June 2010. Following the inspection, a Post Inspection Action Plan was drawn up to address the recommendations in the report. One action was to produce a Benefits Division Anti-fraud Strategy. This report is presented to the Audit & Governance Committee to enable the Committee to agree the Anti-Fraud Strategy and to provide an update on the Investigation team performance.

Reasons for Proposed Decision:

The report is being made to comply with a request from the Audit and Governance Committee.

Other Options for Action:

To not agree to the Benefits Division Anti-Fraud Strategy.

Report:

1. During the Inspection of the Benefits Service in 2010, the Audit Commission were critical that the Authority did not have an Anti-Fraud Strategy document. The Post Inspection Action Plan therefore included an action to produce such a document.

2. At the meeting of the Audit & Governance Committee on 15 November 2010, a report was presented to update the Committee on progress against the Post Inspection Action Plan. At that time, Members noted that an Anti-Fraud Strategy was being developed and requested that the strategy be presented to the next meeting.

3. The Inspectors were also critical that, in their opinion, the Authority had not been doing enough to investigate fraudulent benefit applications. They did accept that the quality of the investigation work was of a good standard but, due to a lack of resource on the team, the number of cases being investigated was lower than expected. The Investigation team has for some time experienced difficulties with recruiting qualified Investigation Officers and this has meant that there have been vacancies on the team for extended periods. The situation has improved since the Inspection was carried out and, of the 3 Investigation Officer posts, one Officer was recruited in January 2010, another in August 2010 and the third Officer was formerly a trainee who qualified in the autumn. The number of investigations carried out has therefore increased since August as the Investigation Officer posts are all currently filled. However, the Investigation & Interventions Manager left in November after 16 years service with the Authority which means that the team is still not at full establishment. The Senior Investigation & Prosecution Officer is currently acting up in this post but this does result in a lack of resource for preparing cases for prosecution.

4. The performance for the Investigation team from 1/4/10 to 21/1/11 is shown below.

Completed Investigations	206
Investigation – fraud proven	63
Investigation – fraud not proven	143
Referred to DWP for investigation	178
Cases resulting in Benefit reduction/cessation/not paid where it is not appropriate to impose a further sanction	37
Convictions at Court resulting from a guilty plea	6
Prosecutions resulting in a not guilty verdict	0
Administration Penalties	6
Cautions	4
Cases with Legal	2
Prosecutions being taken jointly with DWP	2
Cases being prepared for prosecution	6

5. The target for LPI53 was adjusted for 2010/11 to take into account the lack of resource on the team. At present, it is expected to achieve the revised target of 300 completed investigations.

Resource Implications:

There are no resource implications from this report.

Legal and Governance Implications:

There are no specific implications at present. The Department for Work and Pensions is still

monitoring the performance of the Benefits Service and it is expected that they will still request the follow up inspection detailed in the Inspection report.

Safer, Cleaner and Greener Implications:

No specific implications

Consultation Undertaken:

The Anti-Fraud Strategy was developed by reference to similar strategies in other Local Authorities.

Background Papers:

Reports to Audit & Governance Committee 21 June 2010 and 15 November 2010. Performance monitoring data is retained in the Benefits Division.

Impact Assessments:

Risk Management

If an Anti-Fraud Strategy is not adopted by the Authority, any future inspection of the Benefits Service will result in further criticism.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

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Benefits Division
Anti-Fraud Strategy



Epping Forest District Council

Introduction

For many years the Council has been implementing and developing measures to reduce the risk of benefit fraud in order to protect public funds. An effective anti-fraud strategy always puts prevention of fraud at its core. It is the responsibility of management at all levels to ensure that adequate controls are in place to prevent and detect fraud.

The Council's benefits anti-fraud strategy represents a commitment to protect public funds and to ensure benefits are paid to those who have a true entitlement to them. The Council has set individual officers demanding targets to demonstrate its commitment to reducing benefit fraud. Targets will be monitored within the Benefits Business Plan.

Standards

The Council will deliver a professional and efficient benefits investigation team that provides value for money to the tax payer. Each officer will be an accredited counter fraud officer and be authorised under Section 110 of Social Security Administration Act 1992.

All investigations will be undertaken in accordance with the Criminal Procedures Investigation Act 1996, Data Protection act 1998 and Social Security Fraud Act 2000. Interviews under caution will be compliant with Police and Criminal Evidence Act 1984. The Council, where appropriate will seek to utilise The Proceeds of Crime Act to recover monies fraudulently obtained.

As well as adhering to the general Epping Forest District Council Code of Conduct for staff and the provisions of the law, each member of the Investigation team is also subject to a further Code of Conduct for Investigation Officers.

Administration and equipment

The structure of the Investigation & Intervention team is shown in appendix 1. It is part of the Benefits Division and is managed on a day to day basis by the Investigation & Interventions Manager, supported by two Senior Officers, one responsible for the Investigation team and the other responsible for the Interventions team. The Benefits Division operates within a paperless environment. The investigation case file documents are held electronically within information@work and recorded on FIMS, the fraud management IT system. The council has provided a tablet pc and digital camera for each Investigation Officer and Visiting Officer. The team has its own PACE tape machine and copier as well as a secure fax and dedicated fraud hotline. Information about the team, benefit fraud and an on-line referral (Report of suspected fraud) can be found on the council's website, www.eppingforestdc.gov.uk. The team also utilise the Government's secure GCSX email network ensuring secure communication and transfer of data between the Council and other Government departments.

Fraud prevention

The Council will provide fraud awareness training to all Benefits staff within a month of commencement of employment. Fraud awareness training will also be provided to Revenues, Housing, Planning and Environmental Health staff as appropriate to their roles.

In order to prevent benefit fraud within private sector tenancies, the Council undertakes a Land Registry search to check the ownership of a property on receipt of a new claim. The council also maintains data quality exceeding 99% within Academy and information@work by carrying out a monthly data check on names, dates of birth and national insurance numbers to ensure effective data matches.

The council will undertake 2400 in claim interventions per year on standard Housing Benefit and Council Tax Benefit claims. This is likely to include 640 home visits.

Fraud detection

As well as providing the appropriate training, the Council is also committed to supporting the Investigation team to achieve continual improvement in both fraud detection and the methods used to achieve it. The team focuses on intelligence led investigations in order to provide both value for money and maximise the prospect of uncovering fraudulent claims. In order to facilitate this, a number of IT solutions are used by the investigation team with some examples being:

- DWP Customer Information Service
- Land Registry portal
- Experian investigator on-line credit searching facility
- Home Office Identity & Passport Service
- Companies House.
- Various genealogy websites

The Investigation team also utilises the services of The National Anti Fraud Network (NAFN), of which Epping Forest District Council are corporate members. NAFN provide the team with a number of information and intelligence gathering services as well as providing the team with information on local and national fraud trends and alerts. Due to the team's active involvement with NAFN, it will also act to ensure that any fraud alerts that may have an impact on other Services within the council get passed on to the relevant Service.

The Investigation team will strive to undertake 500 benefit fraud investigations per year. This will include 240 home visits to confirm customer's personal circumstances and residence. The team will also where appropriate, visit employers, letting/estate agents or any individual or organisation connected to an investigation. Both formal and informal interviews of suspects and witnesses are also undertaken at the Civic Offices in Epping, although with each officer being mobile, interviews may also be carried out in other locations.

The Investigation & Interventions Manager will risk assesses each referral of suspected fraud with priority given to the following categories:

- Residency checks/sub lets
- Contrived tenancies
- Low earners
- Undeclared partners (LTAHAW)
- Undeclared work
- Undeclared capital

The team works in partnership with DWP, other Councils, Essex Police, the Council's Legal & Administration Service and other Council Services such as Housing, Revenues, Planning and Environmental Health. The Investigation team is also an active member of The Essex and Herts Investigation Group, which promotes liaison and closer working with, not only other local authorities in Essex and Herts, but also other investigative bodies such as DWP, Her Majesty's Revenue & Customs, Trading Standards, the Police etc. The Council operates the 'Do not redirect service' provided by Royal Mail.

The Council provides the DWP with data downloads each month for data matching purposes. The Interventions team manages Housing Benefit Matching Service (HBMS) referrals and other data scans. The Investigation team manages matches received from the Audit Commission's National Fraud Initiative (NFI).

Sanctions

Epping Forest District Council is committed to a robust anti-fraud stance and has a clear policy on taking action against people who are found to have committed benefit fraud.

The Council prosecutes all appropriate cases, in accordance with the Epping Forest District Council Prosecution Policy and the Code for Crown Prosecutors, with each case being constantly reviewed to ensure compliance with the latter. In order to provide an ongoing commitment to quality, the Council will use their own legal services to bring these cases to court. The Council will also prosecute on behalf of DWP and other Councils where appropriate. The Council also administers formal cautions and administrative penalties in accordance with both the Epping Forest District Council Prosecution Policy and the appropriate regulations.

Publicity

As a means of both publicising the work of the Investigation team and in order to act as a deterrent, the Council will routinely issue a press release following each successful prosecution. The Council will name prosecuted benefit offenders in the local press. At the same time, Members will be notified in the Members' Bulletin.

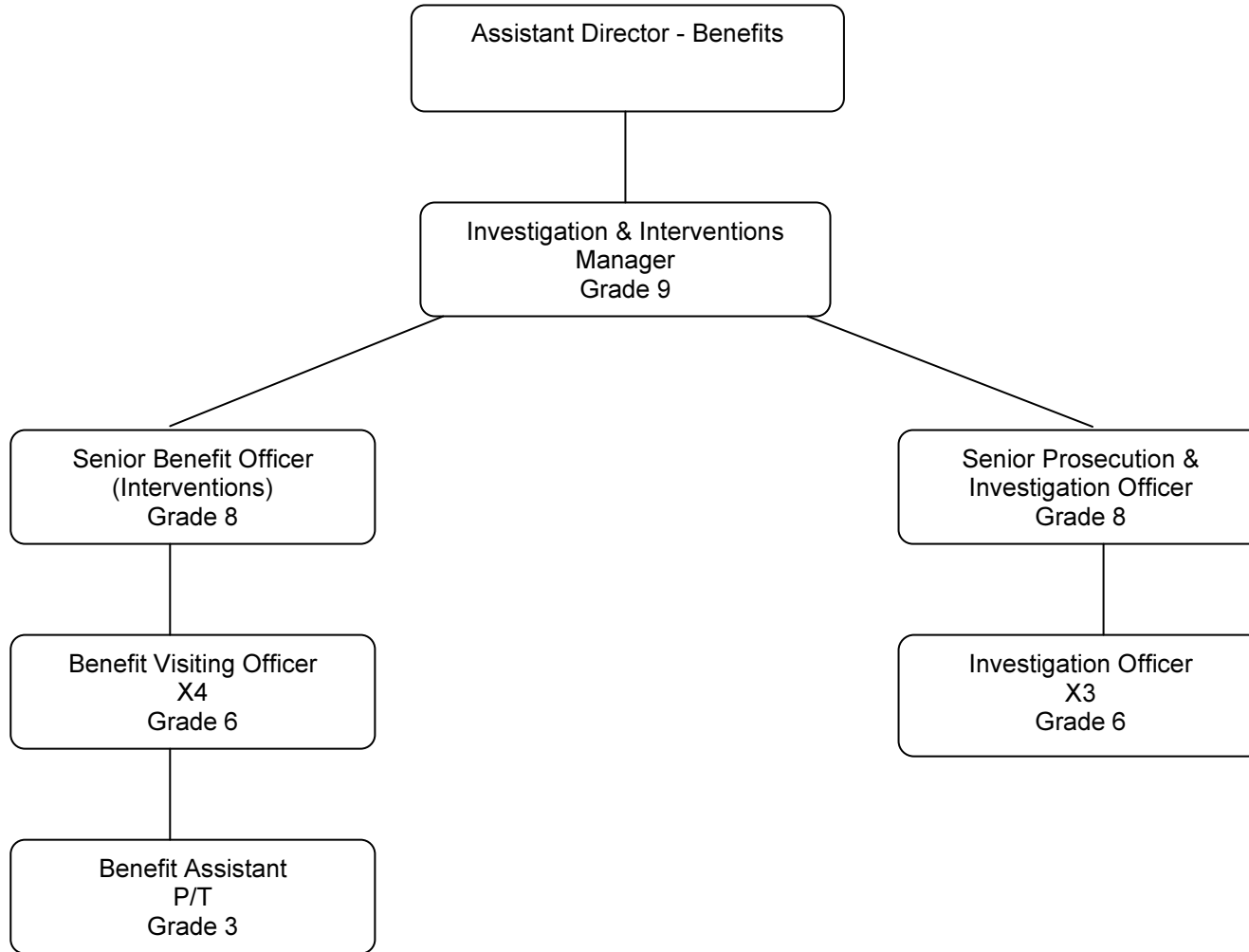
Overpayments

Fraudulent overpayments will be recovered via the Overpayments team situated within the Benefits Division. All options for recovery will be considered, including placing charges on a property and recovery through the Proceeds of Crime Act.

Register of Interests

A Register of Interests is maintained for all Benefit staff who have friends or family members who are benefit claimants living within the District. Officers declaring an interest are made aware of their responsibilities and that they are not supposed to carry out any processing on those claims. Senior Officers of the Benefits Division will undertake regular checks on all properties in the Register of Interests to ensure compliance.

Structure of Investigation & Interventions team



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Report to the Audit & Governance Committee



**Epping Forest
District Council**

Report reference: **AGC-028-2010/11**
Date of meeting: **14 February 2011**

Portfolio: None.

Subject: Standards for England (SFE) – Direction in Respect of Nazeing Parish Council.

Responsible Officer: Ian Willett (01992 564243).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendation:

(1) To note the current position on the Direction.

Executive Summary:

This is a progress report on the implementation of a Direction issued by SFE concerning Nazeing Parish Council. The report sets out details of training programmes put in place to achieve the objectives of the Direction, amendments agreed with SFE in regard to the terms of the direction, feedback on training given so far and future action.

Reasons for Proposed Decision:

The report was requested at the meeting of this Committee on 8 September 2011.

Other Options for Action:

None.

Report:

1. As a result of a series of “member on member” complaints at Nazeing Parish Council. SFE concluded that further investigations by SFE itself or by the Epping Forest District Standards Committee would be counter-productive offering little prospect of resolving the issues which underlie many of these complaints.

2. SFE therefore issued a direction to the Monitoring Officer, EFDC specifying other action under the Local Government Act 2000 which SFE felt would offer a better prospect of improving relationships between Councillors which seemed to be the root cause of the complaints. This Direction specified:

(a) that further training be offered to all Nazeing Parish Councillors in basic meeting practice and standing orders in mediation and conflict resolution; and

(b) that specific mediation for two named members of the Parish Council be made available.

3. As a result, negotiations were held with the Parish Clerk and two external trainers on delivering the programme. This resulted in a two phase programme being agreed with the Parish Council; the first concentrated on meeting procedure and the second on aspects of the Council internal relations. Item (b) was subsequently deleted from the Direction as only one of the two named councillors responded to the offer of mediation.

4. This programme was to be funded by the District Council and additional finance was included in the Standards Committee budget for 2010/11 to cover this.

5. Two training sessions have been held in Nazeing but not all members of that Council have been able to attend. After the second session, the trainer contacted the Council regarding her doubts about the future of the programme and its likely success in achieving the objectives of the Direction.

6. These reservations were reported to the local Standards Committee at its meeting on 18 January 2011. At that meeting, a letter was received from the Parish Council in reply to a letter from the District Council suggesting that the Parish Council consider making a voluntary contribution to these training costs at a later stage. The reply indicated that training and the request for a financial contribution should be deferred pending submission of the costs incurred.

7. The Standards Committee took the view that further training should be postponed pending receipt of a report of the trainer on her experiences at the first two of the five courses scheduled for Phase 1. The Monitoring Officer was asked to open discussions with SFE regarding the future of the Direction once that report was received.

8. No work has been undertaken in respect of Phase 2.

Resource Implications:

The training programme can be funded from existing budgets. Costs in respect of the first two courses in Phase 1 have been incurred. Although the amount is not yet known, this is likely to be of the order of £ 200 per course.

Legal and Governance Implications:

Local Government Act 2000 (Part III).

Any decision on the Direction is subject to SFE approval. Two complaints which were suspended pending the outcome of the Direction will be the subject of further decisions from SFE if the Direction were lifted.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

None.

Background Papers:

- Letter from SFE with direction dated 21 January 2010.
- Letter dated 13 January 2011 from Nazeing Parish Council.

Impact Assessments:

Risk Management

None.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
None.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.

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Report to: Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: LDF-023-2010/11
Date of Meeting: 14 February 2011

Portfolio: Performance Management

Subject: Audit Commission National Local Government Studies

Responsible Officer: Steve Tautz (01992 564180)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

(1) That the Committee note the recent publication by the Audit Commission of national reports relevant to the Council's areas of service provision, and any actions or implications for the Council arising from the reports.

Executive Summary:

This report provides details of national local government studies recently published by the Audit Commission that are relevant to the Council's areas of service provision. Arrangements for the reporting of local government studies issued by the Commission were agreed by the Committee at its meeting on 24 September 2009.

Reasons for Proposed Decision:

At the meeting of the Committee held on 22 June 2009, members requested that details of all Audit Commission national reports and publications received by the Council be reported to the Committee for information. To meet the request of members, the publication of national local government studies by the Audit Commission that relate to the Council's areas of service provision, is reported to the Committee on an ongoing basis, with each report having first been considered by the Corporate Governance Group. The Commission's Executive Summary (where produced) of each study is be provided to members for information, together with a weblink for the download of the full document.

Other Options for Action:

None. This report is presented at the request of the Audit and Governance Committee.

Report

1. The Audit Commission's national studies programme aims to improve local public services through an independent authoritative analysis of national evidence and local practice. The Commission has a duty to undertake studies designed to make recommendations for improving the economy, efficiency and effectiveness of certain bodies, and to improve the financial and other management of local public bodies. The Commission's national reports address strategic issues affecting specific sectors as well as the public sector as a whole, identifying practice that works, highlighting emerging findings and examining national trends to influence local practice and national policy. Each of national local

government studies published by the Audit Commission since 2000 can be downloaded directly from the Commission's website at:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/pages/list.aspx?ctype=ACNationalStudy>

2. The following national local government study relating directly to the Council's areas of service provision, has been published by the Audit Commission since the last meeting of the Committee:

(a) 'Protecting The Public Purse 2010: Fighting Fraud Against Local Government and Local Taxpayers' (October 2010).

3. A summary of this study has not been published by the Audit Commission. A full copy of the study is therefore attached as Appendix 1 to this report.

4. The 'Protecting The Public Purse' report published by the Audit Commission has been considered by the Corporate Governance Group (CGG). The CGG is satisfied that most of the recommended contained in the report are already carried out by the Council. In addition, the Internal Audit Unit are currently engaged in a study on recruitment processes for permanent and temporary staff.

5. In terms of the recommendations contained in the report relating to registered housing providers, the Director of Housing has advised that these would have been implemented through the Council's one-year pilot 'Social Housing Fraud Initiative' agreed by the Cabinet, utilising the £10,000 grant from the CLG for this purpose. The Cabinet agreed to the appointment of a one-year temporary, part-time Housing Officer (Fraud) post, funded by the Department for Communities and Local Government (CLG), topped up by Housing Revenue Account funds. Although the post was advertised and an appointment provisionally made to an internal candidate, this offer had to be subsequently withdrawn. The post was re-advertised but, before an appointment could be made, the post was frozen under the Council's recruitment Freeze. At the time of writing, it is unsure if the post is covered by the Recruitment freeze exemption relating to externally funded posts, since the post is only partially joint-funded, and the position in this respect will be clarified by Management Board early in 2011.

6. In terms of the Audit Commission's specific recommendations relating to registered housing providers, the Director of Housing has advised that:

(a) both targeted and random tenancy audits would have been undertaken by the frozen Housing Officer (Fraud) post. The post-holder would also have liaised with Registered Housing Providers (RHPs) operating in the District on suspicious cases. RHPs are responsible for their own arrangements for undertaking tenancy audits, which the frozen post would have encouraged;

(b) the Council does treat unlawful tenancy cases as fraud, takes immediate action when suspicions come to light, and has been successful in recovering properties;

(c) one of the key roles of the frozen Housing Officer (Fraud) post was to work with other RHPs in the District to set up a network to develop joint initiatives and incentives to tackle tenancy fraud, including the introduction of a reward scheme for tip-offs from members of the public;

(d) recovering fraudulent profits from illegal sub-letting was one of the initiatives that the frozen Housing Officer (Fraud) post would have investigated; and

(e) the Housing Directorate has a copy of the CLG Guidance on tackling tenancy fraud, and the frozen Housing Officer (Fraud) post would have used the various initiatives set out in the Guidance to identify and to respond to tenancy fraud.

7. The Internal Audit Unit will be reviewing the Council's lettings procedures during early 2011, and the Chief Internal Auditor will report to the Committee and the Corporate Governance Group in due course, on the findings of this exercise.

8. This Audit Commission study, 'Against The Odds: Re-Engaging Young People In Education, Employment Or Training' (Updated November 2010), does not relate directly to the Council's areas of service provision, other than in terms of a general overview, and is aimed at members of children's trusts and local strategic partnerships. The CGG has referred this report to the Child Protection Working Party for consideration.

9. The Committee is requested to note the recent publication by the Audit Commission of national reports relevant to the Council's areas of service provision, and the action being taken by the Council to meet relevant recommendations.

Resource Implications:

None.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations in this report.

Safer, Cleaner and Greener Implications:

There are no implications arising from the recommendations in this report for the Council's commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative, or any Crime and Disorder issues within the district.

Consultation Undertaken:

This report has been agreed by the Corporate Governance Group, and any possible actions or implications arising from the Audit Commission's national reports will be reported to the Committee. Relevant reports of the Audit Commission are also considered by the Corporate Executive Forum and Management Board as necessary.

Background Papers:

Audit Commission report - 'Protecting The Public Purse 2010: Fighting Fraud Against Local Government and Local Taxpayers' (October 2010)

Impact Assessments:

Risk Management

There are no risk management implications arising from the recommendations contained in this report.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?

No. The content of this report has no specific equality implications. However, the equality implications arising from any proposals for action in respect of areas for local authority improvement recommended by the Audit Commission, would need to be considered if pursued by the Council.

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?

N/A.

What equality implications were identified through the Equality Impact Assessment process?

N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

N/A.

Protecting the public purse 2010

Fighting fraud against local government and
local taxpayers

October 2010



The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Summary and recommendations

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Summary

Fraud continues to be a significant problem affecting the whole economy.

- Fraud causes annual losses of over £30 billion according to the National Fraud Authority (NFA). That means £620 is lost to fraud for each adult in the country. This is more than double previous estimates.
- In the public sector, fraud diverts resources away from those who need them.

For local government, our surveys show that, although detected fraud losses are low compared with total council spending of around £160 billion (Ref. 1), significant amounts of money are involved with:

- detected fraud in 2009/10 amounting to £135 million; and
- 119,000 individual fraud cases.

In *Protecting the Public Purse 2009*, we commented on specific fraud risks. In this report, we cover the progress that councils and others have made in tackling:

- housing tenancy fraud. Sixty councils reported that, in 2009/10, nearly 1,600 properties with a replacement value of around £240 million were recovered from unlawful tenants; and
- fraudulent claims for council tax discounts. More councils are taking this seriously and 48,000 fraudulent claims were stopped in 2009/10, increasing the local tax base by almost £15 million.

This report also shows how tackling fraud can help councils to get more value from taxpayers' money. Councils need to address fraud risks in significant areas of expenditure.

- One area of major change is the expansion of personal budgets for adult social care. If the full benefits of the new approach are to be realised safeguards will be needed to protect vulnerable people and to prevent financial loss.
- Councils should maintain their focus on housing and council tax benefit payments where they uncovered around 63,000 frauds and £99 million of fraudulent payments in 2009/10.
- Procurement is the single largest area of councils' expenditure, worth around £80 billion each year. More needs to be done to prevent and detect fraud and other illegal procurement activity that waste large sums of money.

As councils make significant cuts in budgets, it is essential they continue to maintain strong defences against fraud. In this report we include tools councils can use and examples of good practice including:

- adopting a zero-tolerance policy towards fraud and doing more to deter it;
- working with partners in the public and private sectors to overcome barriers to effective fraud fighting;
- making best use of information and intelligence; and
- taking legal action to recover fraud losses.

Fraud continues to be a significant problem affecting the whole economy

Safeguards will be needed to protect vulnerable people with the expansion of personal budgets.



Recommendations

We recommend councils:

- continue to focus on benefit fraud risks and use the National Fraud Initiative (NFI) and other data-matching schemes to maintain and improve their good performance in detecting benefit fraud;
- work together in county areas to share the costs and benefits of tackling council tax single person discount (SPD) fraud;
- use our comparator tool to decide whether to take more action to tackle SPD fraud;
- check claims for other council tax discounts are not fraudulent;
- make sure recruitment processes for permanent and temporary staff are secure, follow good practice and are working effectively;
- for personal budgets in adult social care:
 - establish a clear policy, which is communicated to budgetholders, on the appropriate use and unacceptable misuse of personal budgets; and
 - promote whistleblowing arrangements for staff, care providers and the public to encourage early identification of potential abuse;
- use recent advice from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office of Fair Trading (OFT) on procurement to ensure they are doing enough to prevent and detect procurement fraud and other illegal activities such as cartels;
- keep a comprehensive record of any frauds perpetrated against them; and
- use the checklist provided in this report to assess whether their counter-fraud plans and actions are effective in the light of the risks highlighted.

We recommend that registered housing providers (including councils):

- undertake tenancy audits to ensure only properly authorised tenants occupy their properties;
- treat unlawful tenancy cases as fraud, record them as such and take immediate action when they identify them;
- work with other housing providers to develop joint incentives to tackle housing tenancy fraud, such as sharing specialist investigative staff;
- where appropriate, consider taking legal action to target fraudulent profits; and
- use the Department of Communities and Local Government (CLG) guidance to check arrangements are effective for raising awareness and encouraging people to report their suspicions about housing tenancy fraud.

CLG may wish:

- to discuss with the NFA how best to continue the detected fraud survey for local government and related bodies.

Background

This chapter describes action taken since we published *Protecting the Public Purse 2009* to help local public bodies to counter fraud.

1 *Protecting the Public Purse 2009* (PPP) identified the steps councils had taken to improve their fraud defences but noted these improvements were not universal. In particular, it highlighted some high-risk fraud areas needing attention. These included housing tenancy, council tax SPD and staff recruitment. We estimated it may be possible to recover at least 50,000 social houses and SPD fraud could be costing local council taxpayers almost £2 million a week.

2 We produced a checklist to help councils review their performance and carried out more research into high-risk areas. In addition, we announced the launch of an annual survey to record the levels of detected fraud in local government.



The PPP checklist has helped councils review their performance.

3 Councils responded well to PPP 2009 and took positive action as a result. In this report we describe what has happened since 2009 and set out the findings from our fraud surveys for 2009 and 2010. We identify more fraud risks and urge local councils and related bodies to focus on them. The resulting savings could help bridge the gap in local budgets and ensure better use of taxpayers' money.

4 We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.

5 In the current economic climate, when large spending cuts are necessary to rebalance public finances, councils face difficult decisions over priorities. Significant staff reductions may weaken controls. It is, therefore, essential councils continue to do all they can to ensure any loss of public money as a result of fraud is kept to a minimum.

6 We have written this report for those responsible for governance including councillors, non-executives and senior officers in councils and related bodies, particularly members of audit committees. Government departments, other national organisations and counter-fraud specialists may also find it relevant. You can find the checklist in Appendix 1 and our SPD tool developed as part of our 2010 work at <http://spd.audit-commission.gov.uk>

7 The Commission's PPP reports focus on local government, consider the key fraud risks facing councils and related bodies and identify good practice. In addition, the Commission has run the NFI data-matching exercise every two years since 1996. NFI compares data sets and identifies inconsistencies or circumstances that might suggest fraud or error. Participating bodies investigate the results from NFI.

Detected fraud **against councils** **and related** **bodies**

In this chapter we report the results from our surveys of detected fraudⁱ committed against councils.

8 The latest estimate, produced by the NFA, says that fraud costs the national economy more than £30 billion a year. This represents over £620 a year for every man and woman in the UK (Ref. 2) and is more than twice the level of previous estimates. The NFA acknowledges this figure is a conservative estimate. Over half this fraud is against the public sector.

9 In PPP 2009, we undertook to conduct an annual survey of frauds detected by local councils and related bodies including police and fire authorities and probation boards.

10 The 2008/09 survey was voluntary and about 300 bodies took part, giving a return rate of 61 per cent. We made the submission of 2009/10 survey data mandatory and more than 450 public sector organisations responded, giving a return rate of 94 per cent. The survey results:

- provide information about emerging and changing fraud risks;
- help to identify good and poor practice; and
- enable us to estimate the total amount of detected frauds in local government.

119,000
frauds valued at
£135 million have
been detected by
councils and
related bodies

11 Our 2009/10 fraud survey shows:

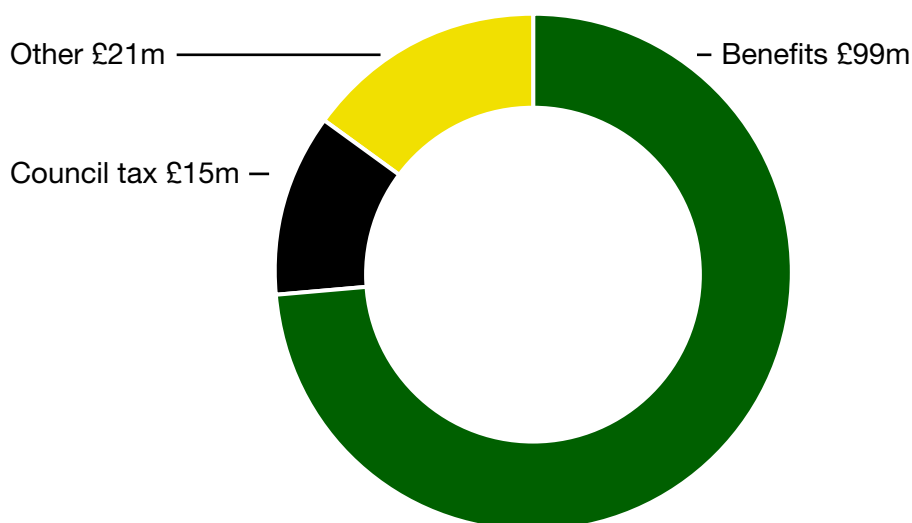
- councils and related bodies detected around 119,000 frauds valued at £135 million;
- there were 63,000 housing and council tax benefit cases amounting to a loss of £99 million. They represent almost three-quarters of the total detected frauds;
- councils also detected around 48,000 council tax frauds costing £15 million; and
- 7,000 other frauds were identified worth almost £21 million (see Table 1 for the six largest fraud types within this category).

12 In addition to the figures reported above, councils recovered almost 1,600 houses with a replacement cost of around £240 million, from unlawful tenants.

i For the purpose of this report, we define fraud as any intentional false representation, including failure to declare information or abuse of position which is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where civil, criminal or management action such as disciplinary action has been taken.

Figure 1: **Detected fraud 2009/10**

Most fraud related to housing benefit and council tax



Source: Audit Commission Survey

Table 1: **Other frauds**

The six largest fraud types within this category

Fraud type	No. of detected cases	Value £ million
Payroll, pensions & expenses	873	£3.3
False insurance claims	72	£2.8
Procurement	165	£2.7
Abuse of position	252	£2.0
Blue badge (disabled parking concessions)	4,097	£2.0
Social care	131	£1.4

Source: Audit Commission

13 Some councils do not record all types of fraud, or do not always classify all fraudulent activity as fraud. However, councils were able to provide information for the more traditional fraud risk areas such as housing benefits. For other types of fraud such as tenancy, SPD and recruitment, information was not comprehensive.

14 The increased participation of audited bodies in the 2009/10 survey enabled us to produce a regional breakdown of detected frauds (see Table 2). The figures reflect a combination of factors including the level of fraud, the resources applied to identify and investigate such fraud and the successful detection by councils within a region.

Table 2: Detected fraud by region

A regional analysis of detected frauds and losses

	Local government spending by region (per cent of total)	Detected frauds value £m (per cent of total)	Detected frauds number of cases (per cent of total)
East Midlands	7.3%	10.1 (7.5%)	9,000 (7.6%)
East of England	10.0%	8.8 (6.5%)	9,500 (8.0%)
London	21.4%	34.6 (25.7%)	22,300 (18.8%)
North East	5.5%	5.0 (3.7%)	7,700 (6.5%)
North West	12.9%	17.6 (13.1%)	23,300 (19.6%)
South East	15.0%	24.0 (17.8%)	15,000 (12.6%)
South West	8.1%	8.2 (6.1%)	7,700 (6.5%)
West Midlands	10.2%	12.9 (9.6%)	8,300 (7.0%)
Yorkshire and Humber	9.6%	13.4 (10.0%)	15,900 (13.4%)
TOTAL	100%	134.6 (100%)	118,700 (100%)

Source: Audit Commission Survey

Protecting the public purse 2009 – update

Housing tenancy fraud	16
Council tax – single person discount	20
Recruitment fraud	22

This chapter sets out the progress made in tackling the three significant fraud risks identified in PPP 2009.

15 In PPP 2009 we highlighted the growing risks associated with unauthorised housing tenancies, false SPD claims and recruitment frauds. We estimated the amounts lost through housing tenancy and SPD fraud while recognising the need to establish a more accurate loss assessment. We also pointed to the lack of published good practice in tackling these types of fraud. This section of the report provides an update of progress made since the publication of PPP 2009.

Housing tenancy fraud

16 There are nearly four million social housing properties in England, with an asset value of more than £180 billion (Ref. 3). Registered housing providers such as councils and housing associations are the guardians of these valuable assets. They should ensure only eligible and lawful tenants occupy their properties. The number of households on councils' housing waiting lists in 2009 was about 1.8 million (Ref. 4).

17 Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. It includes:

- the unauthorised sub-letting of a property for profit to individuals not allowed to live there by the conditions of the tenancy;
- submitting false information in a housing application to gain a tenancy; and
- wrongful tenancy succession where the property is no longer occupied by the original tenant.

18 Where there is a lack of social housing for homeless families, councils must house them in temporary accommodation. This costs nearly £1 billion each year, an average of £18,000 for each family in temporary accommodation (Ref. 5). In addition, the cost of building just one new unit of social housing is typically around £150,000.ⁱ Housing tenancy fraud is, therefore, one of the most significant types of fraud affecting the economy and the lives of those most in need.

19 In PPP 2009 we estimated control over the allocation of about 50,000 social housing properties in England with an asset value of more than £2 billion had been lost to housing tenancy fraud. This assumed a 2.5 per cent level of tenancy fraud in London and 1 per cent in other parts of the country. It reflects the views of many housing professionals that

i The replacement cost of £150,000 for each property is based on the January - March 2010 investment statistics from the Homes and Communities Agency. These show an average grant of over £69,000 for each property, which represents 46 per cent of the total scheme cost. This equates to a total cost of over £150,000 for each property.

the greatest opportunity for unlawful sub-letting is in metropolitan areas where the difference between social and private rentals is greatest. Our report recognised the need for more research to get a clearer picture of the prevalence and cost of housing tenancy fraud, particularly for the three-quarters of social housing outside London.

20 Since July 2009 there have been several initiatives including:

- CLG support and funding for councils and registered housing providers to tackle housing tenancy fraud, including taking part in the NFI;
- CLG best practice guidance on tackling unlawful sub-letting and occupancy, prepared with the Chartered Institute of Housing (CIH) (Ref. 6);
- schemes to encourage whistleblowing by those who suspect housing tenancy fraud; and
- independent reports on tackling housing tenancy fraud (Refs. 7 and 8).

21 The Audit Commission extended NFI to match housing tenancy records for participating councils and other housing providers. Data matches of tenancies that needed to be investigated were returned to 184 councils and 92 housing associations, and are currently being reviewed. Examples of action taken in 2010, including data matching, are provided in the following paragraphs.

22 In Hackney, it was recognised that most housing associations did not have suitably skilled and experienced investigators to tackle tenancy fraud. The Council used the CLG funding to employ a dedicated investigator to work in partnership with major registered housing providers to investigate individual referrals as well as undertake enquiries into the housing associations' NFI data matches. In the first three weeks of the exercise, the investigator examined more than 60 referrals of suspected fraud and 13 properties were recovered or a notice to leave was issued. In some cases, concerns about the tenancies had existed for several years.

23 The main benefit of this arrangement to the Council is that, under the terms of the local initiative, it receives the right to nominate someone from the Council's waiting list for a housing association property equivalent to the one repossessed as a result of a successful investigation. The benefit to the housing association is the specialist investigator manages the case up to the point where the evidence is of a high enough standard to present in court. Mostly, the standard is so high and the evidence so overwhelming that housing associations have had little trouble in recovering the keys to the property. This is a good example of the use of joint incentives in counter-fraud work others should consider. The approach resulted in a 'highly commended' award for Hackney Council from ALARM (Association of Local Authority Risk Managers).

24 In our 2009 report we said Camden Council increased the number of skilled tenancy investigators from two to five and recovered twice as many properties (86) as a result. In 2009/10, the Council again increased

the size of the team by a further two investigators and recovered 101 properties. This equates to an annual saving to the Council on temporary accommodation costs of almost £2 million. It would also have cost over £15 million to build an equivalent number of new properties. The cost of the investigations team in 2009/10 was around £250,000 inclusive of additional temporary staff recruited to deal with related special projects (for example, failure to gain access for annual gas safety checks).

1,600
social housing
properties were
recovered by 60
councils last
year

25 Our 2009/10 survey identified 60 councils that had recovered almost 1,600 social housing properties last year. Although most of these recoveries were in London, councils outside London, often working in partnership with local housing associations, have now begun to address housing tenancy fraud successfully.

26 Leeds City Council, in addition to a rolling programme of tenancy audits, encouraged whistleblowing by the public as a means of identifying suspected tenancy frauds. In total, this resulted in the Council recovering 20 properties in one year.

27 Birmingham City Council has developed a social housing counter-fraud strategy that includes data matching and the use of intelligence from its data warehouse. Matching the Council's data with Midland Heart Housing Association in May 2010 resulted in investigations into multiple tenancies and unlawful sub-letting, some of which are likely to result in the recovery of properties. This early success led to the development of partnership and data-sharing agreements to encourage more effective working practices between the Council and other housing associations. Since April 2010, the provision of such intelligence has supported the recovery of a further 13 council properties.

'As a large provider of social housing within the Midlands, we have a duty to tackle fraud and protect tenants' money as well as public funds. By identifying every fraudulent sub-let, Midland Heart will continue to house those in real need. A key element of the counter-fraud strategy is to undertake data-matching exercises with local authorities, an initiative that began in May 2010 and has had immediate results.'

Ruth Cooke, Finance Director, Midland Heart

Councils outside
London have
now begun to
address housing
tenancy fraud

28 Fraudsters sometimes gain significant extra income from unlawful tenancies. Although rarely used, civil recovery can target unlawful profits. Viridian Housing provides social housing in London, the South East and the Midlands and typically recovers one property each week from tenancy fraud. In addition, Viridian has been successful in tackling the issue of unlawful profit from tenancy frauds. Although it may not be suitable in all circumstances, registered housing providers should consider and seek legal advice on using civil law to recover fraudulent profits. Publicity regarding the successful recovery of such profits could also act as a deterrent to potential fraudsters.

Case study 1

A housing association charged a tenant £53 a week for a property in West London. The tenant fraudulently sub-let the property to a pensioner for £225 a week for nearly two and a half years. In addition, the pensioner paid a £2,000 deposit and, under duress, a penalty of £1,000 for a late payment of rent.

As a result of a tenancy audit, the housing association identified the unlawful sub-letting. As well as undertaking court action to recover possession of the property, the housing association claimed costs and damages for the profit made by the fraudster. The court made a possession order and awarded costs of £1,415 and £25,754 for the unlawful profit to the housing association, who also re-housed the pensioner.

Source: Audit Commission

‘In a world where there is a desperate shortage of affordable housing, we think it is just plain wrong to exploit the welfare state by unlawfully sub-letting. It undermines the sense of a fair society and what it means to be a good citizen. That is why we are not satisfied just with recovering our property but we also pursue fraudsters for civil recovery of the money stolen from us all. We, and almost all of our residents, want to send a strong message that we will not tolerate such behaviour. ‘

Matthew Fox, Chief Executive, Viridian Housing

29 Progress, however, is not universal. We found significant regional differences in the priority given to tackling housing tenancy fraud. Some providers still claim housing tenancy fraud is less significant outside London. Recent work shows it is an issue although the size of the problem is less clear.

30 Although detection is important, many councils have started to improve their prevention arrangements including:

- adopting a common housing tenancy counter-fraud strategy with other registered housing providers in their area;
- using photo-identification of tenants at application and allocation stages;
- clarifying tenants’ responsibilities in relation to sub-letting;
- using data matching to confirm applications; and
- gaining the support of senior management for tackling tenancy fraud.

There are regional differences in tackling housing tenancy fraud

All registered housing providers should treat unlawful tenancy cases as fraud and take action

31 All registered housing providers should treat unlawful tenancy cases as fraud and take action when they identify it. The nature of the action will be determined by the facts of individual cases. They should include requiring sub-tenants to return the unlawfully occupied property and profits made by unlawful landlords. Taking this action may help deter others from committing tenancy fraud.

32 The public has an important role in identifying fraud. Almost half of all currently identified incidents of unlawful sub-letting or occupancy originate from information received from the public. CLG guidance suggests activities and mechanisms to raise public awareness of the issues and to encourage the public to report suspected incidents. Registered housing providers should use the guidance to check their arrangements reflect good practice for raising awareness and encouraging people to report their suspicions about housing tenancy fraud.

Council tax – single person discount

33 In 2010/11, £26.3 billion will be raised from council tax in England (Ref. 9). The tax is collected locally and is a significant part (almost one-quarter) of the funding for council services. Householders may claim SPD where there are no other residents aged 18 or over living at that address. This is a 25 per cent discount on the individual's council tax bill.

SPD fraud is estimated to cost at least £90 million each year

34 Councils have noted a sharp increase in the number of people claiming SPD in recent years and an increasing number of fraudulent applications. In 2010, we analysed the results of action taken by 26 councils to tackle SPD fraud. We found fraudulent levels of claims were commonly between 4 and 6 per cent of SPD claims. This confirms our previous estimate that SPD fraud is costing at least £90 million each year.

35 Although nationally the number of SPD claimants represents about one-third of council taxpayers, the level at individual authorities varies between one-quarter and a half. A greater than average number of SPD claimants is not, in itself, proof of SPD fraud and there are usually good reasons for local variances. For example, a council with a large population of older people is more likely to have higher levels of SPD claimants. To help councils, we have developed a tool that allows them to compare their level of SPD with their predicted levels. This is calculated by using core census data. Local authorities can access the tool at <http://spd.audit-commission.gov.uk>

36 Some councils have been addressing SPD fraud for years, but still benefit from annual counter-fraud exercises. Harrow Council has actively tackled SPD fraud for the last five years using data matching and other financial checks. Although the Council now has the third-lowest percentage of SPD claimants in England it continues to take action against this type of fraud and is still saving taxpayers' money. In the five years since the Council

started this work, it has identified 2,386 claimants who were not entitled to claim the discount. The Council estimates, in total, it has recovered over £3 million of additional income and the council tax base for the current financial year has increased by approximately £1 million as a result.



A number of councils have worked together to prevent, investigate and detect council tax fraud.

37 Brent Council, with the help of NFI data matching, identified 1,200 people who were fraudulently claiming SPD on council tax. The Council recovered £800,000 from claimants and increased the tax base of the authority by £350,000 for subsequent years. The Council intends to prosecute a number of the fraudsters as a deterrent.

38 In PPP 2009 we noted some district councils had drawn attention to financial disincentives to tackling SPD fraud. In county areas, district councils bear the cost of council tax collection and the cost of prevention, investigation and detection of council tax fraud. Because of pooling arrangements, the county council may receive a larger share of any additional council tax collected. A county council could, therefore, benefit more from a fall in SPD fraud but not bear the costs of tackling the fraud.

39 In some county areas, district and county councils have worked together to address SPD fraud. The arrangements include sharing costs and extra revenue raised on a more equitable basis. Where partnerships have been created, there has been considerable impact. Councils across Leicestershire received an extra £1.3 million from council tax as a result of working together. In Warwickshire, significant benefits of around £1 million are predicted arising from joint action by districts and the county council. Nationally, these arrangements are not widespread and councils should do more to improve joint incentives.

£1.3m
of extra council tax was raised in one county by tackling SPD fraud in partnership

'The last PPP report highlighted the potential size of council tax SPD fraud in Warwickshire. It reinforced the need to undertake a data-matching review and has provided us with a business case to agree an "invest to save" approach. All five district councils in Warwickshire working with the county council and police authority will undertake a full review of SPD during 2010/11. We predict that this will net a potential £1 million county-wide if the average error rate of 4 per cent is identified.'

Bob Trahern, Assistant Chief Executive (Community Engagement), North Warwickshire Borough Council

40 Our work in 2010 noted many examples of good practice all councils should consider when assessing their arrangements for preventing and detecting SPD fraud, including:

- innovative use of technology and effective partnership working with the private and public sectors. This includes enhanced data matching and full use of the information provided by NFI;
- granting amnesties to encourage claimants to inform councils of their fraudulent claims;
- adopting a risk-based approach to identifying potential SPD fraud because reviewing all SPD cases yearly may not represent the best use of scarce resources;
- considering, where appropriate, the use of prosecution or council tax financial administration penalties; and
- employing suitable verification checks at the first point of claim.

41 As well as SPD, other council tax allowances are available which, if claimed fraudulently, can have a significant financial impact on councils' finances; for example, properties that are solely occupied by students are entitled to 100 per cent exemption from council tax. Councils should check these allowances are properly claimed.

42 Croydon Council identified more than 500 properties receiving student discounts amounting to more than £1.5 million each year. By undertaking a targeted review of these discounts, the Council found a significant number of students allegedly studying in about 30 fake colleges or false addresses in various parts of North and East London. Inquiries revealed some of the alleged colleges were actually local high street shops and restaurants. The Council made estimated annual savings of £104,000 by cancelling the fraudulently claimed discounts. The total cost of the investigation was around £5,000.

Recruitment fraud

43 Councils employ more than two million permanent staff (Ref. 10) and many thousands of temporary and agency staff. In PPP 2009 we underlined the importance of verifying the identity, qualifications and past employment records and, where appropriate, the criminal history of those already employed and those applying for posts with councils.

44 As a result, some councils have strengthened their recruitment and vetting procedures. Ealing Council adopted an enhanced vetting approach and found:

- in 2009/10, 6 per cent (3 per cent in 2008/09) of all successful candidates for a permanent position failed the vetting checks; and
- in 2009/10, almost 13 per cent (32 per cent in 2008/09) of all successful candidates for a temporary position failed the vetting checks.



Recruitment fraud is still a significant risk that councils need to address.

45 The main reasons for vetting failures included: job applicants had no right to work in the UK; false identification; false references; false work histories; false qualifications or they had committed benefit fraud.

46 Recruitment fraud is still a significant risk councils should address. The use of skilled vetting teams should be an important part of recruitment and a key measure in preventing employment fraud. All councils should satisfy themselves they are doing enough to ensure their recruitment processes for permanent and temporary staff are secure, meet good practice benchmarks and are working effectively.

Case study 2

A council applied vetting procedures before employing a temporary management accountant, who was a member of a recognised accounting institute, in a financially sensitive post. The applicant produced excellent references and reported being previously employed in similar roles by seven other councils. No employment concerns had ever been raised about the individual by any of her previous employers. However, checks by the council's specialist recruitment vetting officer found significant discrepancies with the applicant's identification documents. Further enquiries established she held passports for at least three different identities. The applicant was sentenced to 300 hours community service.

Source: Audit Commission

Significant fraud risks

Personal budgets (direct payments)	26
Procurement	29
Housing and council tax benefit	33

This chapter identifies some major fraud risks and what councils should do to tackle them.

47 Councils are facing a period of significant change. Cuts in funding and reduced staffing levels are occurring as demand for some services increases and the delivery of other services is transformed. Fewer staff may mean internal controls are undermined and fraud risks change. In this report we focus on risks to council activities where there is major change, evidence of continuing fraud and activities involving large annual spending, namely:

- personal budgets, in particular the use of direct payments for adult social care;
- procurement; and
- housing and council tax benefits.

Personal budgets (direct payments)

Councils increasingly use personal budgets to manage and deliver care

48 The provision of adult social care in England, currently costing over £16 billion each year, is undergoing significant change (Ref. 11). Councils increasingly use personal budgets to manage and deliver care. A personal budget is a direct allocation by a council of funding for an individual to spend on a support plan to meet an agreed set of needs. These budgets provide social care users with more choice and control over the support they receive by giving them the power to spend the money in the way most suitable for them. In March 2010, there were about 170,000 care users with personal budgets receiving about £900 million of care funding (Ref. 12). Further expansion is planned for the next few years.

49 Personal budgets are provided in various ways, including direct payments, to the care user. However, budgets may also be managed by the council, an independent care provider, family member, friend or by a mixture of these. Direct payments have been a feature of adult social care for over a decade and may soon account for between one-half and three-quarters of all personal budget spending. This represents a large increase in direct payments spending.

50 Fraud risks include:

- a person falsely claiming they require care. Although the potential for such fraud has always been present in the provision of adult social care, the direct access to funds afforded by direct payments is likely to be more attractive to potential fraudsters than traditional care packages;
- fraud by the person managing the personal budget of the person in need; and
- fraud by an organisation or person providing care to the person in need.

Case study 3

A registered social worker who was a former council employee received £25,000 in direct payments from that council to meet her care needs over a two-year period. When the care package was originally commissioned no medical evidence was provided to confirm the illness – supposedly a rare form of arthritis that would not have been easily detected through blood tests.

As a social worker and former employee of the council, the fraudster was well placed to exploit weaknesses in the direct payments system. To perpetrate the fraud, the fraudster interviewed a care provider with a view to having that person meet her care needs. Instead the fraudster used the interview to obtain personal information to steal the carer's identity that was then used to submit false claims to support the direct payments package.

The fraud was brought to the attention of the council by police as part of a separate enquiry. The fraudster was found guilty of two charges of fraud and received a 15-month custodial sentence and a confiscation order for £25,000 under the Proceeds of Crime Act.

Source: Audit Commission

51 It is too early to estimate how much fraud may be taking place with personal budgets. Experience to date of proven fraud with direct payments has been low. Where fraud cases have been reported, it is important to note social workers have played an important part in identifying them.

52 A care user may be totally dependent on others to manage their care and finances and could be confused or too embarrassed to report any abuse. The challenge facing councils in this changing environment is to encourage and support the innovative use of personal budgets and safeguard people adequately, while reducing the risk of fraud and financial abuse. Abuse of a personal budget is easier to perpetrate, harder to detect and more difficult to prove because individuals do not have to account for every pound they spend. Councils must ensure they have suitable safeguards within their personal budget processes.

Case study 4

A person was jailed for four and a half years for fraudulently claiming around £200,000 from a council, including £58,000 in direct care payments over several years. The person claimed to be paraplegic, bed-bound and requiring 24-hour care. No formal medical examination was undertaken by the council to verify the seriousness of the disability. Instead, the council relied on the Disability Living Allowance awarded by the Department for Work and Pensions as evidence of the disability. The fraudster also had several forged medical reports that she used to support her claim.

Using a different identity, she also ran a cafe in a property leased from the council on a low rent. The council intended to charge a market rent once the cafe was running at a profit. She misled the council by stating the cafe operated at a loss.

The funds gained from the public purse allowed the fraudster to lead an extravagant lifestyle. Subsequently, the council obtained evidence her disabilities were not as severe as she had claimed and the cafe was profitable. The council's investigation identified weaknesses in the direct payments system including a lack of expert medical evidence and insufficient rigour in the review process.

Source: Audit Commission

53 Our research has identified good practice by councils in tackling personal budget fraud, including:

- fraud awareness training for social workers;
- early involvement of counter-fraud specialists in identifying risks in the personal budget process and procedures;
- risk-based internal audit reviews of personal budget arrangements;
- establishing a clear council policy, which is communicated to budgetholders, on the appropriate use and unacceptable misuse of personal budgets, especially direct payments;
- use of payment cards; and
- good working relationships between counter-fraud and safeguarding teams.

The risk of fraud is reduced when social workers receive appropriate fraud awareness training

54 Social workers can play a key role in the personal budget process by ensuring the scope for financial abuse is kept to a minimum at the care plan assessment stage and in the monitoring and safeguarding process thereafter. We believe the risk of fraud is reduced when social workers receive appropriate fraud awareness training. This should include being made aware of the signs and consequences of fraud and of the need to work closely with audit and counter-fraud specialists should suspicions

arise. Councils should also seek to strengthen and promote whistleblowing arrangements among staff, care providers and the public to encourage early identification and reporting of fraud or financial abuse.

55 Key stakeholders and professionals recognise the risk that fraud and financial abuse can represent to the successful use of personal budgets, particularly direct payments. Councils should ensure that monitoring and safeguarding arrangements give due regard to the potentially damaging impact of fraud.

'A council performs its duty of care to provide social services when an individual agrees to take a direct payment. However, the duty of care continues with the requirement to monitor the success of the care plan to meet the needs of the vulnerable person. Fraud can have a direct and damaging impact on the outcomes of the care plan.'

Association of Directors of Adult Social Services. *Personalisation and the law: Implementing Putting People First in the Current Legal Framework*, October 2009.



Any fraud in the procurement process diverts funds away from public service provision.

56 Cases of financial abuse are difficult to detect and prove. A new working partnership between internal auditors, finance staff and care staff in councils is critical. The good practice we highlight in our report seeks to encourage councils to develop this.

Procurement

57 Councils spend around £80 billion each year buying goods and services from suppliers and funding major construction projects (Ref. 13). There is currently no credible estimate of the level of procurement fraud in local government. If only a small percentage of the total spending on procurement was lost through fraud, the potential cost to the public purse would be very significant.

58 A number of professional bodies and associations in the public and private sectors have recognised that more needs to be done to prevent and detect procurement fraud. Although the number of reported cases of procurement fraud is currently low compared to other types of fraud, this is likely to be a reflection of the lack of work in this area.

59 Any fraud in the procurement process diverts funds away from public service provision and reduces value for money for the taxpayer through substandard or unnecessary purchases. Councils may also pay more than necessary for the goods and services they buy. Losses can be large and the impact of the fraud damaging. Councils should also be aware that failure to undertake appropriate checks may negate any fidelity insurance policy.ⁱ This can result in failure to recover a loss.

Case study 5

A council used a worker provided by an employment agency to manage a project. The council placed the agency worker in charge of a large budget and he gave the project work to several contractors.

The budget was rapidly overspent and the council diverted money from other council budgets to continue the project. Following information from one of the contractors, the council discovered the agency worker had set up his own fictitious company and was making false claims for work done. The fraud itself amounted to over £110,000. Legal and investigation costs were of a similar scale.

The insurance company that issued the council's fidelity insurance policy refused to pay compensation because the council had not undertaken sufficient checks when recruiting the fraudster. The agency had undertaken what it considered to be reasonable employment checks but they did not meet the requirements of the fidelity insurance policy.

The agency worker was sentenced to two years' imprisonment. Further inquiries showed the fraudster had provided a false CV and had a previous conviction for a similar offence.

Source: Audit Commission

ⁱ Most frauds against councils are perpetrated by outsiders. Occasionally, a fraud may be carried out by a member of staff – an internal fraud. When other ways of recovering money lost because of an internal fraud have failed, councils may rely on external arrangements – that is, they buy insurance, normally called a fidelity guarantee policy.

60 Procurement fraud may involve external contractors, subcontractors or employees, or a combination of these colluding to perpetrate a fraud. The risks include bribery, failure to comply with contract criteria, unlawfully fixing bids for a contract, money laundering and submitting false claims. There are many points and stages within the procurement process where fraud risks exist. Timely and effective action can reduce the risks and provide significant savings to the public purse.

61 As a consequence of recent legislative changes, councils may be exposed to the risk of additional costs where procurement fraud leads to a contract not being issued in accordance with European Procurement Directives. This could mean unsuccessful bidders challenge the process and the council could face direct financial loss or possible claims from unsuccessful bidders for financial compensation. In such cases, the Courts may also set aside a signed contract thus involving the council in more cost in undertaking the procurement process again.

62 The work of the OFT on cartels provides an example of how widespread, costly and damaging procurement fraud and illegal activities can be. A cartel is an agreement between businesses not to compete with each other. The agreement is usually secret, oral and informal. Cartels are a form of anti-competitive behaviour costing the public purse hundreds of millions of pounds in poor value for money and losses. In 2009, the OFT finalised an investigation into alleged bid-rigging in major public and private sector building and construction contracts. It imposed fines totalling £129 million on 103 construction firms found guilty of unlawful collusion with competitors. During its investigations, the OFT uncovered evidence of cover pricingⁱ by 1,000 companies in over 4,000 contract tenders. The OFT described this illegal practice as widespread and endemic within the construction industry. The evidence to support this view is strong and could mean public contracts worth millions of pounds are affected.

63 The OFT has produced guidance for public bodies to reduce the risk of illegal practices affecting the way they award and allocate contracts. Disappointingly, despite their warning, action to prevent cartels has not been widespread. CIPFA can also help councils to improve their procurement arrangements (Ref. 14). Those responsible for governance should ensure their organisation has:

- effective corporate procurement arrangements, by comparing their arrangements with good practice;
- proper arrangements for reporting suspected fraudulent or unethical behaviour;
- included procurement in the annual internal audit programme; and
- ensured frauds detected and lessons learned are shared effectively throughout the council.

ⁱ Cover pricing is the practice where bidders for a contract secretly agree the prices they will submit. A bidder that does not wish to win the contract submits a price that is much too high and in some cases is then rewarded with a secret payment from the successful bidder.

64 Procurement fraud is not always easy to detect but should be a priority for councils and their counter-fraud staff. Figure 2 includes some of the key risks councils face.

Figure 2: **Procurement – the stages and some examples of risks**

Fraud may occur at any stage in the procurement process.



Source: Audit Commission

65 In 2008/09, Lambeth Council spent £531 million on purchases and contracts. A Corporate Procurement Team advises officers across the Council on contracting, commissioning and procurement. Strategic and departmental boards oversee procurement. The Council developed a four-stage procurement process, which includes counter-fraud and loss prevention measures. The Council has satisfied itself the requirements and limits within these processes, such as delegation levels, are robust and include checks on procurement requirements.

66 The Council's electronic contracts register contains key information for all contracts valued at £25,000 or more. The register, which is linked to the Council's finance system, enables departmental boards and staff to oversee procurement throughout each stage and across the Council as a whole. This helps to strengthen the authorisation and purchase order processes.

67 The Council undertakes post-implementation reviews that help to ensure promised outcomes have been achieved.

Housing and council tax benefit

68 In 2009/10, almost £22 billion of housing and council tax benefit was paid by councils in England (Ref. 15). Between April 2008 and March 2010, according to the results of our surveys, councils detected over 150,000 fraudulent claims for benefits with losses of nearly £200 million.



National and local data-matching tools have helped councils detect fraud.

69 Councils use various tools such as national and local data-matching exercises that can be provided by public or private sector organisations to help them detect fraud. Outcomes are significant and show preventing and detecting housing and council tax benefit fraud are still important areas for councils.

70 Islington Council's Housing Benefit Service was the target of a sophisticated and organised fraud based on the use of false identity documents. By June 2010, 70 false claims had been identified and cancelled. This has resulted in a yearly saving to the council of more than £700,000. Information about the fraud was passed to Camden Council to ascertain whether the fraud had crossed Council boundaries. By June 2010, Camden discovered 20 claims where fake passports were used as identification. All of these claims have been cancelled with overpayments totalling more than £250,000. Details of the fraud have now been circulated to all councils in London.

£5.8m of overpayments were uncovered by Birmingham City Council

71 As part of the Council's Internal Audit Section, Birmingham City Council has two teams to tackle benefit fraud. One is responsible for processing all potential fraud cases. It decides whether each case is to be investigated fully using a risk-based scoring system that assesses the quality of an allegation or referral. Once it has decided a case is suitable for further investigation, it passes it to the second team. An investigator is assigned to each case. The investigator makes enquiries, interviews the benefit recipient and third parties and conducts an interview under caution.

72 Over the last three years, the Council has:

- identified almost 18,000 cases of suspected fraud or error;
- prosecuted, cautioned or given an administrative penalty (a fine equivalent to 30 per cent of the overpayment) to about 1,400 people;
- uncovered £5.8 million in overpayments; and
- prevented overpayments of around £3 million.

73 The two fraud teams work closely with other council departments such as Benefits, Council Tax, Licensing, Leisure, Trading Standards and the Blue Badge Parking Concessions Team. These services refer large numbers of fraud cases. The teams also provide advice and fraud awareness to council staff through DVDs, leaflets and training sessions.

74 Councils should continue to focus on benefit fraud risks and use such examples of good practice to maintain and, where appropriate, improve on previous performance in detecting benefit fraud.

Increasing impact – learning from others

Top-level commitment to fighting fraud	36
Managing the counter-fraud team	37
Managing specialist resources	38

This chapter describes some of the impressive work councils have undertaken in their fight against fraud and recommends others learn from them.

75 Learning from others is a cost-effective means of maintaining or improving performance. With the agreement of those councils named, we report just a small part of the good practice in counter-fraud work we have seen over the last year.

**‘One of the first steps in dealing with fraud is admitting it exists.’
Mike Suarez, Executive Director of Finance and Resources, Lambeth Council**

Top-level commitment to fighting fraud

76 For counter-fraud work to be effective, top management must be committed to fighting fraud.

77 Lambeth Council adopts a zero-tolerance approach to tackling fraud. Senior officers and councillors – from the Council’s Leader through to the Audit Committee – fully support the approach. Successes in tackling fraud are made public to act as a deterrent. Establishing and working in partnership with internal and external groups is also a large part of the Council’s way of working. Partnership working, including councillors and staff, brings together all the expertise across Council departments. Good communications mean key messages are given internally and externally – for example, the successful recovery of housing properties from tenancy fraudsters.

78 The effective management of fraud risks requires a corporate response and senior officer commitment. Portsmouth City Council has achieved this, in part, by creating an Investigation Steering Panel. The Panel oversees the City’s counter-fraud policy and response plan as well as forensic or financial investigations. It ensures preventive measures address any identified weaknesses.

79 The Panel meets fortnightly. Some of the Council’s most senior officers including the Strategic Director (Section 151 officer)ⁱ, the Monitoring Officer, Head of Human Resources and Chief Internal Auditor are members. This high-level commitment provides a clear message from the top of the organisation that fraud will not be tolerated at the Council. It also helps the organisation to take a strategic view of fraud and provide Council-wide solutions.

ⁱ Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

80 In PPP 2009 we recommended councils check the management of their counter-fraud resources against the good practice identified by CIPFA in *Managing the Risk of Fraud* (commonly referred to as the Red Book) (Ref. 16). Some authorities have subsequently done this and agreed actions to address weaknesses identified.

81 Some councils have also used the checklist provided in PPP 2009. As a result, a number have established a more coordinated approach to tackling fraud, increased the dedicated resources available and refocused their counter-fraud activities. Fraud is identified as a corporate risk in an increasing number of councils. Partnership links with other public sector organisations are being forged and some councils have established a central point for recording and monitoring fraud risks and trends.

Fraud prevention requires a concerted response

82 Ealing Council has sought to ensure current fraud risk management practices continue to keep pace with recognised good practice. To facilitate this, the Council compared its arrangements against CIPFA guidance, the PPP 2009 checklist and results of work by the London Boroughs' Fraud Investigators Group. Although it confirmed many areas of good practice, the Council recognised it needed to align some activities more closely with recognised good practice. This included:

- identifying potential new fraud risks, including voluntary sector grant, foster parent payments and personal budget fraud. The Council is currently reviewing them; and
- refocusing counter-fraud activity on housing tenancy fraud, resulting in a 43 per cent increase in the number of referrals for further investigation.

83 Wirral Council, although identifying many areas of good practice in its counter-fraud activities, decided to set up a Corporate Counter-fraud Team. It has updated its counter-fraud policies, improved the specialist skills of Team members and included fraud, for the first time, in the Council's corporate risk register.

Managing the counter-fraud team

84 Counter-fraud teams should ensure they can demonstrate their effectiveness and the contribution they make to preventing and detecting fraud perpetrated against their councils. Teams should set clear targets, expected outcomes, undertake fraud risk assessments and report regularly to those charged with governance.

85 As part of the Finance Service, Oxford City Council's Investigation Team conducts all fraud investigations. The Head of Finance approves the Team's annual service plan and targets. The outcomes of benefit investigations are reported twice each year to the Audit and Governance Committee and the results of all other investigations to every meeting.

86 The Team is responsible for coordinating the Council's action on NFI data matching and matches are examined using an enhanced risk-based approach. Savings have amounted to more than £318,000.

87 Working in partnership with the Jobcentre Plus Investigation Service, the Team has also helped save more than £280,000 in other welfare benefits overpayments.

88 The Council's fraud management system, which is used to assess the risk of all fraud referrals, enables weighted risk assessments according to identified risk factors such as location or referral source. The risk assessment is also weighted to ensure a referral is fully investigated where specific details have been provided as part of the allegation, for example, the name of an employer. The higher the score, the more likely the investigation will have a successful outcome. In this way, the Team focuses on risk, working smarter and achieving better results.

89 The Institute of Revenues Rating and Valuation (IRRV) is the professional body specialising in administering all aspects of housing and council tax benefit. Each year it presents an award for excellence in counter-fraud work alongside its awards for other aspects of revenues and benefits administration. In 2009, the winner was Coventry City Council in partnership with North Warwickshire Borough Council and Rugby Council.

90 The IRRV was impressed by the performance of the three councils and other partners in tackling fraud together. Joined-up working resulted in the delivery of a pilot project with the Department for Work and Pensions that targeted benefit fraud across the three councils, examined all available information sources and tested the prosecution process in the various organisations. The project resulted in 14 prosecutions, 3 cautions and 3 withdrawals of benefit. The total fraudulent overpayments identified exceeded £200,000 including one case of over £40,000.

Managing specialist resources

91 Lambeth Council employs a full-time insurance investigator whose work involves speeding up legitimate claims and challenging exaggerated ones. In doing so, the investigator has uncovered significant frauds.

92 As a result of the investigator's work, the Council introduced more focused checks at an early stage of claim processing so false claims could be identified sooner. While the number of insurance claims has remained constant, the Council has detected more frauds since the investigator was appointed. The Council estimates it has saved around £1.4 million in claim settlements and associated costs, such as legal and loss adjusters' fees. The learning gained from the claims investigated is used to improve future working practices. For example, front-line staff receive a checklist of things to look out for when conducting home visits and this has raised fraud awareness and improved detection.

93 The police also seconded an officer to the Council's Internal Audit Team to help with handling fraud cases and improve the detection and prosecution of offenders. The officer can arrest suspected fraudsters and interview them under caution. This reinforces the Council's zero tolerance of fraud. The Council pays half the costs of this officer but the savings achieved more than cover the costs. The officer was involved in over 40 cases during 2009/10, where the Council recovered at least £285,000. A further £236,000 is still under investigation. The Council believes the officer's secondment has had a major impact on fraud deterrence and prevention, and has successfully linked police powers with the expertise and local knowledge of Council officers.

94 The Proceeds of Crime Act 2002 allows councils to use powers previously only available to police and Her Majesty's Revenue and Customs to confiscate assets gained through criminal activities. A council first undertakes a financial investigation that must be carried out by specialist staff – an accredited Financial Investigator (FI). Once someone has been convicted of an offence in a criminal court, the council can apply for confiscation of assets identified as proceeds of crime. This can include money, houses, goods, cars, shares or any other assets the FI identifies.

95 The employment and training of FIs is expensive. Accreditation is undertaken by the National Policing Improvement Agency and can take two years. Sharing specialist staff is, however, a cost-effective alternative. Kirklees Council has created a shared Financial Investigation Service. The Service is available to the Council's law enforcement departments as well as external agencies throughout the public sector. Customers include Bradford, Calderdale, Leeds and Wakefield Councils and West Yorkshire Trading Standards. All customers who use the shared service sign a customer agreement that enables the Service to conduct investigations under the Proceeds of Crime Act on their behalf. The Service is still developing, but is already proving successful, by identifying and recovering assets gained from criminal activity.

Sharing specialist staff is cost-effective for councils

Conclusion

This chapter sums up what public organisations need to do to maximise the effectiveness of their counter-fraud resources.

96 Fraud prevention and detection requires a concerted response. PPP reports have helped by encouraging organisations to work together to share information and benefit from specialist expertise. By joining forces, councils and related bodies can take effective action to stay one step ahead in the fight against fraud.

97 With the recently announced abolition of the Audit Commission, our detected fraud survey for local government and the publication of the results will cease. The survey provides valuable information about the performance of local government in tackling fraud. It also helps to identify emerging fraud risks and provides an early warning system for counter-fraud staff. The 2011 survey will be the last one we carry out. CLG may wish to discuss with the NFA how best to continue this important work.

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Appendix 1: Checklist for those responsible for governance

General	Yes	No	2009 Action	2010 Update
1. Do we have a zero-tolerance policy towards fraud?				
2. Do we have an appropriate approach, counter-fraud strategies, policies and plans?				
3. Do we have dedicated counter-fraud resources?				
4. Do the resources cover all activities of our organisation?				
5. Do we receive regular reports on fraud risks, plans and outcomes?				
6. Have we assessed our management of counter-fraud resources against good practice?				
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> ■ new staff (including agency staff); ■ existing staff; ■ elected members; and ■ our contractors? 				
8. Do we work appropriately with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?				
9. Have we agreed to work with relevant organisations to ensure effective sharing of knowledge and data about fraud?				
10. Do we identify areas where our internal controls may not be performing as well as intended?				
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports from it on outcomes?				

General	Yes	No	2009 Action	2010 Update
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?				
13. Do we have effective whistleblowing arrangements?				
14. Do we have effective fidelity insurance arrangements?				
Fighting fraud in the post-recession environment	Yes	No	2009 Action	2010 Update
15. Have we reassessed our fraud risks in the light of the current financial climate?				
16. Have we amended our counter-fraud action plan as a result?				
17. Have we reallocated staff as a result?				
Current risks and issues	Yes	No	2009 Action	2010 Update
Housing tenancy				
18. Do we take effective action to ensure that social housing is allocated only to those who are eligible?				
19. Do we ensure that social housing is occupied by those to whom it is allocated?				
Procurement				
20. Are we satisfied procurement controls are working as intended?				
21. Have we reviewed our contract letting procedures since the investigations by the OFT into cartels and compared them with best practice?				

Current risks and issues	Yes	No	2009 Action	2010 Update
Recruitment				
<p>22. Are we satisfied our recruitment procedures:</p> <ul style="list-style-type: none"> ■ prevent the employment of people working under false identities; ■ validate employment references effectively; ■ ensure applicants are eligible to work in the UK; and ■ ensure agencies supplying us with staff to undertake the checks that we require? 				
Personal budgets				
<p>23. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate safeguarding arrangements proportionate to risk and in line with recommended good practice?</p>				
Council tax				
<p>24. Are we effectively controlling the discounts and allowances we give to council taxpayers?</p>				
Housing and council tax benefits				
<p>25. In tackling housing and council tax benefit fraud do we make full use of:</p> <ul style="list-style-type: none"> ■ the NFI; ■ Department for Work and Pensions Housing Benefit Matching Service; ■ internal data matching; and ■ private sector data matching? 				

Appendix 2: References

- 1** Communities and Local Government, *Local Government Financial Statistics 20*, June 2010.
- 2** National Fraud Authority, *Annual Fraud Indicator*, January 2010.
- 3** Tenant Services Authority, *2009 Global Accounts of Housing Associations*, March 2010 & Chartered Institute of Public Finance and Accountancy (CIPFA) Statistics, *Housing Revenue Account and Capital Expenditure*, 2009.
- 4** Communities and Local Government, *Housing Strategy Statistical Appendix and Household Estimates and Projections*, Table 600, November 2009.
- 5** Communities and Local Government, *Housing Statistics – Revenue Outturn Housing Services 2008/09*, (Form RO4).
- 6** Communities and Local Government, *Tackling Unlawful Tenancies and Occupancy: Good Practice Guidance for Social Landlords*, November 2009.
- 7** New Local Government Network, *Don't Let On*, March 2010.
- 8** Smarter Government Public Sector Fraud Taskforce, *A Fresh Approach to Combating Fraud in the Public Sector*, March 2010.
- 9** Communities and Local Government, *Statistical Release Council Tax Levels set by Local Authorities in England 2010/11*, March 2010.
- 10** Local Government Association, *Quarterly Public Sector Employment Survey 2010*, Quarter 1.
- 11** Health and Social Care Information Centre, *Personal Social Services Expenditure and Unit Costs England, 2008/09*.
- 12** Association of Directors of Adult Social Services, *Putting People First – Progress in the Delivery of Personal Budgets 2010*, May 2010.
- 13** *Local Government Procurement Review*, Issue 13, 2009.
- 14** CIPFA, *A Risk-based Approach to the Audit of Procurement 2010*.
- 15** Communities and Local Government, *Local Authority Expenditure and Financing England 2009 –10 Provisional Outturn*, August 2010.
- 16** CIPFA, *Managing the Risk of Fraud*, October 2008.

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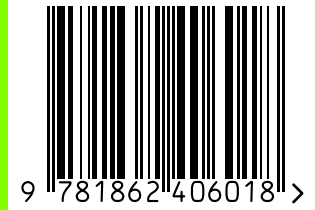
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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: LDF-024-2010/11
Date of meeting: 14 February 2011

Portfolio: Finance and Economic Development.

Subject: Reports from the External Auditor.

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To consider and note the following reports from the external auditor:**
- (a) Annual Audit Letter 2009/10;**
 - (b) Audit Fee Outturn Summary for 2009/10;**
 - (c) Grant Claim Certification for the year ended 31 March 2010; and**
 - (d) Annual Audit Plan 2010/11.**

Executive Summary:

This Committee has within its Terms of Reference the considering of reports made by the external auditor.

The first report is the Annual Audit Letter for 2009/10, which summarises the key issues arising from PKF's work during the year. The detailed findings from the audit work have already been reported to this Committee and there are no additional recommendations in this report.

The second report is the Fee Outturn Summary for 2009/10, which sets out the final costs of the audit. The total code audit fee was £149,290, compared to an estimate of £145,290, and the claims and returns fee was £69,994, compared to an estimate of £61,101.

The third report is on Grant Claim Certification for the year ended 31 March 2010. This report summarises the main issues arising from the grant claim certification work and includes recommendations and an agreed action plan.

The final report is the Annual Audit Plan 2010/11, which provides an update on the 2010/11 Fee Letter issued in April 2010. This report updates PKF's risk assessment and sets out the audit strategy and scope of work.

Reasons for Proposed Decisions:

To comply with the Committee's Terms of Reference and ensure the proper consideration of these reports.

Other Options for Action:

There are no other options for action.

Report:

1. The reports will be presented to the Committee by Mr Richard Bint, Partner, and Ms Lisa Clampin, Director of Assurance & Advisory.

Resource Implications:

The additional fees for the 2009/10 audit year have been allowed for in the Council's revised estimates for 2010/11.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations in this report.

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations in this report for the Council's commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative or any Crime and Disorder issues within the district.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:**Risk Management**

An action plan has been agreed to address the areas of risk identified in the preparation of grant claims.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A



Accountants &
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Epping Forest District Council

Annual Audit Letter 2009/10

Report to Members

November 2010



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Reports issued in relation to the 2009/10 audit

<http://www.pkf.co.uk/>

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

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.
- 1.3 We have highlighted the following emerging issues within Section 3 of this report:
- current economic climate
 - International Financial Reporting Standards.

Key findings

- 1.4 A summary of key conclusions is included in the table below:

Area	Conclusion
Financial statements	A number of misstatements were identified, and corrected, during the accounts audit, one of which was material (£25.5m). We subsequently issued an unqualified opinion on the financial statements .
Value for money conclusion	We issued an unqualified value for money conclusion .
Health inequalities	Essex public sector organisations have made good overall progress against our recommendations, particularly in consolidating strategic approaches to deal with health inequalities, working together to develop operational arrangements to deliver the strategies and improving member awareness. Within this, Epping Forest Local Strategic Partnership (One Epping Forest) has strengthened its arrangements for tackling health inequalities, particularly in the areas of joint planning and partnership working and Member awareness. Further improvements are needed, primarily in delivery, target setting and local performance monitoring, but it has a stronger base for delivery and for having an impact on health inequalities in the future than demonstrated when we carried out our previous review.
Leadership and strategic capacity of the Council	The lengthy process around the departure of a senior officer, in our view, led to the Council not making the degree of progress in its own continued improvement agenda which could otherwise have been made.

Acknowledgement

- 1.5 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

About the Council

- 2.1 Epping Forest District Council is in south west Essex and most of the 131 square miles of the district are green and rural. The population of Epping Forest is around 123,000, with about half living close to its boundary with London and there are six main centres of population.
- 2.2 The Council collects National Non-Domestic rates on behalf of the government and council tax for its own revenue and on behalf of Essex County Council, Essex Police and Essex Fire services. It provides a range of public services to the residents of the District, including:
- Housing and Council tax benefits
 - Waste collection and street cleansing
 - Pest control and environmental health
 - Housing
 - Building regulation surveyors
 - Planning decisions
 - Car parking, taxi licensing and concessionary bus fares
 - Leisure facilities
- 2.3 Further information on the activities of the Council is detailed in the eAnnual Report which is publicly available on the Council's website at <http://www.eppingforestdc.gov.uk>.

The purpose of this Letter

- 2.4 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website at www.eppingforestdc.gov.uk.

Responsibilities of the auditors and the Council

- 2.5 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.6 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

- 2.7 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements (including the Whole of Government Accounts return)
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources
 - reports on grant claims.

3 Key findings

Financial statements

- 3.1 We issued an unqualified opinion on the Council's financial statements on 30 September 2010. Our opinion confirms that the financial statements gave a true and fair view of Council's financial affairs as at 31 March 2010 and of its income and expenditure for the year then ended.
- 3.2 We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.
- 3.3 We identified some notable control weaknesses from our review of the Council's accounting and internal control systems, which adversely impacted the audit approach. These were:
- **Benefits:** Reconciliations, both between the housing and council tax benefits module of the Academy system and the general ledger and between the housing and council tax benefits module of the Academy system and the council tax module, had not been completed during the year. In addition, accuracy checks on claims processed had lapsed during the year.
 - **Creditors:** Controls over the ordering of goods and services were found to have lapsed, with notable amounts of orders being placed outside of Marketplace, the Council's electronic ordering system.
- 3.4 Although the draft accounts were prepared on time not all of the working papers requested were provided in time for the agreed start date of the audit, most significantly the reconciliations of housing and council tax benefit expenditure to the financial ledger and working papers that support the figures in the Cash Flow Statement.
- 3.5 Errors were identified and corrected during the course of the audit, of which six were significant enough to report in some detail in our Annual Governance Report. The most significant was a material misstatement of £25.5m in respect of accounting for fixed asset revaluations. The overall impact of the correction of this misstatement was to change the Council's reported outturn from a £4m deficit to a £21m surplus for the year in the Income and Expenditure account but did not have an impact on the General Fund balance.
- 3.6 In addition, the cash flow statement required substantial restatement and amendment to comparatives to fully reflect the requirements of the SORP in respect of agency accounting.

Whole of Government Accounts

- 3.7 The whole of government accounts return due to be signed on 3 October 2010 was actually signed on 27 October 2010, the delay being due to a significant number of errors which had to be corrected. An additional fee of £4,000 for the increase in audit work required has been agreed.

Use of resources

- 3.8 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the "value for money conclusion" and draws on the results of specific risk based audit work.

Specific risk-based work

- 3.9 We carried out a specific piece of work, based on our assessment of the key risks facing the Council, on partnership working around the health inequalities agenda.

Health inequalities

- 3.10 Epping Forest LSP (One Epping Forest) has strengthened its arrangements for tackling health inequalities. Further improvements are needed, but it has a stronger base for delivery and for having an impact on health inequalities in the future than demonstrated when we carried out our previous review. Progress against our original recommendations and the outcomes achieved are largely assessed as “amber” (indicating reasonable progress but with more to do) or “green” (indicating strong progress with the LSP on track to fulfil the recommendation).
- 3.11 Our report highlighted the following key areas where there is more to be done:
- Clearer identification of how targets impact on health inequalities and what success looks like would improve understanding and decision making.
 - Although action is co-ordinated through the LSP, the delivery of actions are not focussed or targeted enough in terms of explicitly tackling health inequalities.
 - An overall performance management framework is in place but mechanisms for measuring, reporting and managing progress in reducing health inequalities are under-developed.

Leadership and strategic capacity of the Council

- 3.12 The lengthy process around the departure of a senior officer, in our view, led to the Council not making the degree of progress in its own continued improvement agenda which could otherwise have been made.

Value for money conclusion

- 3.13 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).
- 3.14 In June 2010 the Government announced the abolition of Comprehensive Area Assessment. As a result the Audit Commission announced changes to its use of resources approach, effective immediately, which included removal of the scored judgements for use of resources assessments in local government bodies. It was still necessary, however, for auditors to complete sufficient use of resources assessment work to support their statutory duty to give a value for money conclusion. In practice, much of the use of resources assessment had already been completed at the time of the announcement, in order to meet the prior deadline of submitting indicative scores to the Audit Commission by 21 April 2010.
- 3.15 Our work on the three main theme areas, undertaken up to and including the abolition of CAA and scored Use of Resources judgements, showed that the Council had maintained its adequate arrangements in the year in those key lines of enquiry previously assessed, with some areas of improvement evident, such as the development of a more robust strategic planning framework that demonstrates an improving integration of financial and corporate processes and strengthening its strategic approach to procurement.
- 3.16 With regard to the new assessment area of “Natural Resources” the Council’s arrangements are weaker but adequate overall.
- 3.17 Taking into account our work on use of resources, we concluded that adequate arrangements are in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2010.

Value for money conclusion approach 2010/11

- 3.18 Given the scale of the pressures facing public bodies in the current economic climate, the Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders.
- 3.19 From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on securing financial resilience and prioritising resources within tighter budgets.
- 3.20 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Grants

- 3.21 Our work on the 31 March 2010 grant claims remains on-going at the time of issuing this Letter. We will issue a detailed report on the findings from our work in January 2011, once all claims have been certified.
- 3.22 In relation to the 31 March 2009 claims, the details of which were reported earlier this year, the Council's claims preparation processes are sound in most areas although there is scope for improvement. In particular, there is a need to improve arrangements for processing benefits which will facilitate the production of a more accurate housing and council tax benefit subsidy claim for audit.
- 3.23 As a result of errors found in testing in a number of areas of the housing and council tax benefit subsidy claim, additional testing was required to provide a suitable evidence-base to extrapolate the total value of errors. A large number of amendments were made to the final claim and the return was qualified.
- 3.24 Key recommendations from this work were as follows:
- Perform targeted test checks on cells with known prior year errors to ensure those errors are not repeated in the current year.
 - Provide targeted training on the areas of weakness in the claims processing to address common mistakes made and identify skills gaps among processing staff.
 - Undertake a senior officer cell by cell comparison of the draft claim form to the prior year's claim form and challenge/investigate any significant unanticipated increases or decreases between years.
 - Complete the reconciliation of housing and council tax benefit expenditure to the ledger, rents and council tax systems, using the spreadsheet methodology provided by Capita for the Academy system.

Emerging issues

Current economic climate

- 3.25 The Government announced the results of its Comprehensive Spending Review in October 2010. Local Government faces cuts with an expected reduction of 7% per annum. The Council will need to re-review its MTFS to take account of the outlined proposals, especially when more detail becomes available.

IFRS

- 3.26 IFRSs will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements.
- 3.27 The Council has made some progress since the previous Audit Commission IFRS survey in November 2009 and has completed a review of all of its leases against the IFRIC 4 criteria. The Council expects that the 2009/10 accounts will be restated prior to 31 December 2010, along with production of a set of IFRS compliant skeleton accounts. A report detailing the IFRS impact and timetabling was presented by Officers at the November Audit and Governance Committee.

Appendix: Reports issued in relation to the 2009/10 audit

Report	Date Issued
Audit Fee Letter	April 2009
Annual Audit Plan	December 2009
Grant Claim Certification for the year ended 31 March 2009	February 2010
Annual Governance Report	September 2010
Annual Audit Letter	November 2010

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Accountants &
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Epping Forest District Council

Fee outturn summary 2009/10

January 2011

1 Fee outturn

- 1.1 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Fee Letter, as updated in your Annual Audit Plan (issued in December 2009). We have now concluded the audit and agreed with officers further additional fees in respect of the accounts audit and the final outturn fee for 2009/10 is set out in the table below:

Audit area	Planned Fee per Annual Audit Plan £	Outturn Fee £	Variance £
Planning and Reporting	28,100	28,100	-
Financial Statements, including WGA	82,290	86,290	4,000
VFM Conclusion (including risk based work)	34,900	34,900	-
Total Code audit fee	145,290	149,290	4,000
Work outside of our audit Plan	£	£	£
Certification of claims and returns	61,101	69,994	8,893

- 1.2 The additional fees in respect of the accounts audit were as a result of difficulties encountered in obtaining and auditing the Whole of Government Accounts return, as reported in our 2009/10 Annual Audit Letter issued in November 2010.
- 1.3 The variance on the outturn fee for certification of claims and returns included in the table above is largely due to ongoing difficulties with the audit of the Housing and Council Tax Benefit Subsidy claim which required a notable amount of additional testing and several amendments. This is reported in more detail in our report on Grant Claim Certification for the Year Ended 31 March 2010, issued in January 2011.



Accountants &
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Epping Forest District Council

Grant Claim Certification for the year ended 31 March 2010

January 2011

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- B Action plan

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

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body with reference to the separate Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Statement of Responsibilities of Auditors and Audited Bodies](#)

[Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns](#)

1 Introduction

- 1.1 This report summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2010. We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.
- 1.2 After completion of the tests contained within the Certification Instruction the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.
- 1.3 The results of the integrated benefits work also contribute to the Audit Commission's inspection risk assessment for benefits services. Sample sizes and methodology for this work are prescribed by the Audit Commission.

2 Summary of certification

- 2.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2010.

Claim	Value of claim £	Qualified/ Unqualified	Number of amendments	Impact of amendments on subsidy £
Pooling of housing capital receipts	1,063,955	Unqualified	3	8,663
Housing and council tax benefit subsidy	42,290,338	Qualified	24	112,411
Disabled facilities grant	240,000	Unqualified	0	0
National non domestic rates return	29,890,484	Unqualified	0	0
HRA subsidy (2009/10)	9,561,822	Unqualified	0	0
HRA subsidy base data return (2011/12)	N/A*	Qualified	2	N/A*
Total for 2009/10	83,046,599	2 Qualified	29	121,074
Total for 2008/09	76,398,978	2 Qualified	73	106,986

*N/A because this claim does not give rise to grant payment, it certifies property numbers upon which subsidy for future years is calculated and no associated monetary value is recorded in the claim.

Grants risk assessment

- 2.2 Our risk assessment concluded that overall, taking into account known historical problems, there is a medium risk of grant claims and returns submitted for audit not being in compliance with the CI prescribed by the Audit Commission and the grant paying body.
- 2.3 Historically the Council produces more accurate draft claims where the transactions included within the claims are low volume or not complex in nature and/or where there is consistency of preparation by a named individual member of staff.

- 2.4 Further improvement to the accuracy of draft claims submitted for audit could be achieved through strengthening the overall claims preparation control environment in the following ways:
- Conducting and recording pre-audit analytical review of draft claims, by comparison to the prior year's claim and the knowledge and expectations of the officer responsible for preparing the claim, aimed at identifying areas of potential inaccuracy for further review.
 - Conducting and recording internal test checks of small samples of claim entries in areas where known errors or qualification issues have been reported in prior years.
 - Undertaking, as part of the claim preparation process, a documented cross check of the guidance for completing the claim form to the claim's supporting working papers.
 - Completing pre-audit, independent, senior review of claim working papers, including any documentation produced from the bullet points above.

Detailed findings

- 2.5 There were no matters arising from the audit of the disabled facilities grant claim, the National Non-domestic Rates Return or the HRA Subsidy (2009/10) Claim. This is an improvement on the previous year's audit results, where amendments were required to the National Non-domestic Rates Return.
- 2.6 Two of the six claims audited, the Housing and Council Tax Benefit Subsidy and the HRA Subsidy Base Data Return 2011/12, were qualified due to issues relating to non compliance with the CI and, therefore, the requirements of the grant paying body.

Pooling of housing capital receipts claim

- 2.7 The adjustments made to this claim related to administrative costs and to costs of expenditure on improvement of dwellings.
- 2.8 In accordance with CI CFB06, where administrative costs are incurred but no sale results, the costs cannot be claimed as a deduction. Some costs were identified during our testing that did not result in a sale and therefore should not have been included in the form. This is similar to the issue identified in the prior year.
- 2.9 Also, the original administrative costs included within the claim were based on estimates but when the actual costs were obtained, these were lower than the estimates and therefore led to an adjustment. Costs relating to general support services are not an allowable administrative cost per the CI but were also found to be incorrectly included within the claim.
- 2.10 Additionally, expenditure on improvements made to two dwellings more than three years prior to disposal of those dwellings were included as costs within the claim, which is not in accordance with the CI. There was also one item of expenditure where supporting documentation could not be provided and therefore had to be removed from the claim.

Housing and council tax benefit subsidy claim

- 2.11 As with the prior year, there were a number of amendments made to the Housing and Council Tax Benefit Subsidy claim. In particular, a number of amendments were made to cells relating to non-HRA cases, as a result of misclassification of Rent Rebates and Rent Allowances cases as non-HRA cases in the draft claim submitted for audit.

- 2.12 An amendment was made for expenditure under the rent officer arrangements for cases requiring referral, but where no referral was made by 31 May 2010 (cell 101). However, this was an adjustment that the Council anticipated because it arises from a timing issue whereby the subsidy claim form is compiled before 31 May 2010 (in order to meet the CI deadline of 31 May for submission of a draft claim to the auditor) but referrals can still be made up to and including 31 May. Consequently, there are often cases incorrectly included in this cell because a referral has been made before 31 May but after the compilation of the draft claim. The Council notified us of the required amendments during the audit, which we tested and were satisfied with.
- 2.13 A number of errors were identified during the course of the baseline testing of 68 benefit cases. This necessitated completion of three groups of additional "40+" testing, as required by the methodology agreed by the Audit Commission with the Department for Work and Pensions (DWP). This prescribed methodology for responding to, and extrapolating the results of, failures in the original sample of benefit cases tested requires that for situations where errors are identified, that cannot be concluded to be isolated, extended testing of an additional sample of 40 cases is required.
- 2.14 The testing on the additional sample of 120 cases selected for "40+" testing was completed by the Council's own staff (as it was in the previous year). We reviewed this work and undertook re-performance testing on a sample of the cases. Our re-performance testing found that we did not concur with the conclusion drawn on one case in a sample of four re-performed in respect of checking the accuracy of earned income. This necessitated re-performance of the remaining 36 cases. No further errors were identified. All other testing was satisfactory and we were able to rely on the remaining work completed by the Council in forming and reporting our conclusions.
- 2.15 In addition to the amendments made to correct quantifiable errors the claim was qualified, primarily due to:
- Inaccuracies within the earned income figures used in benefit calculations, across all benefit types.
 - Misclassification of eligible overpayments in the Rent Rebate, Rent Allowances and Council Tax benefit types. Errors were also identified with the classification of non-HRA eligible overpayments, however as this was a small population all cases were tested and an amendment was made to the subsidy claim form to rectify the errors for this benefit type. For the Council Tax eligible overpayments, all of the errors identified related to claimants who died and therefore the overpayments arising should have been classified as technical excess overpayments. Misclassification of overpayments was also a cause of qualification in the prior year.
 - Single Person Discounts not being appropriately applied to single claimants' Council Tax liabilities, resulting in claimants being overpaid Council Tax benefit. In discussion with the Council it was identified that when a benefit claim is received against a full Council Tax liability and, on the face of it, a single person discount could apply, the Council do not have formal procedures in place to ensure that follow up action is taken, and that the discount is not always applied as it should be.
 - Expenditure relating to Rent Allowances was incorrectly classified as backdated expenditure and included in cell 126, when in fact it was normal expenditure that had not been subject to any backdate. This expenditure should therefore not have been separately disclosed in this cell. This cell however is not subject to subsidy and therefore no additional testing was completed.

- 2.16 On completion of the Software Diagnostic Tool, it was identified that there were benefit periods relating wholly to 2010/11 incorrectly included in the 2009/10 subsidy claim form which, therefore, does not meet the definition of the subsidy order. The benefit period in question was 5 April 2010 to 18 April 2010 and was paid in March 2010. These cases related to Rent Allowances, which are paid in advance, totalling £28,535. The DWP guidance states that benefit periods falling solely in 2010/11, but paid in 2009/10, should have been excluded from the 2009/10 subsidy claim. This was also reported in our qualification letter but not adjusted in the subsidy claim form.

HRA subsidy base data return

- 2.17 As in the prior year, we were unable to evidence that council dwellings are classified in accordance with the requirements of CI HOU02 because the Council does not hold comprehensive survey records or detailed property holding records.
- 2.18 Also, due to incomplete records, we were unable to complete our detailed testing to verify the internal floor area of properties in order to evidence their classification within the claim form. As in the prior year, the Council are still in the process of collating this information as part of their work to support the award of Energy Performance Certificates to individual council dwellings.
- 2.19 Issues identified in the prior year with locating evidence to support the age of the properties and to support the total number of storeys within a block in which the Council's flats are situated had not been addressed and therefore remained a qualification issue this year.
- 2.20 A further matter arose this year in relation to the classification of dwellings as traditional and non-traditional. Misclassifications were identified in both the original and extended samples chosen for testing and could not be determined to be isolated errors. An extrapolation of the total potential level of misclassification was included within our qualification letter.
- 2.21 The average actual weekly rent per dwelling in 2010/11 had been incorrectly calculated because two properties that had been disposed of within the year had been included for the full year and not only for the length of time in the period that they had been owned by the Council. This was corrected in the final claim.
- 2.22 As a consequence of the issues identified above, a qualification letter was issued in respect of the HRA subsidy base data return (2011/12).

3 Fees charged

3.1 The fees charged for each grant claim audited for the year ending 31 March 2010 were as follows:

Claim	Fee for the year ended 31 March 2010	Fee for the year ended 31 March 2009
Pooling of housing capital receipts	3,570	2,232
Housing and council tax benefit subsidy	49,605	42,975
Disabled facilities grant	1,190	2,012
National non domestic rates return	4,932	4,771
HRA subsidy (2009/10)	2,508	3,943
HRA subsidy base data return (2011/12)	4,166	5,168
Overall grants control environment risk assessment	983	-
Grants report & risk assessment	765	765
Housing and council tax benefit subsidy 2008/09 Follow Up (requested by the DWP)	2,275	-
TOTAL	69,994	61,866

3.2 The fee increase in respect of the Housing and Council Tax Benefit Subsidy claim was as a result of continued difficulties in resolving issues with complex cases selected for audit and the need to re-perform a full sample of 40+ testing due to errors identified in the initial re-performance of work completed by the Council. The issues arising from this audit are as set out in paragraphs 2.11 to 2.16 above.

3.3 This Grants Report and the overall grants control environment risk assessment were mandated by the Audit Commission, as a result of their *Review of Arrangements for Certifying Claims and Returns*, to raise the importance and profile of certification work and improve the standards of claims and returns prepared.

4 Conclusions

4.1 There is scope for the Council to improve its overall control environment arrangements for the preparation of grant claims and supporting working papers for audit. This will result in more accurate draft claims being produced.

4.2 A number of the recommendations we made last year cannot be evidenced as fully implemented, in particular in respect of the Housing and Council Tax benefit Subsidy claim, as summarised in Appendix A. Also our detailed audit results are similar to those in the prior year, suggesting that action that has been taken has not been effective.

4.3 We have included this year's recommendations in a detailed Action Plan at Appendix B, which has been agreed with officers.

Appendix A – Progress against prior year recommendations

Recommendations	Priority	Management response	Responsibility	Timing	Progress
Housing and council tax benefit subsidy					
1. Review the results of cases identified where excess benefit is classified incorrectly, both from audit reviews and any internal accuracy checks completed, to identify trends both by staff member and common error types.	High	Agreed, problem should be largely resolved by change from Orbis to Academy.	Assistant Director of Finance & ICT (Benefits)	April 2010	Carry forward A similar number of misclassification issues were identified again this year indicating that weaknesses remain. This recommendation has been re-iterated and expanded within the current year action plan at Appendix B.
2. Provide targeted training on the classification of excess benefit to address common mistakes made and identified skills gaps among processing staff.	High	Agreed, this training has been provided previously and will be repeated.	Assistant Director of Finance & ICT (Benefits)	April 2010	Carry forward A similar number of misclassification issues were identified again this year, indicating that weaknesses remain. This recommendation has been re-iterated and expanded within the current year action plan at Appendix B.
3. Perform targeted test checks on cells with known prior year errors to ensure those errors are not repeated in the current year.	High	Agreed, although as above prior year errors should be reduced by system change.	Assistant Director of Finance & ICT (Benefits)	May 2010	Implemented It was evident from our testing that there were fewer errors identified that were the same as the prior year. The Council completed checks on cells where they considered there to be an anomaly, for example with cell 101. These checks however are not formally documented. A recommendation has been raised in the current year to further enhance this process.

Recommendations	Priority	Management response	Responsibility	Timing	Progress
4. Undertake a senior officer cell by cell comparison of the draft claim form to the prior year's claim form and challenge/investigate any significant unanticipated increases or decreases between years.	High	Agreed.	Assistant Director of Finance & ICT (Benefits)	May 2010	Carry forward No evidence that such a comparison was completed and our analytical review queries needed to be worked through by Council staff. This recommendation has been reiterated in the current year action plan at Appendix B.
5. Improve the strength of communication between the Benefit team and the Finance team to ensure that there is a comprehensive understanding of matters arising, from both internal checks and formal audits, that impact on the preparation of the claim.	Medium	Agreed.	Assistant Directors of Finance & ICT (Accountancy and Benefits)	May 2010	Carry forward Still in progress – it is evident that the Benefits Department and the Accountancy Department are improving their communication, with a formal process for completing monthly reconciliations. However it is considered that this process needs to be further enhanced to cover issues surrounding the subsidy claim form, including issues arising from our audit. Recommendation has been expanded on within the current year action plan.

Recommendations	Priority	Management response	Responsibility	Timing	Progress
6. Complete the reconciliation of housing and council tax benefit expenditure to the ledger, rents and council tax systems, using the spreadsheet methodology provided by Capita for the Academy system.	High	Agreed, this is underway.	Assistant Directors of Finance & ICT (Benefits and Revenues)	April 2010	Implemented This was completed for 2008/09 and 2009/10, but only after the audit was started. There was also an unreconciled difference on Rent Allowances expenditure, that the Council were advised by Capita not to correct, although they were fully aware of what the difference related to. The Council should complete this reconciliation methodology as part of the claim preparation process. This has been raised as a recommendation for next year in Appendix B.
Pooling of housing capital receipts					
7. Review the administrative costs that are included within the claim and ensure that all of the costs can be attributed to a sale.	Medium	A review has been completed and actual costs and now being used wherever possible.	Assistant Director of Finance & ICT (Accountancy)	April 2010	Carry forward A similar range of issues with unallowable costs being included within the claim arose this year, suggesting that stated action taken was not effective. This recommendation has been re-iterated and expanded in the current year action plan at Appendix B.

Recommendations	Priority	Management response	Responsibility	Timing	Progress
Housing subsidy base data return (HOU02)					
8. Use the results of the work done to complete Energy Performance Certificates to inform the completion of the claim and, if certificates have not been received for all properties, apply the known internal floor areas on a beacon basis.	Medium	Agreed, this work is being undertaken by the Housing Directorate.	Assistant Director of Housing (Property)	April 2010	Carry forward This is work in progress.
9. Obtain evidence to support the number of storeys in each block of flats containing council dwellings.	Medium	As above	As above		

Appendix B – Action plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<p>Overall control environment</p> <p>Our risk assessment concluded that, overall, there is a medium risk (amber) of grant claims and returns submitted for audit not being in compliance with the CI prescribed by the Audit Commission and the grant paying body.</p> <p>Historically the Council produces more accurate draft claims where the transactions included within the claims are low volume or not complex in nature and/or where there is consistency of preparation by a named individual member of staff.</p> <p>The overall control environment could be improved through centralised checks made by a senior officer.</p>	<p>1. Assign responsibility to a senior member of staff for completing and recording independent, centralised checks on all claims prepared, which ensure that for each claim the following can be evidenced:</p> <ul style="list-style-type: none"> • Completion of a pre-audit analytical review of the draft claim, that compares it to the prior year's claim and the knowledge and expectations of the officer responsible for preparing the claim, aimed at identifying and following up on areas of potential inaccuracy. • Completion of internal test checks of small samples of claim entries in areas where known errors or qualification issues have been reported in prior years. • A documented cross check of the claim's terms and condition and guidance for completing the claim form to the claim's supporting working papers, to demonstrate that all conditions have been applied complied with and all guidance has been taken into account during the claim's preparation. 	High	The recommendations are agreed. A system will be put in place so that each Principal Accountant will complete the checks for all claims prepared by the other Principal Accountant's team. This should ensure an objective review and challenge by someone independent of the claim's preparation.	Assistant Director of Finance & ICT (Accountancy)	May 2011

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
	2. Provide challenge and/or request follow up of any areas where the results of checks indicate there is greater risk of error being present in the draft claim.	High	As above.		
Housing and council tax benefit subsidy					
Eligible overpayments continue to be misclassified between types, resulting in misstatement of subsidy claimed. [We have re-raised and expanded upon the recommendations we made in last year's report.]	3. Review the results of cases identified where excess benefit is classified incorrectly, both from audit reviews and any internal accuracy checks completed, to identify trends both by staff member and common error types. 4. Provide targeted training on the classification of excess benefit to address common mistakes made and identified skills gaps among processing staff. In particular, the classification of eligible excess Council Tax overpayments arising after a claimant's death.	High	This is currently being carried out and any subsidy misclassification is recorded on the accuracy spreadsheet. Trends are identified and appropriate training provided. All staff have been advised on the correct process for cancelling CTB following death and specific individual training has been provided to address other common errors such as backdating.	Assistant Director of Finance & ICT (Benefits) Assistant Director of Finance & ICT (Benefits)	January 2011 January 2011
As in the prior year, a number of amendments were required to the subsidy claim form to correct errors identified. Additional testing was also required due to errors identified with the accuracy of benefit calculations where the claimant was on earned income. Other general errors were also identified in relation to the classification of expenditure on the subsidy claim form.	5. Perform targeted test checks on cells with known prior year errors to ensure those errors are not repeated in the current year. 6. Undertake a senior officer cell by cell comparison of the draft claim form to the prior year's claim form and challenge/investigate any significant unanticipated increases or decreases between years.	High	This is being carried out throughout the current year with 100% checking on some cells. Comparisons are currently carried out but not formalised. Formal comparisons will be carried out.	Assistant Director of Finance & ICT (Benefits) Assistant Director of Finance & ICT (Benefits)	May 2011 May 2011

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<p>Testing identified that a single person discount was not always applied to a claimant's Council Tax liability, even though, on the face of it, a single person discount could apply. The guidance states that single person's discounts should be assumed when calculating benefit for single persons, whether or not the discount has been formally claimed and awarded by the Council Tax department. The Council does not have a set, formal procedure in place to ensure that follow up action is taken and that the discount is appropriately applied.</p>	<p>7. Implement a formal procedure whereby the Benefits Department sends a formal memo to the Council Tax Department to inform them when it appears from the information provided for the benefit claim that a Single Person Discount should apply on an account. These should be followed up on a weekly basis to ensure that the discount has been applied.</p>	<p>High</p>	<p>Either the recommended formal memo or an email is already sent to Revenues when it is identified that a Single Person Discount should be granted. Meetings have taken place between Benefits and Revenues with a view to improving liaison. Benefit Officers will in future have permissions to grant the SPD in the straightforward cases as part of the assessment process, thereby eliminating the need for a memo and follow up checks.</p>	<p>Assistant Director of Finance & ICT (Benefits)</p>	<p>January 2011</p>
<p>Problems were encountered during the course of the audit in resolving queries and the availability of key contacts at the Council.</p>	<p>8. Arrange and conduct weekly meetings between the Assistant Directors of Finance & ICT (Accountancy and Benefits) and the senior audit team members during the course of the audit to facilitate the smooth running of the audit and the prompt resolution of queries. This will also aid with the communication across departments at the Council.</p>	<p>High</p>	<p>Meetings can be arranged but this will be dependant upon the audit team senior advising in advance when they will be on site on a weekly basis. Weekly meetings may not be appropriate if the audit is spread over an extended period with variable staffing.</p>	<p>Assistant Director of Finance & ICT (Benefits) Supervisor, PKF</p>	<p>June 2011</p>

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<p>Although the Council completed the subsidy reconciliation using the spreadsheet methodology provided by Capita for the Academy system, this reconciliation was completed after the compilation of the subsidy grant claim. Differences remained on the reconciliation for Rent Allowances due to the subsidy integrity report not being cleared down. It will be beneficial for the Council to complete the reconciliation methodology earlier on in the compilation process to identify and resolve any differences up front.</p>	<p>9. Complete the reconciliation of housing and council tax benefits as part of the claim compilation process during May, using the spreadsheet methodology provided by Capita for the Academy system.</p>	<p>High</p>	<p>Recommended Academy spreadsheet will be completed.</p>	<p>Assistant Director of Finance & ICT (Benefits)</p>	<p>May 2011</p>
<p>Pooling of housing capital receipts</p>					
<p>Administrative costs have been included within the claim where they are not allowable by the Certification Instruction and therefore required amendment. Estimates of the costs were used and costs that did not directly relate to a sale were also incorrectly included, which are not allowable deductions.</p>	<p>10. Review the administrative costs that are included within the claim and ensure that all of the costs are allowable by the Certification Instruction and that actual costs are used where possible.</p>	<p>Medium</p>	<p>This is regularly reviewed to ensure only the cost associated with this claim is claimed for. Actual costs are used whenever possible.</p>	<p>Assistant Director of Finance & ICT (Accountancy)</p>	<p>April 2011</p>
<p>Costs of expenditure on improvements to dwellings in two cases were found to have been incurred more than three years prior to the disposal date and therefore are not allowable by the Certification Instruction. There was also one case where supporting documentation could not be provided.</p>	<p>11. Review the costs of expenditure on improvements and ensure that they are incurred less than three years prior to the dwelling disposal and that supporting documentation is available to verify the costs.</p>	<p>Medium</p>	<p>Agreed, only costs incurred within the last three years will be included. Inability to provide supporting documentation was an isolated case and generally the evidence supporting these costs is available.</p>	<p>Assistant Director of Finance & ICT (Accountancy)</p>	<p>April 2011</p>

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Housing subsidy base data return (HOU02)					
Misclassifications were identified between traditional and non-traditional properties.	12. Reconcile the non-traditional properties included in the claim to the records of non-traditional properties held by the Housing Assets Manager to ensure that the split is correct.	Medium	Agreed, this work is being undertaken by the Housing Directorate.	Assistant Director of Housing (Property)	April 2012

Epping Forest District Council

Annual Audit Plan 2010/11

December 2010



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

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

1 Executive summary

- 1.1 The purpose of this Annual Audit Plan is to update our 2010/11 fee letter issued in April 2010 by:
- updating our risk assessment, now that we have concluded our 2009/10 audit work, and confirming the significant audit risks identified
 - setting out our audit strategy and the scope of our audit.

Significant audit risks

- 1.2 These are set out in detail in section 3 and Appendix A, and include:
- Implementation of the new property management system
 - Valuation of, and accounting for, the Council's housing stock, including garages
 - Introduction of International Financial Reporting Standards (IFRS).
- 1.3 In addition, International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. We are also required to consider the need to perform other additional procedures.

Fees

- 1.4 The audit fee for the year remains at £149,700 (including 6 per cent uplift on the prior year for the impact of implementing IFRS). It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2010. The assumptions we have made in setting the audit fee are set out in section 4.
- 1.5 For 2010/11 audit fees, the Audit Commission has:
- given a 6 per cent rebate of audit scale fee to mitigate the increase in audit fee arising from the transition to IFRS. The rebate for Epping Forest District Council was £8,179.
 - announced that it will rebate a further 1.5% of the audit scale fee to reflect the early curtailment of the use of resources work completed earlier this year. This is expected to be in the region of £2,000 but the exact amount is yet to be confirmed.
 - confirmed that it will not charge local authorities for the work undertaken on the managing performance part of the organisational assessment before work on Comprehensive Area Assessment was stopped.
- 1.6 Grant fees for claims and returns for the year ended 31 March 2010 have now been completed and the outturn fee was £69,994. Based upon our experience of this most recent set of reviews, we anticipate fees for claims and returns for the year ended 31 March 2011 to be approximately £62,000, taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2010/11.

Key outputs

1.7 The key reports, opinions and conclusions from the audit will be:

Output	Expected timing
Accounts	
Report on the review of internal controls	July 2011
Annual governance report on the financial statements	September 2011
Audit opinion covering the financial statements	September 2011
Opinion on the Whole of Government Accounts return	September 2011
Value for money conclusion	September 2011
Annual audit letter	November 2011
Grants	
Grants report to Those Charged With Governance on claims and returns for the year ended 31 March 2011	February 2012

2 Introduction

- 2.1 This Annual Audit Plan sets out the audit work that we propose to undertake for the 2010/11 financial year. It has been drawn up from our risk based approach to audit planning and planning meetings held. The information and fees in this Plan will be kept under review and any significant changes will be reported to the Audit and Governance Committee.
- 2.2 The context in which we deliver our audit is set out in Appendix B.

Assessing risks

- 2.3 We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means ensuring that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 2.4 Our risk assessment process focuses on the identification of significant financial and operational risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

Impact of introduction of Clarity International Standards on Auditing (CISAs)

- 2.5 We would like to draw to your attention the fact that for the audit of the financial statements for years ending on or after 15 December 2010 we are required to apply the clarified (or revised and redrafted) International Standards on Auditing (UK & Ireland). These have increased the number of requirements that have to be met when carrying out an audit and you are likely to notice a change in our approach to the audit of certain areas. Consequently we may require additional information from you or we may request information at a different stage of the audit process than has been the case in previous years.

Examples of areas where our approach to the audit may change as a result of the additional requirements of the clarified International Standards on Auditing include (but are not limited to):

- **Materiality** – we are required to set not only a materiality level against which to evaluate the effect of identified misstatements on the audit but also a second level of materiality (known as “performance materiality”) which is to be used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole so as to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The potential impact is that areas previously unaudited on the grounds of materiality may now fall within the scope of our audit work or more work may have to be done in certain areas to reflect the lower level of materiality on the extent of work.
- **Related parties** – whilst under the existing ISAs we were required to obtain an understanding of the related parties of the entity, including the controls that those charged with governance have in place over the identification and accounting for related parties, the clarified ISAs place a greater emphasis on a risk based approach to the consideration of this area. We use our understanding to assess the risk of material misstatement of the financial statements in respect of related parties and design further audit procedures accordingly. Our audit work on related parties will also include consideration of transactions that have occurred, if any, outside the normal course of business and in identifying any omitted related party relationships and transactions.

- **Control environment** – whilst, under the existing ISAs, we were required to report to those charged with governance, the clarified ISAs place an increased emphasis on the need to communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis and, in addition, to report other deficiencies in internal control identified during the audit that are of sufficient importance to merit management's attention. As a result it may be necessary for us to produce additional reports to management of weaknesses identified in the control arrangements at the Council, in addition to the reporting cycle to those charged with governance through the Audit and Governance Committee.
- **Accounting estimates** – we will consider all areas of the financial statements subject to accounting estimate and we are required to obtain a greater understanding about how those estimates have been determined and consider the effects of uncertainty in assumptions used. We will identify and assess the risks of material misstatement arising from the use of accounting estimates and will focus our work on areas where the risks of material misstatement are greatest. Our audit work on accounting estimates will also consider whether the Council's policies in respect of areas of the financial statements which involve notable use of accounting estimates are appropriately formulated and applied.

3 Risk assessment

Significant financial statement audit risks

- 3.1 Summarised below are the significant accounts risks that are likely to impact on our audit of which we are currently aware. More detail on these risks can be found in Appendix A.
- International Financial Reporting Standards (IFRS) have been adopted in local government from 2010/11 and required transitional arrangements to be put in place by the Council
 - Implementation of the new property management system
 - Valuation of, and accounting for, the Council's housing stock, including garages.
- 3.2 In addition, International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. We are also required to consider the need to perform other additional procedures.
- 3.3 We have set a triviality level of £30,000 for the 2010/11 accounts audit and will not report to you any matters arising below this level.

Updated value for money conclusion risk assessment

- 3.4 We have updated our use of resources risk assessment for 2010/11 to take into account:
- matters arising from the completion of the 2009/10 audit
 - additional audit knowledge gained since our initial risk assessment which was included in our 2010/11 Audit Fee Letter, issued in April 2010 and presented to the Audit and Governance Committee in June 2010
 - the introduction of the Audit Commission's revised arrangements for the determination of the value for money conclusion (see Appendix B).
- 3.5 We have not identified any additional significant risks as a result of our updated risk assessment.

Other issues

- 3.6 The current economic climate continues to cause financial pressures for the Council with the change in estimated revenue spending power in 2011/12 for the Council being a reduction of 5.5% overall (£1.1m). In real terms, this is actually a reduction of approximately 16% of revenue support grant which presents a notable financial management challenge. The Council's financial position will be regularly monitored during the course of our planning and delivery of the audit, and we will assess the Council's financial resilience and plans for delivering efficiencies as part of forming our value for money conclusion.

4 Fees and billing arrangements

Fees

- 4.1 As reported to you in our Audit Fee Letter in April 2010 (which was taken to the June Audit and Governance Committee), the audit fee for the period April 2010 to March 2011 is £149,700 plus VAT.
- 4.2 The fee is based on our understanding of audit requirements and risks at the time of drafting this Plan. If we need to make significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Finance & ICT and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee.
- 4.3 For 2010/11 audit fees, the Audit Commission has:
- given a 6 per cent rebate of audit scale fee to mitigate the increase in audit fee arising from the transition to IFRS. The rebate for Epping Forest District Council was £8,179.
 - announced that it will rebate a further 1.5% of the audit scale fee to reflect the early curtailment of the use of resources work completed earlier this year. This is expected to be in the region of £2,000 but the exact amount is yet to be confirmed
 - confirmed that it will not charge local authorities for the work undertaken on the managing performance part of the organisational assessment before work on Comprehensive Area Assessment was stopped.

Audit area	Revised fee 2010/11	Indicative fee 2010/11	Actual fee 2009/10
Financial statements, including WGA	86,200	86,200	86,290
VFM Conclusion	35,000	35,000	34,900
Planning and reporting	28,500	28,500	28,100
Total Code audit fee	£149,700	£149,700	£149,290
Certification of claims and returns ¹	£62,000	£62,000	£69,994

- 4.4 **Grants certification:** Fees are separately billed based on the Audit Commission's grade related rates as set out in the *Work Programme and Fee Scales* on the basis of hours incurred. Grant fees for claims and returns for the year ended 31 March 2010 have been completed and the outturn fee was £69,994. Based upon our experience of this most recent set of reviews, we anticipate fees for claims and returns for the year ended 31 March 2011 to be approximately £62,000, taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2010/11.
- 4.5 **Questions and objections:** Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.
- 4.6 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard

¹ Revised fee is based on the outturn for the 2009/10 claims and returns

- we will, after re-performing a sample of Internal Audit's work, be able to place full reliance on the work of Internal Audit
- you will keep us informed of any significant changes to your main financial systems or procedures
- you will provide the information requested in our records required listing in accordance with the agreed dates and that there will be no significant departures from that timetable. The firm reserves the right to increase its fees should this not be the case or should we encounter unexpected problems, or issues arise, causing significant additional work.
- time spent dealing with problems or issues arising is usually that of senior people and hence the cost will necessarily often be disproportionate to the original fee.
- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
- there are no major changes to the content of government department grant instructions and improvements to the Council's processes for preparing accurate draft claims for audit have been secured.

4.7 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2010/11 and our consideration of your annual governance statement in your 2009/10 accounts.

Billing arrangements

4.8 Your audit fee is being billed in 4 equal instalments of £37,425.

5 Audit arrangements

Staffing

5.1 The following staff will be involved in the audit throughout the course of the year:

	Role and responsibility
Engagement Partner Richard Bint Email: richard.bint@uk.pkf.com Tel: 020 7065 0497	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the Chief Executive and Audit and Governance Committee.
Director Lisa Clampin Email: lisa.clampin@uk.pkf.com Tel: 01473 320716	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and value for money work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Supervisor Neil Jenner Email: neil.jenner@uk.pkf.com Tel: 01473 320806	Responsible for assisting the Director in the delivery of the management role and responsibilities and managing our audit fieldwork on site for accounts and value for money.
Senior Ed Pink Email: edward.pink@uk.pkf.com Tel: 01473 320721	Responsible for managing our audit team undertaking fieldwork on site for accounts.
VAT advisor Richard Wild Email: richard.wild@uk.pkf.com Tel: 01473 720744	Responsible for assessing the arrangements in place to manage the Council's responsibilities in respect of VAT.

Timetable

5.2 The following outline timetable shows the expected dates planned for key fieldwork elements of the audit to commence:

Audit Timetable	Timing	Reporting
Review of internal controls	June 2011	July 2011
Audit of the financial statements	August 2011	September 2011
Audit of the whole of government accounts return	September 2011	September 2011
Value for money conclusion	September 2011	September 2011
Grants reviews (including HBCOUNT benefits work) on claims and returns for the year ended 31 March 2011	June to November 2011	January 2012

5.3 We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

Communication

- 5.4 Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.
- 5.5 We have included in Appendix C to this Plan a statement to the Audit and Governance Committee setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 5.6 Following our audit of the financial statements we will report to the Audit and Governance Committee on the findings from our audit.

Quality of service

- 5.7 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 5.8 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 5.9 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website [http://www.audit – commission.gov.uk/complaints/](http://www.audit-commission.gov.uk/complaints/)

Appendix A

Value for money risks

	Audit risk identified from planning	Relevant criteria	Audit response
Use of Resources			
1	<p><i>Leadership: There is a risk of adverse impact on the leadership and strategic capacity of the Council (and potentially effective use of resources) given the protracted discussions concerning the structure of the senior management team.</i></p>	<p>Securing economy, efficiency and effectiveness</p>	<p><i>This will be kept under review at liaison meetings and other meetings with Council officers.</i></p> <p>Updated risk assessment: We have monitored developments in respect of the Council's strategic capacity and no longer consider this to be a significant risk in the context of the value for money conclusion.</p>

Italics = reported in fee letter presented to the Audit Committee on 27 April 2010

Non-italics = new risk

Accounts risks

	Audit risk identified from planning and relevant assertions	Financial Statement Area	Audit response
Accounts			
1	<p>A new property management system is being implemented in 2010/11 and there is a risk that there may be a loss of data in the transfer, leading to a material misstatement. The new system will provide the Council with a revaluation reserve on an asset by asset basis.</p> <p>This risk will relate to the account balances assertions on 'Completeness', 'Existence' and 'Valuation and Allocation'.</p>	<p>Non current assets - Property, plant and equipment</p>	<p>We will review the controls that the Council has put in place to ensure the accuracy of the data transfer.</p> <p>The system will be reviewed to ensure the revaluation reserve is appropriately created.</p>
2	<p>The introduction of IFRS increases the risk of incorrect accounting treatment of some of the balances affected by the new standards resulting in a material misstatement of the financial statements. The IFRS changes most pertinent to the Council in 2010/11 necessitate:</p> <ul style="list-style-type: none"> • Review of arrangements against IFRIC 4 (lease arrangements) • Consideration of leasing arrangements against IAS 17 (Leases) • Review of valuation policies and component accounting for assets under IAS 16 (Property, plant and equipment) • Calculation of employee benefits under IAS 19 (Employee benefits) • Review of government grants in light of CIPFA's decision to apply IPSAS 23 • Review of group accounting requirements under IFRS which focuses on ability to control as opposed to actual control • Operating segment disclosures under IFRS 8 (Operating segments). <p>This risk will affect all assertions.</p>	<p>Financial statements as a whole</p>	<p>An early review will be completed to ensure that the new standards have been implemented appropriately, in particular with regard to the restatement of the balance sheet for 31 March 2010 and comparative balances for the year ended 31 March 2009.</p> <p>Detailed testing will be completed during the final accounts audit.</p>

	Audit risk identified from planning and relevant assertions	Financial Statement Area	Audit response
3	<p>There is a risk that the housing stock accounting treatment and/or valuation will be materially inaccurate due to difficulties experienced in the prior year with accounting for revaluations.</p> <p>This risk will affect the account balances assertion on 'Valuation' and the presentation and disclosure assertion on 'Accuracy and Valuation'.</p>	<p>Non current assets – Property, plant and equipment</p>	<p>We will increase the level of detailed substantive testing completed on the accounting treatment of any revaluations and movements in non current assets.</p>

Appendix B: Audit requirements

Financial statements

The Code requires us to provide an opinion on whether your financial statements “are true and fair” and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis from which to prepare the accounts
- consider the robustness of your accounts preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

We will consider the adequacy of your arrangements for closing down the ledger and producing accurate, timely and comprehensive financial statements and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.

We will review the appropriateness and consistency of application of the accounting policies adopted by the Council and ensure that these are consistent with the *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11*.

We will report to you significant qualitative aspects of the accounting practices including the application of the Code or other significant matters relevant to the financial reporting process.

We will also report uncorrected misstatements and material uncertainties relating to going concern.

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

We will report to you significant matters discussed, or subject to correspondence with management or other employees; and also any significant difficulties that we encountered during the course of the audit.

We will seek written representations from the Council or from other parties to acknowledge and understand the responsibilities for preparing the financial statements, for the internal controls necessary to enable preparation of financial statements that are free from material misstatement whether due to fraud or error, and that we have been provided with access to all information of which you are aware of that is relevant to the preparation of the financial statements.

Where we propose any modifications to the audit opinion or emphasis of matter paragraphs in the auditors' report, we will report this to you along with the reasons for the modifications.

Internal controls and significant financial systems

International Standards on Auditing (UK and Ireland) require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

Where the audit intends to rely on identified controls to reduce risk or the level of detailed testing the auditor must also undertake tests of the operating effectiveness of the relevant controls. The key financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the financial statements.

Your significant financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Information technology
- Council tax
- Housing and council tax benefits
- National Non-Domestic Rates
- Housing rents income
- Investments and investment income

We will report to management any deficiencies in internal control identified during the audit. Where we identify significant deficiencies in internal control during the audit we will also report them to those charged with governance.

Working with Internal Audit

The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted in well-managed councils, thereby minimising duplication and the overall level of audit resource input.

Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and “those charged with governance” (the Audit and Governance Committee).

We will make appropriate enquiries and review the counter fraud arrangements in place in order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your accounts and our audit programme.

Whole of government accounts (WGA)

As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

Value for money conclusion

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

The Commission has reviewed its approach to auditors' VFM work so that from 2010/11 auditors will give their statutory VFM conclusion based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.

- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2010/11 are:

- The organisation 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.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will also follow up on audit work from previous years to assess progress in implementing agreed recommendations.

Local risk-based work

Local risk-based work is proposed to address audit risks relating to the accounts opinion or Value for Money Conclusion where normal levels of work are considered insufficient to fully address risk exposure.

Appendix C: Communication with those charged with governance

To: Audit and Governance Committee, Epping Forest District Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA (UK & Ireland) 260 – Communication with those charged with governance requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The revised ISA does not define 'those charged with governance' as there are such a diverse range of arrangements across all types of entity. However it does state that "The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate." In the case of Epping Forest District Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity
- exercise their professional judgement and act independently of both the Commission and the audited body
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Engagement Partner
- audit staff are expected not to accept appointments as lay school inspectors
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Statement by the appointed auditor

In relation to the audit of the financial statements for Epping Forest District Council for the financial year ending 31 March 2011, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA (UK & Ireland) 260 – Communication with those charged with governance, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.

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**Report to: Audit & Governance
Committee**



Report reference: LDF-026-2010/11
Date of meeting: 14 February 2011

**Epping Forest
District Council**

Portfolio: Finance & Economic Development

**Subject: Treasury Management Strategy Statement and Investment
Strategy 2011/12 to 2013/14**

Responsible Officer: Brian Moldon (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To consider how the risks associated with Treasury Management have been dealt with in the proposed Council's Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14; and**
- (2) To make any comments or suggestions that Members feel necessary to Full Council.**

Executive Summary:

The annual treasury management strategy statement and investment strategy report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the financial year 2011/12 to 2013/14.

The risks associated with setting these indicators are highlighted within the report along with how these risks are being managed.

Reasons for Proposed Decision:

To inform the Committee about the risks associated with Treasury Management and how the Council has sought to manage these risks.

To comply with the Committee's role and responsibilities which include:

To be responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming year.
2. The report attached at appendix 1 shows the Treasury Management Strategy Statement and Annual Investment Strategy 2011/12 to 2013/14 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity in the year

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.
4. The Council does not plan to borrow in order to carry out its capital investment. The capital programme is shown below in the table:

Capital Expenditure	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Non-HRA capital expenditure	4.855	8.240	2.611	1.524
HRA capital expenditure	6.636	6.973	6.875	5.831
Total Capital expenditure	11.491	15.213	9.486	7.355
Financed by:				
Capital grants	6.181	5.531	5.171	4.084
Capital receipts	3.500	7.632	2.265	1.221
Revenue	1.810	2.050	2.050	2.050
Total resources Applied	11.491	15.213	9.486	7.355
Closing balance on:				
Capital Receipts	17.592	10.195	8.225	7.298
Major Repairs Reserve	5.791	5.867	6.120	7.510

5. The closing balance on capital receipts is after taking into account new receipts being generated from the right to buy sales and for major repairs reserve for anticipated major repairs allowance.
6. The financial risk involved within the Capital Activity is the impact on reducing the balance of usable capital receipts over the next three years. This risk is included in the Council's Corporate Risk Register (No. 17) and identifies the following potential consequences; loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and large Council Tax increases required.
7. This prudential indicator assists the Council in controlling and monitoring the level of usable capital receipts that will be available at the end of a three-year period. Currently, the Capital Programme for the next three years totals £32.054m and is fully funded. It is predicted that at the end of 2013/14 there will still be £7.298m available in usable Capital Receipts and £7.510m in the Major Repairs Reserve. Therefore it can be concluded that

adequate resources exist for the Capital Programme in the medium term.

The impact on the Council's indebtedness for capital purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. The Council currently does not have an overall positive CFR (HRA and Non-HRA), and so has no underlying need to borrow for capital purposes.

CFR	31-Mar-11 £m	31-Mar-12 £m	31-Mar-13 £m	31-Mar-14 £m
Non-HRA	37.519	37.519	37.519	37.519
HRA	-38.303	-38.303	-38.303	-38.303
Total Capital expenditure	-0.784	-0.784	-0.784	-0.784

9. As the Council has no need to borrow to fund its capital programme, the Council is proposing to continue to set the Authorised Limit (this represents a limit beyond which external debt is prohibited and needs to be approved by full Council) at £5m, the Operational Boundary (the expected maximum external debt during the course of the year) at £0.5m and the Maturity Structure of Fixed Rate Borrowing (how long we can borrow for) to be restricted to under 12 months.

10. The risk for most Councils associated with this section relate to Refinancing – the risk that maturing borrowings, capital project or partnership refinancing cannot be refinanced on suitable terms. As the Council is debt free and looking to remain so in the future, there are not currently any risks relating to refinancing.

11. These prudential indicators assist the Council in controlling the level of debt the Council may need to finance over the coming years and ensures where debt is owed it is managed, whereby the Council would not be left in a situation where it finds itself having to refinance on unsuitable terms.

The Council's treasury position

12. The projected treasury position for the next three years is shown in the table below.

Treasury position	31-Mar-2011 £m	31-Mar-12 £m	31-Mar-13 £m	31-Mar-14 £m
Total external borrowing	0.0	0.0	0.0	0.0
Investments	50.0	47.0	43.0	37.0
Total investments	50.0	47.0	43.0	37.0
(Net Borrowing) / Net Investment Position	50.0	47.0	43.0	37.0

13. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

14. The Council is proposing to set the following indicators:

(a) The Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (50%) for each of the years up to 2013/14;

(b) The maximum amount of the portfolio being invested for longer than 364 days is £30m; and

(c) The maximum limit set for investment exposure per country is 30%.

15. The risks associated to this section are detailed in the following paragraphs.

- Credit and Counterparty Risk

16. The risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury advisors. The previous strategy had two minimum criteria for credit rated counterparties for investments up to £5m and £10m. In the proposed new strategy there will only be one limit up to £10m. The change in credit ratings is shown in the table below (explanation of the credit ratings is at appendix 2).

Strategy	Limit up to	Rating Agencies					
		Moody's		S & P		Fitch	
		Short term	Long term	Short term	Long term	Short term	Long term
2010/11	£5 million	P-2	A2	A-1	A	F1	A
	£10 million	P-1	Aa3	A-1+	AA-	F1+	AA-
2011/12	£10 million	P-1	A1	A-1	A+	F1	A+

17. The consequence of this change is that a number of counterparties are removed from the approved list, for example, Close Brothers, Co-op and some building societies. In order to ensure we can invest all our money, it has been necessary to set up new accounts with highly rated foreign banks we had not used previously.

- Liquidity Risk

18. The risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Finance & ICT has monthly treasury meetings with treasury staff, to go through the cash flow for the coming month. A number of instant access accounts are used to ensure adequate cash remains available.

- Interest Rate Risk

19. The risk of fluctuations in interest rates. The Council is proposing a maximum of 50% of its investments can be invested in variable rates, and the remainder are in fixed rate deposits. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates. The view of the Council's treasury advisors is that interest rates are unlikely to change significantly in the short to medium term.

20. The prudential indicators within this section assist the Council to reduce the risk of:

(a) Counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money;

(b) the Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate level of money is available immediately through instant access accounts; and

(c) potentially losing out on investment income when interest rates start to increase by ensuring that deposits are kept within one year.

Housing Finance Reform

21. Currently, Councils are required to pay a proportion of the Council house rents and the majority of receipts from the sale of land and homes to central Government. Where it is then decided how best to redistribute the funds back to local authorities – known as the Housing Revenue Account subsidy system.

22. The previous Government outlined plans (through consultation) to devolve greater powers to Councils to meet the housing needs of our local communities. This would result in Councils being able to keep all the rents and sales receipts that we collect, in return for these greater freedoms, this Council would be required to take on additional housing debt (that is sustainable for the long term).

23. The current Housing Minister recently committed the new Government to changing the rules of the subsidy system. The new system will be introduced in the Localism Bill later this autumn to enable the new system to start in 2012.

24. Once details have been announced a further report will go back to Members on the implications of this, including possibly a revised treasury strategy. Financial modelling on the previous Government's proposals indicated that the Council's Housing Revenue Account had the financial capacity to repay the predicted debt allocation and accumulate substantial balances in the long term.

Resource Implications:

Continued low interest rates are likely to result in an estimated further reduction in investment interest against 2010/11 original estimate of £238,000, giving an estimated interest income for 2011/12 of £659,000.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007

the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

None.

Impact Assessments:

Risk Management

As detailed in the report, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council. The specific risks associated with the different aspects of the treasury management function have been outlined within the main report.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

**Epping Forest District Council
Treasury Management Strategy Statement
and Investment Strategy 2011/12 to 2013/14**

Contents

1. Background
2. Balance Sheet and Treasury Position
3. Borrowing
4. Investment Policy and Strategy
5. Outlook for Interest Rates
6. Balanced Budget Requirement
7. 2011/12 MRP Statement
8. Reporting
9. Other Items

Appendices

- A. Current and Projected Portfolio Position
- B. Interest Rate Outlook: The Council's, Arlingclose's
- C. Specified Investments for use by the Council
- D. Non- Specified Investments for use by the Council

Epping Forest District Council
Treasury Management Strategy Statement
and Investment Strategy 2011/12 to 2013/14

1. Background

- 1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.
- 1.2. CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral element to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.
- 1.4. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Appendix A), the Prudential Indicators and the outlook for interest rates (Appendix B).
- 1.5. The purpose of this TMSS is to approve:
 - Treasury Management Strategy for 2011-12 (Borrowing - Section 3, Investments - Section 5)
 - Prudential Indicators – (NB: the Authorised Limit is a statutory limit)
 - MRP Statement – Section 7
 - Use of Specified and Non-Specified Investments – Appendices C & D
- 1.6. The Council approved the adoption of the CIPFA Treasury Management Code on 22 April 2002. The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.
- 1.7. All treasury activity will comply with relevant statute, guidance and accounting standards.

Epping Forest District Council
Treasury Management Strategy Statement
and Investment Strategy 2011/12 to 2013/14

2. Balance Sheet and Treasury Position

2.1. The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
General Fund CFR	37.519	37.519	37.519	37.519
HRA CFR	-38.303	-38.303	-38.303	-38.303
Total CFR	-0.784	-0.784	-0.784	-0.784
Balances & Reserves	-50.000	-47.000	-43.000	-37.000
Cumulative Net Borrowing Requirement/(Investments)	-50.784	-47.784	-43.784	-37.784

2.2. The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

2.3. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Non-HRA	8.511	4.855	8.240	2.611	1.524
HRA	6.956	6.636	6.973	6.875	5.831
Total	15.467	11.491	15.213	9.486	7.355

2.4. Capital expenditure is expected to be financed as follows:

Capital Financing	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Capital receipts	7.720	3.500	7.632	2.265	1.221
Government Grants	0.841	1.398	0.658	0.396	0.353
Major Repairs Allowance	5.143	4.783	4.873	4.775	3.731
Revenue contributions	1.763	1.810	2.050	2.050	2.050
Total Financing	15.467	11.491	15.213	9.486	7.355

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Incremental Impact of Capital Investment Decisions:

2.5. As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2010/11 Approved £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	-0.42	1.05	3.32	4.42
Increase in Average Weekly Housing Rents	0.11	2.32	4.51	4.52

2.6. Reform to the Council Housing Subsidy System: CLG consulted on proposals to reform the council housing subsidy system in July 2010. The consultation proposed a removal of the subsidy system by offering a one-off reallocation of debt. Details of the new system will be announced following the recent Comprehensive Spending Review, and will be introduced in the Localism Bill later this Autumn to enable the new system to start in 2012.

This will require the Council to fund the amount owed in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market. The type of loans taken will be decided on in discussions with the Housing department and the councils' Treasury Advisors.

2.7. The estimate for interest payments in 2011/12 is nil and for interest receipts is £0.667m. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	-2.52	-1.67	-2.01	-3.40	-4.36
HRA	-2.60	-1.73	-2.05	-3.47	-4.45

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3. Borrowing Strategy

3.1. The Council's balance of actual gross borrowing plus other long-term liabilities is shown in Appendix A. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

3.2. The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

3.3. The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Authorised Limit	5.0	5.0	5.0	5.0	5.0
Operational Boundary	0.5	0.5	0.5	0.5	0.5

3.4. In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:

- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Local authority stock issues
- Structured finance

3.5. Notwithstanding the issuance of Circular 147 on 20th October following the CSR announcement which increases the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term year Equal Instalments of Principal (EIP) or Annuity Loans
- Long-term Maturity loans, where affordable

3.6. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintaining stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The use of internal resources in

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lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure.

- 3.7. PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Authority's Treasury Advisor and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt.
- 3.8. The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.
- 3.9. The Council's existing level of fixed interest rate exposure is 74% and variable rate exposure is 26%.

Interest Rate Exposure on:	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Upper Limit for Fixed	100	100	100	100	100
Upper Limit for Variable	50	50	50	50	50

- 3.10. The limits on the below table are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing; upper and lower limits of each category are required.

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/10 %	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	0	0	100
12 months and within 24 months	0	0	0
24 months and within 5 years	0	0	0
5 years and within 10 years	0	0	0
10 years and above	0	0	0

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4. Investment Policy and Strategy

- 4.1. Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.
- 4.2. The Council's investment priorities are:
- security of the invested capital;
 - liquidity of the invested capital;
 - an optimum yield which is commensurate with security and liquidity.
- 4.3. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendices C and D. The Director of Finance & ICT under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio are covered in the mid-year report to the Audit & Governance Committee.
- 4.4. Changes to investment strategy for 2011/12 include:
- Term deposits in Sweden
 - Maximum duration for new deposits 2 years
- 4.5. The Council's current level of investments is presented at Appendix A.
- 4.6. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.
- 4.7. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMO are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)
- 4.8. The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:
- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
 - Credit Default Swaps (where quoted)
 - GDP; Net Debt as a Percentage of GDP
 - Sovereign Support Mechanisms/potential support from a well-resourced parent institution
 - Share Prices
 - Macro-economic indicators
 - Corporate developments, news and articles , market sentiment.
- 4.9. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.
- 4.10. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to

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remain at very low levels for an extended period which will have a significant impact on investment income.

- 4.11. To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix D). The longer-term investments will be likely to include:
- Term Deposits with counterparties rated at least A+ (or equivalent)
 - Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.
- 4.12. The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper limit for total principal sums invested over 364 days	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
	30.0	30.0	30.0	30.0	30.0

5. Outlook for Interest Rates

5.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix B. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

6. Balanced Budget Requirement

6.1. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

7. 2011/12 MRP Statement

7.1. The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2. The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method

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Option 4: Depreciation Method

- 7.3. MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).
- 7.4. The MRP Statement will be submitted to Council before the start of the 2011/12 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.
- 7.5. The Council's CFR at 31st March 2011 is estimated to be negative £0.784m and as such under Option 2 (the CFR Method) there is no requirement to charge MRP in 2011/12.

8. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

Treasury activity is monitored monthly and reported internally to Director of Finance & ICT.

The Director of Finance & ICT will report to the Finance & Performance Cabinet Committee on treasury management activity and Performance Indicators as follows:

- (a) Mid-year against the strategy approved for the year.
- (b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- (c) The Audit & Governance Committee will be responsible for the scrutiny of treasury management activity and practices.

9. Other Items

Training

CIPFA's Code of Practice requires the Director of Finance & ICT to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Investment Consultants

The Council appointed Arlingclose to act as Investment Consultants from 1 May 2010 for a period of three years. Regular meetings are held with Arlingclose to discuss the performance of the Council's investments and any opportunities arising in the market.

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APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
External Borrowing:						
Total External Borrowing	0.0		0.0	0.0	0.0	0.0
Existing long-term liabilities	0.0		0.0	0.0	0.0	0.0
Total Gross External Debt	0.0		0.0	0.0	0.0	0.0
Investments:						
<i>Managed in-house</i>						
- Short-term monies (Deposits/ monies on call /MMFs)	-50.5		-50.0	-47.0	-43.0	-37.0
- Long-term investments (maturities over 12 months)						
Total Investments	-50.5		-50.0	-47.0	-43.0	-37.0
(Net Borrowing Position)/ Net Investment position	-50.5		-50.0	-47.0	-43.0	-37.0

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APPENDIX B

Arlingclose's Economic and Interest Rate Forecast

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Official Bank Rate											
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75
Downside risk	-	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.50	3.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-yr gilt											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.00	2.25	2.75	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
10-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central case	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
20-yr gilt											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central case	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
50-yr gilt											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	4.25	4.25	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow, uneven and more "Square root" than "V" shaped.
- The initial reaction to the CSR is positive but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Gilts will remain volatile as the growth versus headline inflation debate escalates

Underlying assumptions:

- The framework and target announced in the Comprehensive Spending Review to reduce the budget deficit and government debt are the same as announced in June and focuses on how the cuts are to be distributed. The next big fiscal milestone will be the Office Of Budget Responsibility's assessment of the CSR's implications for growth, employment and inflation.
- The minutes of the Monetary Policy Committee's meeting suggest an increased likelihood of further Quantitative Easing. Money supply is weak and growth prospects remain subdued. The analysis and projections in November's Quarterly Inflation Report will give the Bank of England the opportunity to re-evaluate the outlook for economic activity and inflation and the fiscal impact of the CSR.
- Consumer Price Inflation is stubbornly above 3% and could remain higher than the MPC has previously forecast.
- The employment outlook remains uncertain, as unemployment remains near a 16 year high at just over 2.4 Million.

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- The recently announced Basel III capital/liquidity rules and extended timescales is positive for banks. However, the restructuring of UK bank balance sheets is ongoing and expected to take a long time to complete, and is a pre-condition for eventual normalisation of credit conditions and bank lending.
- A high savings ratio combined with a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rate of growth despite Q2's strong performance.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases might be required. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

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APPENDIX C

Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high credit quality" as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

"Specified" Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

1. * *Investments in these instruments will be on advice from the Council's treasury advisor.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

Long-term minimum: A+(Fitch); A1 (Moody's); A+ (S&P)

Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

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New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK*	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	10.0
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	10.0
Gilts	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	10.0
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs	10.0
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	10.0

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB

Non-UK Banks - These should be restricted to a maximum exposure of 25-30% per country. This means that effectively all the authority's investments can be made with non-UK institutions should you wish, but it limits the risk of over-exposure to any one country.

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Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	10.0
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	10.0
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	10.0
Term Deposits/Call Accounts	UK	Barclays Bank Plc	10.0
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	10.0
Term Deposits/Call Accounts	UK	HSBC Bank Plc	10.0
Term Deposits/Call Accounts	UK	Nationwide Building Society	10.0
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	10.0
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	10.0
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	10.0
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	10.0
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	10.0
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	10.0
Term Deposits/Call Accounts	Canada	Bank of Montreal	10.0
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	10.0
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	10.0
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	10.0
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	10.0
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	10.0
Term Deposits/Call Accounts	France	BNP Paribas	10.0
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	10.0
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	10.0
Term Deposits/Call Accounts	France	Société Générale	10.0
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	10.0

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Term Deposits/Call Accounts	Netherlands	ING Bank NV	10.0
Term Deposits/Call Accounts	Netherlands	Rabobank	10.0
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	10.0
Term Deposits/Call Accounts	Switzerland	Credit Suisse	10.0
Term Deposits/Call Accounts	US	JP Morgan	10.0

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be shortened.

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APPENDIX D

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Maximum maturity	Maximum Amount	Capital expenditure?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies ▪ CDs with banks and building societies 	✓	5 years	£20m	No
<ul style="list-style-type: none"> ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments 	✓ (on advice from treasury advisor)	10 years	£10m	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	✓ (on advice from treasury advisor)	These funds do not have a defined maturity date	£10m	No

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.
2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

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Credit Ratings

Long-Term Credit Ratings

Long-term credit ratings are set up along a scale from 'AAA' to 'D', and adopted and licensed by Standard and Poor (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, BBB+, BBB, BBB- etc.). Moody's intermediate modifiers for each category between Aa to Caa are Aa1, Aa2, Aa3, A1, A2 etc.

Definitions (from S&P)	Fitch	Moody	Standard & Poor
Has extremely strong capacity to meet its financial commitments. Is the highest credit	AAA	Aaa	AAA
Has very strong capacity to meet its financial commitments. It differs from AAA only to a small degree	AA	Aa	AA
Has a strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions	A	A	A
Has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity	BBB	Baa	BBB

Short-Term Credit Ratings

Short-term ratings indicate the potential level of default within a 12-month period.

Definitions (from S&P)	Fitch	Moody	Standard & Poor
Has extremely strong capacity to meet its financial commitments. Is the highest credit rating	F1+	P-1	A-1+
Has strong capacity to meet its financial commitments.	F1	P-2	A-1
Has satisfactory capacity to meet its financial commitments. However, more susceptible to the adverse effects of changes in circumstances and economic conditions	F2	P-3	A-2
Has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity	F3		A-3

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Report to the Audit and Governance Committee



Report reference: AGC-027-2010/11
Date of meeting: 14 February 2011

**Epping Forest
District Council**

Portfolio: Finance and Economic Development
Subject: Internal Audit Monitoring Report - October to December 2010
Responsible Officer: Brian Bassington (01992 564446).
Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

1. The Committee is requested to note the following issues arising from the Internal Audit Team's third quarter monitoring report for 2010/11:
 - (a) The reports issued between October and December 2010 and significant findings (Appendix 1);
 - (b) The Outstanding Priority 1 Actions Status Report (Appendix 2);
 - (c) The Limited Assurance Audits follow up status report (Appendix 3);
 - (d) The 2010/11 Audit Plan status report (Appendix 4); and
2. The Committee is also requested to confirm that it is satisfied with the effectiveness of the work of Internal Audit in the third quarter 2010/11.

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between October and December 2010, and details the overall performance to date against the Audit Plan for 2010/11. The report also contains a status report on previous priority 1 audit recommendations.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

Work carried out in the period

1. The audit reports issued in the third quarter are listed in paragraph 5 below.
2. A number of systems audits were carried out in the third quarter in which the ground work had been completed as at 31 December 2010, of which, ten reports had been issued in

draft and were under discussion with relevant Management.

3. The Audit Team continued to provide advice and guidance on a range of subjects to management on the application of Contract Standing Orders and Financial Regulations and work has continued with the Assistant Director of Housing and the Senior Finance Officer: Procurement & Administration, on a simplified guidance for staff which will result in more directed training, which will also be included within the E-learning programme.

4. The Chief Internal Auditor continued to attend a number of Corporate officer groups including Corporate Governance, Risk Management and the Contract Standing Orders and Financial Regulations Working Party. Supervision and management time has included quality assurance of audit reports and working files, the administration of the outsourced element of the audit plan and liaison and support for the external auditors (PKF).

Reports Issued

5. The following audit reports were issued in the third quarter:

- (a) Full Assurance:
 - None;
- (b) Substantial Assurance:
 - Sundry Debtors;
 - Licensing Enforcement;
 - Bed and Breakfast Contract;
 - External Funding;
 - Key and Local Performance Indicators; and
 - Homelessness Prevention Unit;
- (c) Limited Assurance:
 - Norway House (Appendix 5);
 - Planning Fees (Appendix 6); and
 - Freedom of Information (Appendix 7);
- (d) No Assurance:
 - None; and
- (e) At Draft Report Stage:
 - Bank Reconciliation;
 - Creditors;
 - Treasury Management;
 - Budgetary Control;
 - General Ledger;
 - Cash Receipting System;
 - ICT Procurement;
 - Housing Rents and Arrears;
 - Management of Sickness Absence; and
 - Asset Management.

6. The detailed findings for the Limited Assurance audits of Norway House, Planning Fees and the Freedom of Information Act, plus the comments of the Service Directors are attached at appendices 5, 6 and 7.

7. The externalised portion of the audit plan staffed by Deloitte and Touche Public Sector Internal Audit Limited includes six financial audits and three ICT audits, of which six audits are at the draft report stage and the remaining three are currently subject to the Deloitte quality

control process.

Follow Up of Previous Limited Assurance Audits (Appendix 3)

8. Attached at Appendix 3 is a summary schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management. The table shows the situation as at 31 December 2010.

Audit Plan 2010/11 (Appendix 4)

9. The status of the 2010/11 Audit Plan is set out at Appendix 4.

Performance Management

10. The Internal Audit Team has local performance indicator targets to meet in 2010/11, as set out below:

	Actual 2007/08	Actual 2008/09	Actual 2009/10	Target 2010/11	Actual 2010/11 Quarter 3
% Planned audits completed	89%	95%	87%	90%	69%
% chargeable "fee" staff time	68%	71%	69%	72%	71%
Average cost per audit day	£307	£309	£300	£320	£302
% User satisfaction	81%	85%	94%	85%	80%

11. The indicators are calculated as follows:

- (a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan as amended for additional work (e.g. investigations) during the year;
- (b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system;
- (c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system; and
- (d) % User satisfaction - a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up by the client's comments on a range of issues related to the audit.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers

Impact Assessments:

Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

EFDC - Definition of Levels of Assurance

Level	Evaluation opinion	Testing opinion
Full assurance	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
Substantial assurance	While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

**Summary of Audits completed during Quarter 3
October - December 2010**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Sundry Debtors	Finance and ICT	<p>Substantial Assurance The systems and controls currently in place are satisfactory and ensure the debt process is sufficiently controlled.</p>	<p>The debt collection process would benefit from the impetus of additional management input within the raising Directorates and available data should be utilized to focus on key debts and maintain control of general debt levels. The system in place has areas where improvements could be made.</p> <p>Invoices are generally raised in a timely manner although a reminder to directorates to ensure invoices are raised as per the policy guidelines would be beneficial.</p>
Licensing Enforcement	Environment and Street Scene	<p>Substantial Assurance Collectively the two teams offer excellent licensing knowledge; substantial enforcement experience and timely dealing of complaints. However there is currently a lack of departmental procedures, clearly defining the roles of the two teams. Although this is being addressed, guidelines, triggers and set working practice needs to be implemented in response to business continuity concerns.</p>	<p>Audit review of Licensing Enforcement and Compliance showed the systems and controls currently in place satisfactory in ensuring the process runs well and are compliant with Council Policy. There is a need to implement guidelines and procedures on dealing with the compliance and enforcement of licences and unlicensed activity, in turn clearly defining the roles and responsibilities across the two directorates. Minimum service levels need to be set and documented. The system needs to be utilised to document and report on the work carried out and a flexible approach must be taken by both teams to ensure best practice can be attained. More rigidity however must be employed in regards enforcement activity to create a performance that is recordable and can be evaluated. With a work</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			<p>plan implemented it would ensure licence holders are aware of the existence of regular checks. As a culture the enforcement process has been very reactive and a more proactive stance would encourage ongoing compliance and discourage unlicensed trading, in turn improving public confidence.</p>
Bed and Breakfast Contract	Housing Services	<p>Substantial Assurance The procurement of bed and breakfast accommodation was properly carried out in accordance with Contract Standing Orders, although the agreement to use the 2009/10 room rates in 2010/11 should be obtained in writing from all three contractors to avoid any possible misunderstanding. Management must ensure that the correct room rates are paid to avoid breaching the terms of the contracts, and ensure that any applicable discounts are received in order that the Authority receives best value.</p>	<p>The procurement of bed and breakfast accommodation for homeless persons was carried out in accordance with Contract Standing Orders. The Authority entered into contracts with the Park Hotel, Ilford, the Oasis Hotel, Old Harlow and the Thatched House Hotel, Epping in June 2008 for a period of three years. However, the contracts did not include room rates for 2010/11.</p> <p>There is full separation of duties between raising, authorising and receipting the orders, and authorising the invoices in relation to bed and breakfast accommodation.</p> <p>The Authority has been paying above the agreed room rate to the Park Hotel in 2009/10. In addition, any relevant discounts have not been received, which means the Authority is not obtaining the best value for its bed and breakfast accommodation.</p>
External Funding	Housing Services	<p>Substantial Assurance The systems and controls surrounding the administration, recording and monitoring of</p>	<p>The Authority has clear up to date guidelines in respect of external funding contained within the</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		external funding within the Housing Directorate are operating effectively, and assist the Directorate to achieve its objectives.	<p>External Funding Strategy and toolkit, which is monitored through the External Funding Working Party. The Working Party monitors and reports on the progress of external funding bids.</p> <p>The effectiveness of the Grantfinder system in assisting with identifying potential sources of funding is currently being assessed by the external funding working party.</p> <p>The administration of external funding is in accordance with legislation, EFDC policies and Financial Regulations. External funding is linked to the Council's service objectives.</p> <p>External funds are properly accounted for in the Council's finance system.</p>
Key and Local Performance Indicators	Deputy Chief Executive	<p>Substantial Assurance This audit has provided substantial assurance regarding submission of performance monitoring data.</p>	<p>The audit has concluded that there are sound controls in place for the collection and reporting of performance indicators. Summary control forms and supporting documentation were verified to confirm the overall calculation is correct.</p> <p>Improvements have been made in 2010-11 as all data was submitted in a timely manner.</p>
Homelessness Prevention Unit - Value for Money Study.	Housing Services	<p>Substantial Assurance The Homelessness Prevention Service is providing excellent value for money. The Service has developed a pro-active approach to homelessness prevention which, together</p>	<p>The number of homeless presentations has increased, and more importantly, the number of acceptances has dropped substantially over the last 5 years, which is due to the success of the Homelessness Prevention Service. It is, however,</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		<p>with the good working relationships it has with partner agencies, has resulted in reducing homeless acceptances in the District.</p>	<p>recognised that homelessness prevention is more than simply reducing acceptances, as many households prevented from becoming homeless would not necessarily have been owed a statutory duty to house.</p> <p>The Homelessness Prevention Team has adopted a pro-active, customer-focused approach to solving housing problems. A wide range of homelessness prevention initiatives are in place, all of which are cost effective in comparison to homelessness.</p> <p>There is a greater emphasis on networking with community organisations and with private landlords, banks, families etc. The Homelessness Prevention Team has developed good relationships with all partner agencies, which increases the success of the various programmes. The service also works with other sections (Housing Benefits and Safer Communities) within the Authority.</p> <p>A cost/benefit analysis concluded that the financial cost to the Authority of homelessness far exceeds the cost of homelessness prevention, plus there are many social and economic costs associated with homelessness.</p> <p>Without a Homelessness Prevention Service, homelessness acceptances will increase which will adversely affect performance in relation to a number of housing targets, and the Authority may not be able to meet the objectives set out in the Housing Strategy and Local Strategic Partnership's Community Strategy.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Norway House	Housing Services	<p>Limited Assurance The systems and controls in place at Norway House are adequate but are not consistently applied, however areas of improvement have been identified through audit's review. Management should be reminded of the correct procedures for income collection, banking and operation of the petty cash account. Implementation of the agreed actions within this report will ensure compliance with Financial Regulations.</p>	<p>The systems and controls in place at Norway House show evidence of good practice but also identified several areas requiring improvement.</p> <p>Income is accounted for, however cash summaries should be sent to Finance and income should be banked in a timely manner.</p> <p>Petty Cash transactions should be documented and the float reimbursed in accordance with Financial Regulations.</p> <p>Management will introduce a daily record of working hours for each officer. The timesheets will be signed off by Management at the end of each four weekly period.</p> <p>There is an adequate separation of duties for raising orders and processing invoice payments. Office security arrangements are satisfactory and written procedures are available.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Planning Fees	Planning and Economic Development	<p>Limited Assurance The system for collecting planning fee income has controls in place however, the audit has identified control weaknesses for the reconciliation of income and data quality for the spreadsheet record of income. Management should ensure that income is recorded correctly to enable a full reconciliation of income due to the amount received, any delays in these checks could result in errors not being identified.</p>	<p>This audit has concluded that whilst there are good procedures in place, improvement areas were identified.</p> <p>Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011.</p> <p>Management will review the system for holding invalid applications, procedures were revised at the end of the audit.</p> <p>Priority will be given to drafting written procedures regarding the administration of planning fee income.</p>
Freedom of Information Act	Acting Chief Executive	<p>Limited Assurance Limited assurance based on the absence of an adequate monitoring regime in place.</p>	<p>FOI are processed in line with legislation and within timescale.</p> <p>The Council's website is being effectively used to advertise how and where to find out about FOI issues and requests.</p> <p>The Anite system is not always being used to record all FOI requests.</p> <p>Communication between the FOI Officer, Anite FOI System Monitoring Officer and Directorates representatives requires improvement.</p> <p>FOI procedures need to be implemented to ensure uniformity across Directorates when processing requests.</p>

OUTSTANDING PRIORITY 1 ACTIONS – STATUS AT QUARTER 2 2010/11

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
Building Maintenance Unit	Stock Check Regular stock checks will be carried out by Housing Customer Repairs staff throughout the year, to cover all stock lines at least once during the year. Management will review the results of the stock checks and any discrepancies will be investigated.	Assistant Director (Property)	June 2010	In progress	To be reviewed on completion of Depot reorganisation. Audit attendance at end of year stocktake. Systems audit planned for 2011/12
Reprographics	Value for Money In recognition of the under-utilisation of staff under the current arrangements, Management should review the role of the Print Section and the functions of the staff.	Director of Corporate Support Services	Dec 2009	In Progress	Follow up audit in quarter 4 2010/11.
Licensing	Licensing Administration Reconciliations should be carried out in a timely fashion by a Senior Independent Officer.	Assistant Director (Legal)	October 2009	In progress	To be included in 2010/2011 audit plan, quarter 4

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
Pest Control	Contract Monitoring Management should review and monitor performance on a regular basis, in line with the agreed contract terms.	Assistant Director of Environment & Street Scene (Environment and Neighbourhoods)	October 2009	In progress	To be included in 2010/2011 audit plan, quarter 4
Decorating Allowances	Storage of Cards A stocktake/reconciliation of cards should undertaken on a quarterly basis whereby the cards spreadsheet should be reconciled to the number of cards issued, ensuring that the void property is valid and if not a void property that authorisation to issue a card has been received. A record should be maintained and monitored by management.	Assistant Housing Director (Property)	October 2010		To be reviewed.
Decorating Allowances	Orders and Invoicing While it was recommended that a blanket official order should be raised at the start of each financial year and an official order for 2010/11 was raised during the audit, Housing Management have proposed raising individual orders for each card activation which increases the level of control by improving separation of duties.	Assistant Housing Director (Property)	September 2010		To be reviewed.
Overtime and Committee Allowances	Overtime Authorised Signatories Up to date list to be circulated as agreed action in Car Mileage Audit.	Director of Finance & ICT	October 2010	In progress	To be reviewed.

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
Car Mileage Claims	Authorised signatories Up to date list must, as a matter of importance be provided, showing current signature specimens and schedules of authorisation levels. This list must be updated annually with any changes to list documented and distributed.	Director of Finance & ICT	October 2010	In progress	To be reviewed.
Grounds Maintenance	Inventories The inventory for equipment, tools and machinery will be reviewed and signed as completed on an annual basis. The office inventory will be revised to include ICT equipment.	General Manager, Grounds Maintenance	March 2011		To be reviewed.
Grounds Maintenance	Agency Staff Quotations will be recorded for the use of agency staff in accordance with the thresholds in Contract Standing Orders. The General Manager has agreed to ensure quotations are noted on the day they are obtained to evidence value for money.	General Manager, Grounds Maintenance	October 2010		To be reviewed.
Licensing Enforcement	Taxi Licensing Higher prioritisation of enforcement, with responsibility given over Licensing enforcement. Minimum service levels to be identified and implemented within working procedures.	Environment & Neighbourhoods Manager	April 2011		To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
Bed and Breakfast Contracts	Invoices for Bed and Breakfast accommodation Management will ensure that, in future, the correct amount is paid to the Park Hotel and will attempt to obtain a refund in respect of the overpayments.	Housing Options Manager	1 st November 2010		To be reviewed
Norway House	Petty Cash Claims should be reimbursed monthly. Copies of Petty cash claims will be retained and all transactions will be recorded in future for reconciliation purposes.	Assistant Housing Needs Manager	December 2010		To be reviewed
Norway House	Office hours Management will introduce a daily record of working hours for each officer. Timesheets will be signed off by Management at the end of each four weekly period.	Assistant Housing Needs Manager	January 2011		To be reviewed
Norway House	Cash Summary sheets Income is banked, however cash summaries should be certified by a second officer to ensure income is banked correctly. All documentation should be sent to the civic offices in a timely manner to ensure cash is correctly posted. Management should ensure there is sufficient office coverage on the day of collection and income is collected weekly.	Assistant Housing Needs Manager	December 2010		To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
Norway House	Banking procedures Cash summaries should be certified by a second officer prior to collection to evidence income is banked correctly. Management should ensure there is sufficient office coverage on the day of collection and income is collected weekly. Cash summaries should be sent to the Civic Offices at the earliest opportunity for income reconciliation to the Council's bank account.	Assistant Housing Needs Manager	December 2010		To be reviewed
Planning Fees	Income reconciliation Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion. Details of variances investigated should be recorded. Advice will be required from Finance & ICT regarding the information required from M3 and the general ledger.	Assistant Director (Development)	April 2011		To be reviewed
Planning Fees	Planning Portal Applications Daily transaction reports (Capita) of online payments will be retained with income records.	Assistant Director (Development)	Actioned during the audit.		

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
Freedom of Information Act	<p>The system should be maintained and monitored by the Anite FOI System Monitoring Officer to ensure that all requests are processed within the time scale and that the correct information has been provided. All requests should initially be processed by the Anite FOI System Monitoring Officer who will input the information on to the Anite system then distribute the request accordingly. Status updates and returns should be continue to be processed by the FOI Officers within Directorates. In the event of an exemption, the Directorate will send the return via the Anite FOI System Monitoring Officer to ensure that the information has been checked for appropriateness.</p> <p>This system will be reviewed during the first FOI team meeting to ensure that FOI representatives are updating the Anite effectively and any need for additional training and support on the Anite system can then be identified at this time.</p>	Assistant to the Chief Executive	January 2011		

Follow up of Limited Assurance Audits as at 31st December 2010

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Commercial Property	Corp. Support	Dec 09	P1. 1 P2. 3	P2. 1	Q1 2011/12	One long term aim, acquisition of the property module – completion by March 2011
Building Maintenance (Works Unit)	Housing	June 10	P1. 1		Q4 2010/11	Subject to major review by Assistant Head of Housing
Waste Management	Environment/ Street Scene	July 2010	P1. 3 P2. 1		Q4 2010/11	Need for written quotes and retention of documentation. Improved stock records.
Grounds Maintenance	Environment/ Street Scene	Sept2010	P1. 3 P2. 2		Q1 2011/12	Retention of contract documentation, annual review of inventories and retention of quotations.
Norway House	Housing	Nov 2010	P1. 4		Q4 2010/11	See appendix 2 for details.
Planning Fees	Planning and Economic development	Dec 2010	P1. 2 P2. 2	P1. 1	Q1 2011/12	Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion.
Freedom of Information Act	Office of the Chief Executive	Dec 2010	P1. 1 P2. 3	P1. 1 P2. 2	Q1 2011/12	See appendix 2 for details.

Audit Plan 2010/11
Status Report at 31st December 2010 **Appendix 4**

AUDIT PLAN 2010/11

Audit area	Audit type	Days allocated	Completed	Auditor
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	In Progress	in house
Sundry Debtors	system/follow up	20	Completed	in house
Creditors	system/follow up	20	In Progress	in house
Treasury Management	system/follow up	15	Completed	contractor
Budgetary Control (capital and revenue)	system/follow up	10	Completed	contractor
Risk Management and Insurance	system/follow up	15	Q4	in house
Main Accounting and Financial Ledger	system/follow up	15	Completed	contractor
Housing Benefits	system/follow up	25	In Progress	in house
Council Tax	system/follow up	25	In Progress	contractor
National Non Domestic Rates	system/follow up	15	In Progress	in house
Cash receipting and Income control	system/follow up	15	Q4	in house
Cash receipting IT system	IT	5	In Progress	contractor
Provision for 'top up' testing	systems	15	Completed	in house
Cash Office spot checks	verification	5	Q4	in house
ICT				
Environmental controls/backup procedures	IT	10	Q4	in house
Data and Network Security	system/follow up	20	Q3	contractor
IT Procurement	system/follow up		In Progress	contractor
Disaster recovery/business continuity	IT	10	In Progress	in house
IT System Logs	follow up	Reserve		in house
TOTAL		255		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	system	20	Completed	in house
Countrycare	system	10	Completed	in house
Building Control	follow up	5	In Progress	in house
Environmental (use of natural resources)	system	reserve		in house
TOTAL		35		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	Q4	in house
Public Health	system	10	C/F	in house
Licensing Enforcement	system	15	Completed	in house
Car Parking	system	20	In Progress	in house
Grounds maintenance	system	20	Completed	in house
North Weald airfield	establishment	15	Q4	in house
Leisure contract	contract	15	Q4	in house

TOTAL		115		
OFFICE OF THE CHIEF EXECUTIVE				
Electoral services – data quality		15		in house
TOTAL		15		
Audit area	Audit type	Days allocated	Completed	Auditor
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25	In Progress	contractor
Housing Lettings	system	20	In Progress	in House
House Sales and Leaseholder Services	system	20	Completed	in house
Depot	system/follow up	15	Q4	in house
Norway House	establishment	15	Completed	in house
Bed and breakfast contract	contract	5	Completed	in house
Homelessness prevention unit	VFM	10	Completed	in house
Stores - Depot stock take	stocktake	5	Completed	in house
Housing Repairs Working Group	management review	5	Completed	in house
Decorating allowance	system	5	Completed	in house
External Funding	system		Completed	in house
TOTAL		125		
PARTNERSHIPS AND VOLUNTARY SECTOR				
Local Area Agreements	system	15		in house
TOTAL		15		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	Q4	in house
Recruitment and Selection	Follow up	5	In Progress	in house
Management of Sickness absence	Follow up	5	In Progress	in house
Overtime and Committee Allowances	verification	10	Completed	in house
Car Mileage claims	verification	10	Completed	in house
Lease Car Scheme	system	15	C/F	in house
Health and Safety Policy	system	5	Q4	in house
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	Completed	in house
Licensing	system	15	C/F	in house
Asset Management system	system	15	In Progress	in house
Non-HRA Repairs	verification	5	Q4	in house
Fleet Operations income	system	5	Completed	in house
Reprographics	Follow up	5	Q4	in house

Legal				
TOTAL		140		
Audit area	Audit type	Days allocated	Completed	Auditor
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	in house
Business Plans	verification	10	Completed	in house
CONTRACTS				
Contract Compliance	System/follow up	15	Q4	in house
CORPORATE				
Corporate Procurement	system/follow up	10	In Progress	contractor
Gifts and Hospitality (Officers)	system/follow up	10	Completed	in house
Gifts and Hospitality (Members)	system/follow up	10	Completed	in house
Data Protection Act	system	5	Q4	in house
Freedom of Information Act	system	5	Completed	in house
Follow up of Priority 1 Audit recommendations	follow up	7	Q4	in house
CORPORATE MEETINGS				
Governance Statement	management review	5	Completed	in house
Use of Resources work plan	management review	5	Completed	in house
Review of financial regulations and internal controls	management review	3	In Progress	in house
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)		15	In Progress	in house
TOTAL		115		
TOTAL DAYS ALLOCATED		805		
Contingency/Spot checks/Minor investigations		30		in house
Corporate/Service Advice		65		in house
TOTAL		900		

5.2 Petty Cash (priority 1)

Claims should be reimbursed monthly. Copies of Petty cash claims will be retained and all transactions will be recorded in future for reconciliation purposes.

5.4 Office hours (priority 1)

Management will introduce a daily record of working hours for each officer. Timesheets will be signed off by Management at the end of each four weekly period.

5.6 Cash Summary sheets (priority 1)

Income is banked, however cash summaries should be certified by a second officer to ensure income is banked correctly. All documentation should be sent to the civic offices in a timely manner to ensure cash is correctly posted. Management should ensure there is sufficient office coverage on the day of collection and income is collected weekly.

5.7 Banking procedures (priority 1)

Cash summaries should be certified by a second officer prior to collection to evidence income is banked correctly. Management should ensure there is sufficient office coverage on the day of collection and income is collected weekly. Cash summaries should be sent to the Civic Offices at the earliest opportunity for income reconciliation to the Council's bank account.

Comments of Service Director

1. The Auditing of key service areas within the Housing Directorate is always welcomed as it is an opportunity to identify service improvements and eradicates any areas where there may be potential for fraud.
2. Following the Internal Audit of the Council's Homeless Persons' Hostel, Norway House, North Weald, although a number of good practices were identified, an overall rating of "limited assurance" was found in the systems reviewed.
3. In response, officers within the Housing Directorate have now completed all of the actions set out in the Implementation Schedule within the Audit Report as follows:

Cash Collection

4. On most occasions there is only one member of staff covering the Hostel and it has been difficult to ensure that each time the security company visits unannounced to collect cash, that the member of staff will be available. However, arrangements have now been made with the company to give a better indication of when they will attend so staff can be on hand, with at the same time for obvious reasons not making their visits too regularised.
5. Procedures are now in place to ensure that 2 members of staff certify the cash summary sheets and that they are returned to the cashiers at the Civic Offices on the same day the cash is collected. Therefore, the cash amounts delivered to the Cashiers in advance of the summary sheets will only remain on the suspense account for a matter of hours.

Petty Cash

6. The amount of petty cash held at any one time does not exceed £75. The amounts claimed by staff are often very small in value. In the past staff were only completing their claims after a reasonable amount had been used for day-today expenses. However, this is now not the case with all claims being reconciled and staff being reimbursed within one month regardless of the amounts involved.

Again in the past, although the correct records have always been completed and sent to the Civic Offices, copies of these records were not being maintained at the Hostel itself. Records of transactions are now also being maintained at Norway House.

Time Recording

7. It was noted in the Audit Report that there were times when visiting that the office was not opened. At the time of the Audit, the full time Hostel Manager was on long-term sick leave which made covering the office very difficult. The Hostel Manager is now back at work. Time recording has now been resolved with all Norway House staff completing the same time recording documentation as all other Council employees signed off by Management at the end of each four-weekly period.

Director of Housing Services

January 2011

5.2 Income reconciliation (priority 1)

Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion. Details of variances investigated should be recorded. Advice will be required from Finance & ICT regarding the information required from M3 and the general ledger.

5.3 Invalid Applications (priority 2)

Management have reviewed the period for holding invalid applications, applications will be held for a limited period rather than indefinitely. Applicants should be notified of the new procedures regarding the administration of invalid applications. The procedure for validating planning applications was revised at the end of the audit.

5.4 Planning Portal Applications (priority 1)

Daily transaction reports (Capita) of online payments will be retained with income records.

5.5 Written Procedures (priority 2)

Priority will be given to drafting written procedures regarding the administration of planning fee income.

Comments of Service Director

The four recommendations have been acted on, either during the course of the audit, or immediately thereafter, so these have all been given a high priority. I attach copies of the two procedure notes.

The frequent reconciliation does require systems to be amended, and requires resources from Accountancy and from the Accounts Invoices Procurement Assistant, which is a part time post.

Director of Planning & Economic Development

January 2011

Epping Forest District Council Quality System

Planning – Development Control

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Validation of a Planning Application

Validation of a Planning Application:

This is a task passed to case officers from the registration admin officers to check that all is correct when paperwork and plans for a planning application are received.

1. Check the plans to ensure that proposed development actually requires planning permission.
2. Refer to the validation checklist which is available at: Z:\Planning and Economic Dev\Development Control\validation checklists or on the Council's website at http://www.eppingforestdc.gov.uk/Council_Services/planning/development_control/planning_permission_forms_and_fees.asp
3. 4 copies of appropriate form from 1APP list is correctly completed, signed and dated.
4. Check signatures over ownership certificates and agricultural holding certificates. Pay attention to possible encroachment to boundaries.
5. 4 copies of location plans to scale of 1:1250 or 1:2500 with application site outlined in red and nearby or adjoining land under same ownership outlined in blue.
6. 4 copies of block plan are required where there is an extension or erection of buildings. This needs to be to scale of 1:500 or 1:200 and shows the boundaries of the site and nearby properties.
7. 4 clear plans (or plans sets) to a scale of 1:50 or 1:100 showing the layout and use of each floor and all elevations. Ensure all new work is distinguished from the existing.
8. 4 copies of a Design and Access Statement must be included for relevant applications. Please refer to note on Design and Access Statements at WI-03.08.
9. Check that fee submitted is correct (see note 02.03).
10. Check description of proposal tallies with what is proposed on the plans.

What to do if application is Invalid

11. If any of the above details are absent or insufficient the application is not valid. Indicate on white validation sheet the reason why and explain if necessary and return to registration admin officers so that they can generate a letter to advise the applicant/agent of further information required. The letter gives the applicant/agent 28 days to submit the requested information.
12. If the information is not received after 28 days, registration admin officers shall send out a reminder letter that requests the applicant/agent to contact the case officer within 21 days, otherwise no further action on the application is taken and the paperwork destroyed, although a copy will have already been scanned and retained on Anite@Work.

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Validation of a Planning Application

If there is still no submission after this time period, this action will take place and a further letter sent informing the applicant/agent that the application has been withdrawn and no further action taken.

13. At this time, arrangements shall be made by the registration admin officer to return to the applicant/agent any fee paid with the application via the raising of an expenditure voucher and having it signed by the relevant officer, usually the Director or Assistant Director of Planning and Economic Development, before sending it immediately to Director of Finance and ICT who will arrange the refund.
14. **If you suspect that the application is submitted as a result of an enforcement investigation, do not return to the applicant/agent without first discussing the issue with the relevant enforcement officer. We may accept the application as an exception despite not being to the normal standard or the enforcement officer may be able to obtain the missing information.**

What to do if the application is Valid

15. If all the above details are correct, including previously invalid applications where the requested information has now been supplied, the application is valid and the remainder of the details should be completed.
 - i. Parish needs to be stated
 - ii. DCLG category type specified
 - iii. Confirmation whether Listed Building
 - iv. Confirmation whether site is within Conservation Area
 - v. Specify policy constraints
 - vi. Indicate whether Press Advert required, if so specify reason
 - vii. Indicate whether Site Notice is required
 - viii. EIA information

On completion of the white validation sheet, check the front page of the green consultation sheet indicating consultations and neighbour notifications required (see note 02.04).

If this has been completed by the admin team, the case officer must check that it is all correct – particularly the description of the development and the extent of consultations and neighbour notifications.

16. Application for a Lawful Development Certificate:

1. No ownership Certificate required
2. Check 4 copies of relevant forms completed – proposed or existing. Forms need to be signed and dated
3. 4 copies of location plan with site edged in red
4. If development involves extension or erection of buildings, 4 copies of plans showing floor plans and elevations are required
5. For a proposed use – ½ cost of planning application fee. For an existing use calculate the fee is as per a planning application

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Validation of a Planning Application

17. Application for Advertisement Consent:

1. 4 copies of forms submitted
2. 4 copies of location plans
3. 4 sets of plans showing size of advertisement and position on land/building – details should include materials, fixings, colours, height above ground and type of illumination specified.
4. Appropriate fee
5. Check whether any other consents required e.g. listed building consent
6. An ownership Certificate is not required

18. Listed Building Application:

1. Check Listed building consent required
2. Check if planning application is needed and if it has been submitted
3. 4 sets of Consent forms completed, signed and dated
4. Ownership Certificate included
5. 4 copies of location plans to a scale of 1:1250, with site edged in red
6. 4 copies of block plans to a scale of 1:200
7. 4 sets of plans showing existing and proposed elevations, floor plans (unless submitted with a planning application, then 4 copies total are acceptable) to scale 1:50 or 1:100
8. 4 sets of existing and proposed sections of all parts of the building where changes are proposed
9. No fee required

19. Conservation Area Consent Applications:

1. Check if Conservation Area Consent is required – demolition within a Conservation Area
2. 4 sets of Consent forms completed, signed and dated
3. Ownership Certificate submitted and signed
4. 4 copies of location plans to a scale of 1:1250 with site edged in red
5. 4 copies of block plans (if necessary)
6. 4 copies of plans showing the demolition works clearly
7. 4 copies of plans indicating proposed replacement works if relevant
8. No fee required

20. Application for Prior Notification:

1. No need for application form, a letter is sufficient. However, there is a form for agricultural determination available
2. No certificate required
3. Plan is needed clearly indicating the site
4. Standard fee required

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Account Reconciliation Procedure

- On a monthly basis take sheets of cheques signed for on a daily basis from post desk
- Divide into order in file by BC/DC
- Match to receipted copies of sheets held by relevant admin teams and also match to the spreadsheet
- On a daily basis, match to Portal payment records held by the admin team (DC only currently). Planning Admin Officer to action.
- Once this has been done the spreadsheet can be merged with the General Ledger and any disparities investigated
- A new report needs to be generated from MVM in Excel format so that this can also be merged with the other two reports.
- Following this there might be some adjustments that will be required on the admin system regarding entries onto MVM.
- It needs to be noted that the income figure on MVM will be inflated by the value of “Invalid Applications”. The system to deal with this matter is to be looked at separately.
- There is a need to be mindful that payments can be received through the post, reception, cashiers, debit card, the portal, invoice and by journal entry.
- As some of the payment methods have yet to go through the reconciliation process there might be adjustments to be made to allow for this.
- Refunds are made and cheques returned to the payee for various reasons (e.g. the property might not be in our district). All of these should be covered in the reconciliation process.
- All disparities will be investigated and details of the investigation will be held with the reconciliation file.
- At the end of each monthly reconciliation, the working papers will need to be signed off by the appropriate personnel.

5.1.3 FOI Monitoring (priority 1)

The system should be maintained and monitored by the Anite FOI System Monitoring Officer to ensure that all requests are processed within the time scale and that the correct information has been provided. All requests should initially be processed by the Anite FOI System Monitoring Officer who will input the information on to the Anite system then distribute the request accordingly. Status updates and returns should be continue to be processed by the FOI Officers within Directorates. In the event of an exemption, the Directorate will send the return via the Anite FOI System Monitoring Officer to ensure that the information has been checked for appropriateness.

This system will be reviewed during the first FOI team meeting to ensure that FOI representatives are updating the Anite effectively and any need for additional training and support on the Anite system can then be identified at this time.

Comments of Service Director

All requests when initially received are now being perused by the Anite FOI System Monitoring Officer who inputs the request on to the Anite system and generates an acknowledgement via the system. He then either deals with the request himself if it relates to information likely to be held solely in the Office of the Chief Executive or information likely to be held in more than one Directorate. If it relates to information likely to be held in only one other Directorate he distributes it to the FOI Representative in that Directorate for them to complete the process. By entering all requests on to the system initially he is able to monitor the progress being made in responding to all requests.

FOI Representatives have been asked to seek advice before using exemptions.

Use of the system will be reviewed at the first FOI meeting to be arranged shortly. As well as identifying any need for additional training on the system the meeting will review the workload commitment on the Anite FOI System Monitoring Officer of entering all requests on the system.

5.3.3 FOI Team Meetings (priority 2)

Management should ensure that a FOI meeting is held between all FOI Officers, on a regular basis. This should be coordinated by the Anite FOI System Monitoring Officer and/or the Council's FOI Officer.

Comments of Service Director

Meetings will be held on a quarterly basis to discuss FOI issues generally as well as use of the Anite system.

5.4.3 Anite System (priority 2)

A systems report should be written which provides information on number of requests, nil returns, full returns and timescales. This report should be used by the FOI Monitoring Officer to monitoring returns and timescales. All data should be retained accordingly by the FOI officer.

Comments of Service Director

Further work has been undertaken by the Council's ICT Section which should enable the production of the required reports on the number of requests, nil returns, full returns and timescales etc. This will be dependent on FOI Representatives using the system correctly and this will be assessed at the end of the first quarter of 2011 when a monitoring report will be produced.

5.5.3 Written Procedures (priority 2)

Procedures should be drafted to include guideline on how requests should be processed and an indication of what information is permitted to be supplied.

Comments of Service Director

Procedures have been produced and circulated to FOI Representatives – copy attached.

Acting Chief Executive

January 2011

THE FREEDOM OF INFORMATION ACT (FOIA) 2000

FOI Representatives – Guidance Notes

Introduction

1. The FOIA applies to most public authorities including county councils, district councils and parish/town councils.
2. All requests for information received by the Council have to be answered in accordance with the FOIA. The only exception is an individual's request for their own personal data (subject access request) which must be handled under the Data Protection Act 1998.
3. The legislation applies regardless of age, format, origin or classification of the information. It covers files, letters, databases, videos, photographs, wall charts, maps etc – including closed files and archived material.
4. The legislation applies to information produced by the Council and information received from others including other public authorities, companies and members of the public. In general, it is necessary to consult the originator about the prospect of disclosure, their views will be important in assessing the balance of public interest in relation to disclosure of information. The originator does not, however, have a veto on disclosure.
5. There is a similar regime requiring the provision of information under the Environmental Information Regulations (EIRs) 2004. Requests for 'environmental information' must be answered in accordance with EIRs rather than the FOIA. 'Environmental Information' can be summarised as:
 - (i) the state of the elements of the environment such as air, atmosphere, water, soil, land and interaction between these elements;
 - (ii) factors such as energy, noise, radiation or waste affecting the elements of the environment;
 - (iii) policies, legislation, plans, programmes etc affecting the elements of the environment;
 - (iv) reports on implementing environment legislation;
 - (v) cost benefit and other economic analyses used within the framework of environmental measures and activities;
 - (vi) the state of human health and safety, including contamination of the food chain, conditions of human life etc affected by the state of the elements of the environment.
6. EIRs requests are dealt with by Jim Nolan in ESS Directorate.

Key Principles in Answering Requests

7. The key principles are:
 - (a) Make sure that all employees within your Directorate know who is responsible for FOIA requests;
 - (b) Pass on without delay any request which is not your responsibility;
 - (c) Ensure your Directorate has good records management to enable information to be quickly identified and retrieved;

- (d) Within 20 working days provide the information requested or explain why you are not going to do so.

Extent of Application of FOIA

8. A request can be any form of correspondence including e-mail; it must give the name of the applicant, an address for a reply and a description of the information requested; the correspondence does not need to mention the FOIA.
9. Routine correspondence can be treated outside of the FOIA e.g. recruitment brochures, leaflets, press releases, public speeches.
10. Requests which are questions such as, what is your policy on are not requests for recorded information and should be treated as routine correspondence.

Council Arrangements

11. Following the introduction of FOI monitoring on Anite at Work and a recent internal audit of the system it has been agreed that G Lunnun (OCE) will input all requests onto the system and acknowledge receipt. He will determine whether the information is likely to be held in only one Directorate or in more than one Directorate. In the former he will refer the request to the appropriate FOI representative for processing, reply, completion of system etc. In the latter he will co-ordinate a reply liaising with other FOI representatives as necessary.
12. It is for FOI representatives to decide how they approach other staff within their Directorate in order to ensure that all appropriate information is located and made available. In the larger Directorates this is normally undertaken by an exchange of e-mails. It is essential that all relevant information is located – if information is held but missed this could result in an appeal to the Information Commissioner
13. If a request is unclear the appropriate letter should be sent promptly and in any event no later than 20 working days. The day after the clarification is received is when the 20 working day period begins (the system should automatically reflect this timescale).

Exemptions and the Public Interest Test

14. Under the FOIA, information should be released wherever possible. However, it is not appropriate for all information to be made public. This is recognised in the Act by 'exemptions'.
15. Some exemptions are absolute meaning that the information can be withheld without considering any public interest in disclosure. Absolute exemptions apply to information which is accessible by other means; personal information (generally); information provided in confidence; prohibitions on disclosure. There are other but these are unlikely to relate to information held by a local authority.
16. The majority of exemptions in the FOIA are 'qualified' and the main consideration is if one of these exemptions applies it is necessary to decide whether the public interest favours withholding or disclosing the information. There is no fixed definition of 'public interest' and this assessment will essentially be a matter of judgement on a case by case basis.
17. The following categories of information are subject to qualified exemption -
 - (a) information intended for future publication
 - (b) investigations and proceedings conducted by the council
 - (c) law enforcement

- (d) audit functions
- (e) health and safety
- (f) environmental information
- (g) personal information (to a limited extent)
- (h) legal professional privilege
- (i) commercial interests.

There are others but these are unlikely to apply to information held by the Council.

18. Applying exemptions and the public interest tests is not easy. FOI representatives are encouraged to take advice by the Council's FOI Officer (Ian Willett) and/or Graham Lunnun who in turn will seek advice from the Council's Solicitor, if necessary.
19. Whilst information cannot be withheld because its disclosure might cause embarrassment to the Council it is advisable to notify the Acting Chief Executive, Public Relations, the Leader of the Council and appropriate Portfolio Holders of such cases. They will then be in a position to respond to any publicity or follow up.

Information or Documents

20. The FOIA gives an entitlement to information rather than documents, although the information requested will often consist of a whole document.
21. It is not necessary to create new information in order to answer a request.
22. An applicant is able to express a preference about the form in which the information is provided, e.g. copies of original documents, e-format or via an opportunity to inspect the record containing the information. Where practicable and reasonable you should comply with a request for a particular format. You should also bear in mind your obligations under other legislation e.g. Disability Discrimination Act.
23. When releasing information:
 - (a) if it is not necessary to claim an exemption and the whole document is relevant it can be released in its entirety;
 - (b) if sections are exempt, they can be redacted – you should make a note of any redactions with the exemptions that apply to each;
 - (c) if redaction makes the document incomprehensible or if the relevant information forms only a small part of document it can be assembled into a readable format such as a digest.
24. Care should be taken when redacting, for example – deletions in MS Word can be reversed if a document is sent electronically and if text is blacked out with a marker pen it can still remain legible when photocopied.

Fees

25. Fees regulations made under the FOIA state that requests should be processed without any charge being made unless the cost of identifying, retrieving, searching and extracting the information exceeds £450 (equivalent of 18 hours work at £25 per hour). Time taken on deciding whether information should be released or withheld cannot be taken into account.
26. Above this limit there is no requirement to proceed with the request but it is appropriate to assist the applicant to narrow the scope of the request to bring it within the limit e.g. reduce the time span of the request.

Charges

27. In addition to fees, reasonable charges can be made for photocopying documents provided. In practice we do not seek photocopying charges unless it is necessary to copy a particularly long document. (MoJ encourages waiving of a charge if less than £10).

Reviews and Appeals

28. When responding, the standard letters will include details of how to seek an internal review if the applicant is not satisfied with the reply. The review should be handled by a different person who should be a more senior officer. In order to conduct the review, all the information relevant to the decision needs to be examined.
29. An applicant can also appeal to the Information Commissioner. Appeals are normally related to:
- (a) the response took longer than 20 working days;
 - (b) information was withheld and it is considered exemptions have been wrongly applied;
 - (c) the calculation of costs contravenes the Fees Regulations;
 - (d) the request has been mishandled in any other way.
30. There is no statutory timescale for requesting a review. However, the Council's system requires the submission of a request for a review within two months of the decision.
31. Applications to the Information Commissioner should be submitted without 'undue delay' which is not defined in the FOIA. However, the Information Commissioner has indicated that he expects cases to be submitted within two months of receipt of the Council's final decision.
32. Both the Ministry of Justice and the Information Commissioner have issued extensive guidance on the application of the Act. The Ministry of Justice guidance can be downloaded at <http://www.justice.gov.uk/guidance/foi-procedural.htm> The Information Commissioner guidance can be downloaded at <http://www.ico.gov.uk>