



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE Monday, 24th November, 2014

You are invited to attend the next meeting of **Audit and Governance Committee**, which will be held at:

**Council Chamber, Civic Offices, High Street, Epping
on Monday, 24th November, 2014
at 7.00 pm .**

**Glen Chipp
Chief Executive**

**Democratic Services
Officer**

Gary Woodhall
The Directorate of Governance
Tel: 01992 564470
Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors A Watts (Chairman), P Keska, and S Weston.

Independent R Thompson (Vice-Chairman) and A Jarvis

WEBCASTING/FILMING NOTICE

Please note: this meeting may be filmed for live or subsequent broadcast via the Council's internet site - at the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed. The meeting may also be otherwise filmed by third parties with the Chairman's permission.

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If you have any queries regarding this, please contact the Senior Democratic Services Officer on 01992 564249.

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

(Director of Governance) To be announced at the meeting.

3. DECLARATIONS OF INTEREST

(Director of Governance) To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 25 September 2014 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. AUDIT & GOVERNANCE WORK PROGRAMME 2014/15 (Pages 5 - 6)

(Director of Governance) To consider the attached Work Programme for 2014/15.

7. MID-YEAR REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2014/15 (Pages 7 - 26)

(Director of Resources) To consider the attached report (AGC-012-2014/15).

8. ANNUAL AUDIT LETTER 2013/14 (Pages 27 - 38)

(Director of Resources) To consider the attached report (AGC-013-2013/14).

9. OVERVIEW AND SCRUTINY PANEL FRAMEWORK REVIEW (Pages 39 - 46)

(Director of Governance) To consider the attached report (AGC-014-2014/15).

10. INTERNAL AUDIT MONITORING REPORT - JULY TO SEPTEMBER 2014 (Pages 47 - 64)

(Chief Internal Auditor) To consider the attached report (AGC-015-2014/15).

11. ANY OTHER 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.

12. 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 responsible for the item.

Audit & Governance Committee Report Schedule

2014/15

30 June 2014

- Internal Audit Annual Report.
- Review of the Effectiveness of Internal Audit.
- Audit & Governance Committee Annual Report.
- Annual Governance Statement.
- Q4 Internal Audit Monitoring Report.

25 September 2014

- Treasury Management Annual Outturn Report.
 - Statutory Statement of Accounts.
 - Q1 Internal Audit Monitoring Report.
 - Appointment of Co-Opted Member – Report on Recruitment.
- ❖ Annual Governance Report 2013/14.

24 November 2014

- Treasury Management Mid-Year Report.
 - Q2 Internal Audit Monitoring Report.
 - Review of Business Continuity Plan for Internal Audit.
- ❖ Annual Audit Letter 2013/14.

5 February 2015

- Treasury Management Investment & Strategy Statements.
 - Q3 Internal Audit Monitoring Report.
- ❖ Grant Claims Audit Report 2013/14.

30 March 2015

- Effectiveness of Risk Management.
 - Internal Audit Business Plan.
- ❖ Planning Letter 2015/16.
- ❖ Audit Plan 2014/15.

Key

- EFDC Officer Report.
- ❖ External Auditor Report.

N.B...In addition, the Committee's annual private meetings with the External and Internal Auditors are scheduled to take place prior to the 30 March 2015 meeting.

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Report to: Audit and Governance Committee



Report reference: AGC-012-2014/15
Date of meeting: 24 November 2014

**Epping Forest
District Council**

Portfolio: Finance

**Subject: Mid-Year Report on Treasury Management and Prudential
Indicators 2014/15**

Responsible Officer: Simon Alford (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To note how the risks associated with Treasury Management have been dealt with in the first half of 2014/2015; and**
- (2) To make any comments or suggestions that Members feel necessary to the Finance and Performance Management Cabinet Committee.**

Executive Summary:

The mid-year treasury report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the first half of the financial year 2014/15.

During the first half of the year: the Council has continued to finance all capital expenditure from within internal resources; the average net investment position has been approximately £62m; and there have been no breaches on any of the prudential indicators.

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 being 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 current year. The updated code in November 2011 also recommended that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

2. The report attached at appendix 1 shows the mid-year position of the treasury function in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity for the Year and How it will be Financed

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 original estimate, along with the spend to month 6 (30 September 2014) is shown below in the table:

Financial Year 2014/15		
Capital Expenditure	Estimated £m	to month 6 £m
Non-HRA capital expenditure	8.629	4.898
HRA capital expenditure	17.823	5.626
Total Capital expenditure	26.452	10.524
Financed by:		
Capital grants	2.346	
Capital receipts	7.895	
Revenue	16.211	
Total resources Applied	26.452	

5. The probable outturn for the current financial year is not yet available, but an update will be provided at the meeting.

6. There is a financial risk involved in reducing the balance of usable capital receipts over the next five years. This risk has 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 five-year period. Currently, the Capital Programme for the three years to 2016/17 totals £60m and is fully funded. It is predicted that at the end of 2016/17 there will still be £1.8m available in usable Capital Receipts and £4.1m 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 now has an overall positive CFR (HRA and Non-HRA) following the borrowing in relation to the HRA self-financing, but has no underlying need to borrow for capital purpose as highlighted in the previous section.

CFR	Financial year 2014/15		
	Estimated £m	Revised £m	to month 6 £m
Non-HRA	29.6	29.6	29.6
HRA	155.1	155.1	155.1
Total Capital expenditure	184.7	184.7	184.7

9. The Director of Resources confirms that there were no breaches of the Authorised Limit (£230m), the Operational Boundary (£204m) and the Maturity Structure of Fixed Rate Borrowing during the period to 30 September.

10. The risks for Councils are associated with affordability, interest rates and refinancing – the affordability risk is whether the Council can afford to service the loan, this has been evidenced through the Council producing a viable thirty-year financial plan for the HRA. This plan is reviewed quarterly by officers and half yearly reports are presented to Housing Scrutiny Panel. The interest rate risk is whether a change in interest rate could have an impact on the viability of the financial plan. The Council received advice from our treasury advisors before undertaking the borrowing. Only 17% of the amount borrowed was at a variable rate, the remainder was fixed. Any upward movement in interest rates would be 'hedged' by a corresponding increase in interest earned on Council investments. The refinancing risk is that maturing borrowings, capital project or partnership financing cannot be refinanced on suitable terms. Within the financial plan it is anticipated that all borrowing will be repaid on maturity and future capital expenditure will be financed through internal resources, therefore no risk currently exist for 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 ensure where debt is owed it is managed, such that the Council would not be left in a situation where it finds itself having to refinance on unsuitable terms.

The Council's Overall Treasury Position

12. During the first half of 2014/15 the average investment position for the first half of the year was £62million. The table below shows the treasury position as at 30 September 2014.

Treasury position	31/03/2014 £m	30/09/2014 £m
Total external borrowing	(185.456)	(185.456)
Short term investment		
▪ Fixed investment	41.8	38.3
▪ Variable investment	6.9	13.8
Long term investment	10.0	10.0
Total investments	58.7	62.1
(Net Borrowing) / Net Investment Position	(126.756)	(123.356)

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 Director of Resources confirms that there have been no breaches of:
- (a) The Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (25%) on investment during the period, with the average rates of 66% and 22% being achieved;
 - (b) The limit set for investment over 364 days (£30m). The Council made two investments totalling £10m over 364 days. The average length of short term investment for the period is 240 days; and
 - (c) The limit set for investment in non UK Country (30%). The Council made two investments (13%) to counterparties outside of the UK.
15. The risks associated to this section are as follows:
- (a) Credit and Counterparty Risk – 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 management advisors (Arlingclose).
 - (b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Resources has monthly 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.
 - (c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council has currently around 22% of its investments in variable rates, and the remainder are in fixed rate deposits on average for around 240 days. 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.
16. 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 amounts of money are available immediately through instant access accounts; and
 - (c) potentially losing out on investment income when interest rates start to increase by ensuring that most deposits are kept within one year.

Heritable Bank

17. During the last financial year, the Council has received a further dividend from the

administrators of the Heritable Bank which has taken total dividends so far to 94% of the value of deposits. No additional dividends are expected until all of the outstanding litigation has been settled and the administration process completed.

Resource Implications:

The continued low interest rate will result in estimated investment income to the Council of £416,000 in 2014/15, slightly above the original estimate of £399,000. Interest rates are not expected to rise in the short to medium term.

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 2014/15);
- 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.
- Under section 21(1) AB 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 management advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The report on the Council's Prudential Indicators for 2014/15 to 2016/17 and the Treasury Management Strategy for 2014/15 to 2016/17 went to Council on 20 February 2014.

Risk Management:

As detailed in the report, a risk averse 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.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

No groups of people are affected by this report which is not directly service related.

Semi-annual Treasury Outturn Report 2014/15

1. Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

The Authority's Treasury Management Strategy for 2014/15 to 2016/17 was approved by full Council on 20th February 2014 which can be accessed on

<http://haako/ieListDocuments.aspx?CId=296&MId=7388&Ver=4>

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. External Context

Growth and Inflation: The recent strong performance of the UK economy continued with output growing at 0.8% in Q1 2014 and at 0.9% in Q2. The services sector once again grew strongly. On the back of strong consumption growth, business investment appeared to be recovering quickly, albeit from a low base. The annual CPI inflation rate fell to 1.5% year-on-year in August.

Revisions to the GDP methodology, now compliant with the European System of Accounting 2010, mean that growth is now estimated to be 2.7% above its pre-recession peak in Q1 2008 rather than just 0.2% higher, the general theme being that the recession was not as deep and the recovery was earlier than initially estimated. In anticipation of these revisions, the MPC has forecast growth at 3.4% in 2014.

Unemployment: The labour market continued to improve, with strong employment gains and the headline unemployment rate falling to 6.2%. However, earnings growth remained very weak, rising just 0.6% for the three months May-July 2014 when compared to the same period a year earlier. The growth in employment was masked by a large number of zero-hour contracts and involuntary part-time working.

UK Monetary Policy: The MPC made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. Following some mixed messages from Governor Carney later in the summer, the minutes of the August and September MPC meetings revealed a split vote with regards to the Bank Rate. Ian McCafferty and Martin Weale voted to increase Bank Rate by 0.25%, arguing economic circumstances were sufficient to justify an immediate rise. The MPC emphasised that when Bank Rate did begin to rise, it was expected to do so only gradually and would likely remain below average historical levels for some time to come.

In the Bank of England's August Inflation Report the Bank forecast growth to be around 3½% in 2014, easing back thereafter to around its pre-crisis historical average rate. Inflation was forecast to remain at, or slightly below, 2% before reaching the target at the end of the 2-year forecast period.

Semi-annual Treasury Outturn Report 2014/15

The Bank's Financial Policy Committee also announced a range of measures to cool the UK's housing market to avert the potential of spiralling house prices derailing a sustainable economic recovery. Key recommendations included lenders stress-testing if mortgage applicants can cope with a 3% rise in interest rates; putting a 15% cap on the number of mortgages at more than 4.5 times the borrower's income; and a separate Treasury pledge banning anyone applying for a loan through the Help to Buy scheme borrowing more than 4.5 times their income. The Prudential Regulation Authority also announced that it intends to consult on capital requirements for mortgages.

The result of the Scottish referendum in the end was close, but not as close as many believed it might be. However, the political upheaval set in motion (the Prime Minister's linking of a more devolved Scotland to giving greater powers to English MPs over English-only legislation, the prospect of Scotland's potential freedom to raise taxes not being replicated elsewhere in the UK) is arguably likely to be just as problematic in the run-up to and beyond next year's general election.

Eurozone inflation continued to fall towards zero (HICP inflation registered just 0.3% in September), and there was mounting evidence that the already feeble recovery was losing pace. The unemployment rate remained stubbornly high at 11.5%. The European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05%. The rate it pays on commercial bank balances held with it was also cut further into negative territory from -0.1% to -0.2% and the Marginal Lending Facility rate cut further to 0.3%. The ECB also announced a programme of acquiring Asset Backed Securities (ABS) from banks in an effort to encourage lending which was viewed as being one step away from full blown Quantitative Easing (QE) adopted by the US, UK and Japanese central banks. The minutes of the Bank of England's MPC meeting in September noted that "*weakness in the euro area had been the most significant development during the month*" and that, if it led once again to uncertainty about the sustainability of euro-area public and external debt, it could damage confidence and disrupt financial markets

There was no change from the US Federal Reserve as the central bank kept policy on its current track with a reduction in asset purchases by \$10 billion per month. Asset purchases are expected to end by October 2014, expectations therefore turned towards the timing of rate increases. The US economy rebounded strongly in Q2 with annualised growth of 4.6%.

Market reaction: Gilt yields have continued to decline and hit a financial year low at the end of August, before ticking upwards in the run up to the Scottish referendum. What has driven yields lower is a combination of factors but the primary drivers have been the escalation of geo-political risk within the Middle East and Ukraine alongside the slide towards deflation within the Eurozone (EZ).

Local Context

At 31/3/2014 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £184.7m, while usable reserves and working capital which are the underlying resources available for investment were £104.5m.

At 31/3/2014, the Authority had £185.5m of borrowing and £58.7m of investments.

Semi-annual Treasury Outturn Report 2014/15

The Authority has an increasing CFR over the next 3 years due to the capital programme and other investment opportunities, and will therefore be required to borrow up to £30m over the forecast period.

The timing and amounts of borrowing are still uncertain as they depend on how quickly the various economic development schemes come to fruition. It is also possible that the Council's share of developments in Epping and Debden may change as the schemes progress.

Borrowing Strategy

At 30/9/2014 the Authority held £185.5m of loans, (no change since 31/3/2014), as part of its strategy for funding Self-Financing. The Authority does not expect to borrow in 2014/15.

The Authority expects to borrow up to £20m in 2015/16 and in doing so will not exceed the authorised limit for borrowing of £230m. The Public Works Loans Board (PWLB) was the Authority's preferred source of borrowing given the transparency and control that its facilities continue to provide.

The Authority's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it was more cost effective in the short-term to use internal resources instead.

Borrowing Activity in 2014/15

	Balance on 01/04/2014 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 30/09/2014 £m	Avg Rate % and Avg Life (yrs)
CFR	184.672				184.672	
Short Term Borrowing ¹	0	0	0	0	0	
Long Term Borrowing	185.456	0	0	0	185.456	3% - 22.5yrs
TOTAL BORROWING	185.456	0	0	0	185.456	
Other Long Term Liabilities	0	0	0	0	0	
TOTAL EXTERNAL DEBT	185.456	0	0	0	185.456	
Increase/ (Decrease) in Borrowing £m					0	

¹ Loans with maturities less than 1 year.

Semi-annual Treasury Outturn Report 2014/15

PWLB Certainty Rate and Project Rate Update: The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2013. In April the Authority submitted its application to the CLG along with the 2014/15 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2014.

Debt Rescheduling: The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2014/15 the Authority's investment balances would range between £50.7m and £66.7 million.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2014/15

Investments	Balance on 01/04/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2014 £m	Avg Rate/Yield (%) and Avg Life years)
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities	43.7	38.9	38.5	44.1	0.64% 0.66 years
Long term Investments - Banks and Building Societies with ratings of A+ or higher - Local Authorities	10.0	0	0	10.0	1.15% 1.52 years
Money Market Funds	5.0	15.0	12.0	8.0	0.42%
TOTAL INVESTMENTS	58.7	53.9	50.5	62.1	
Increase/ (Decrease) in Investments £m				3.4	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15 to 2016/17.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and

Semi-annual Treasury Outturn Report 2014/15

Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2014	A+	5.16	AA-	3.95
30/06/2014	A+	5.28	AA-	4.20
30/09/2014	A+	5.07	AA-	3.87

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Investment Activity

£10 million has been placed Long Term with two UK Local Authorities. £8 million was placed with Money Market Funds as being readily available, with a further £13.8m on call. Slightly better yields are obtained with the £30m placed mainly with UK Banks and Building Societies. The latter deposits being for varying maturities to cover precept dates throughout the year.

Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish within its two-year rating horizon for investment-grade entities, in April Standard & Poor's revised the Outlook of Barclays, Deutsche Bank, Credit Suisse and ING Bank from Stable to Negative (note, this is not the same as a rating review negative). In May, Moody's also changed the outlook from stable to negative for 82 European banks and from positive to stable for two European banks. The institutions affected on the Authority's lending list are Nationwide Building Society and Svenska Handelsbanken.

In August Moody's changed its outlook for the UK banking system from stable to negative, citing the reduction of government support for systemic banks as the reason. Although the agency believes that the stand-alone financial strength of UK institutions is improving they believed that this is more than offset by the potential bail-in risk now faced by investors. Similarly, in August S&P revised the outlooks for major Canadian banks to negative following the government's announcement of a potential bail-in policy framework.

There was strong likelihood that the UK, alongside Germany and Austria, would accelerate the adoption of the BRRD and that the implementation of bail-in resolutions would be fast-tracked in these countries to 1st January 2015, a full year ahead of other EU nations.

Semi-annual Treasury Outturn Report 2014/15

Banks in the UK and EU face stress tests this autumn, which may result in some institutions having to additionally bolster their capital buffers. The extent to which this might be required and the form they will have to take casts uncertainty over capital requirements in the system.

Budgeted Income and Outturn

The average cash balances were £63.3m during the quarter. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 0.72%. Investments in Money Market Funds generated an average rate of 0.42%.

The Authority's budgeted investment income for the year is estimated at £399,000. The Authority anticipates an investment income outturn of £416,000 for the whole year.

Update on Investments with Icelandic Banks

In October 2008 the Icelandic Banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable Bank at that time. So far £2.36m has been received from the administrator, representing 94% of the investment. The latest communication states that a final payment is likely in October or November 2014.

Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2014/15, which were set on 20th February 2014 as part of the Authority's Treasury Management Strategy Statement.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of principal invested will be:

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	66%		
Upper limit on variable interest rate exposure	25%	25%	25%
Actual	22%		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. For borrowing the actual exposure is 83% and 17%, fixed and variable.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Semi-annual Treasury Outturn Report 2014/15

	Upper	Lower	Actual
Under 12 months	100%	0	0
12 months and within 24 months	100%	0	0
24 months and within 5 years	100%	0	0
5 years and within 10 years	100%	0	0
10 years and within 20 years	100%	0	0
20 years and within 30 years	100%	0	100%
30 years and within 40 years	100%	0	0
40 years and within 50 years	100%	0	0
50 years and above	100%	0	0

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£30m	£30m	£30m
Actual	£10m	£5m	£5m

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A-	A+

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 3 months	£20m	£39.5m

Investment Training

Member Training was provided by Arlingclose on 9th January 2014.

Treasury Strategy Training for one Officer arranged for 24th November 2014.

Semi-annual Treasury Outturn Report 2014/15

Outlook for Q3 and Q4 2014/15

The stronger economic growth seen in the UK over the past six months is likely to use up spare capacity more quickly than previously assumed. Arlingclose has brought forward their prediction for the timing for the first rise in Bank Rate to Q3 2015.

In addition to two MPC members having voted for a rate rise in August and September, the rhetoric from Committee members has in general become more hawkish. However, the lack of inflationary pressure is expected to allow policymakers to hold off monetary tightening for longer than the market currently expects. The near-term risk is that the Bank Rate could rise sooner than anticipated, which is captured in the 'upside risk' range of our forecast table below.

The focus is now on the rate of increase and the medium-term peak and, in this respect, expectations are that rates will rise slowly and to a lower level than in the past.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Official Bank Rate											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00

Semi-annual Treasury Outturn Report 2014/15

Appendix 1

Prudential Indicators 2014/15

The Local Government Act 2003 requires the Authority to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2013/14 Actual £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund	2.331	8.629	1.417	1.397
HRA	10.675	17.823	15.49	15.187
Total Expenditure	13.006	26.452	16.907	16.584
Capital Receipts	1.644	7.895	2.040	1.938
Government Grants	0.994	2.346	0.549	0.495
Major Repairs Allowance	6.145	10.511	8.618	8.451
Revenue Contributions	4.223	5.700	5.700	5.700
Total Financing	13.006	26.452	16.907	16.584

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.14 Actual £m	31.03.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m
General Fund	29.6	29.6	63.6	63.6
HRA	155.1	155.1	155.1	155.1
Total CFR	184.7	184.7	218.7	218.7

The CFR is forecast to rise by £34m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year

Semi-annual Treasury Outturn Report 2014/15

plus the estimates of any additional capital financing requirement for the current and next two financial years. Currently debt exceeds the CFR but only marginally.

Debt	31.03.14 Actual £m	30.09.14 Actual £m	31.03.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	185.456	185.456	185.456	215.456	215.456
Finance leases	0	0	0	0	0
PFI liabilities	0	0	0	0	0
Total Debt	185.456	185.456	185.456	215.456	215.456

Total debt is expected to reduce below the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	188.0	204.00	219.0	219.0
Total Debt	188.0	204.00	219.0	219.0

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	200.0	230.0	230.0	230.0
Total Debt	200.0	230.0	230.0	230.0

Ratio of Financing Costs to Net Revenue Stream: This 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 financing costs, net of investment income.

Semi-annual Treasury Outturn Report 2014/15

Ratio of Financing Costs to Net Revenue Stream	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	-0.39	-0.05	-0.06	-0.83
HRA	16.47	16.05	15.81	15.03

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
General Fund - increase in annual Band D Council Tax	-0.45	-0.28	0.15
HRA - increase in average weekly rents	-0.48	0.02	0.01

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*, originally on 22 April 2002.

Semi-annual Treasury Outturn Report 2014/15

Appendix 2

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2014	0.50	0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014	0.50	0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014	0.50	0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014	0.50	0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014	0.50	0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
31/08/2014	0.50	0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
30/09/2014	0.50	0.43	0.45	0.43	0.51	0.66	1.00	1.25	1.57	1.99
Average	0.50	0.37	0.41	0.43	0.49	0.67	0.92	1.21	1.57	2.06
Maximum	0.50	0.43	0.50	0.43	0.51	0.81	1.00	1.38	1.77	2.26
Minimum	0.50	0.24	0.36	0.42	0.46	0.56	0.84	1.00	1.36	1.91
Spread	--	0.19	0.14	0.01	0.05	0.25	0.16	0.38	0.41	0.35

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.70	4.21	4.30	4.27	4.25
31/08/2014	334/14	1.55	2.70	3.38	3.88	3.97	3.94	3.93
30/09/2014	378/14	1.57	2.77	3.46	3.96	4.07	4.05	4.03
	Low	1.40	2.68	3.36	3.87	3.96	3.94	3.92
	Average	1.55	2.86	3.67	4.22	4.32	4.29	4.27
	High	1.69	3.07	3.86	4.42	4.52	4.49	4.48

Semi-annual Treasury Outturn Report 2014/15

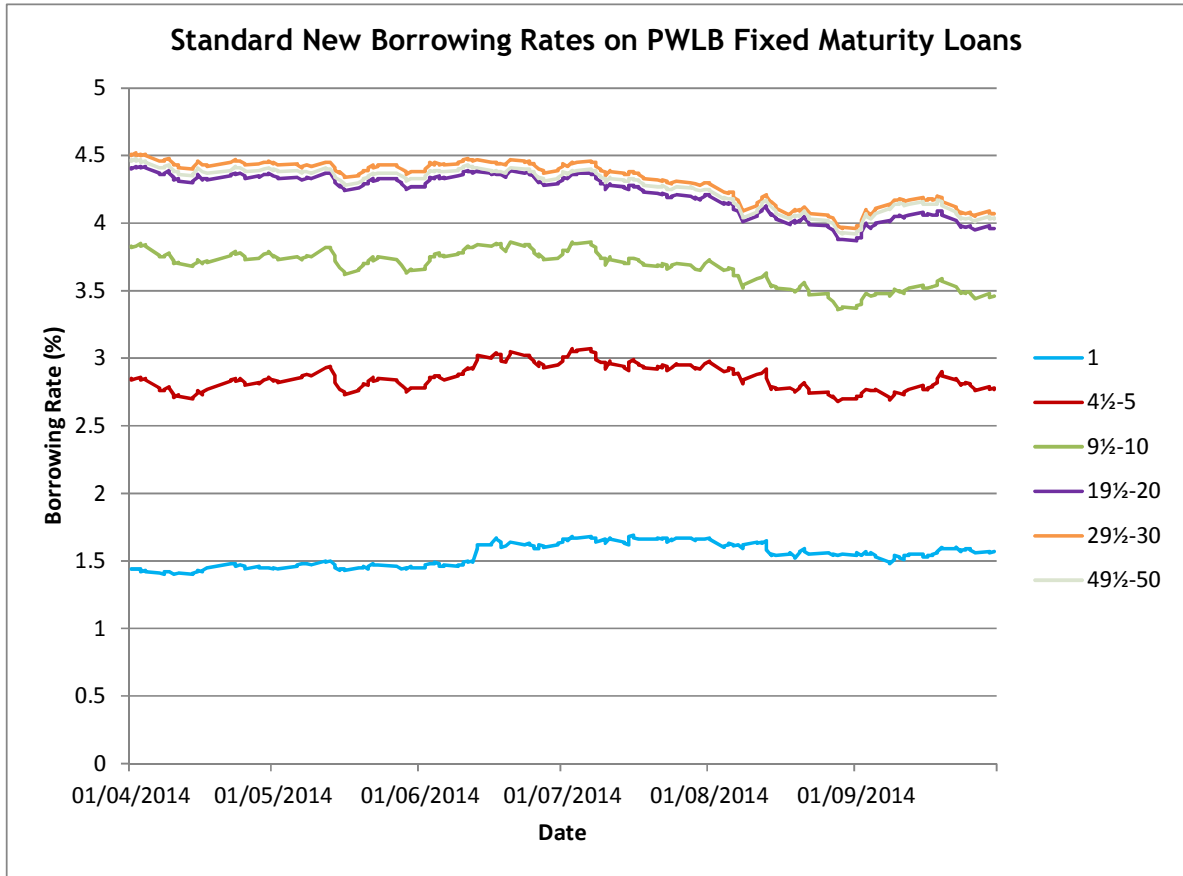


Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
31/08/2014	334/14	2.13	2.75	3.40	3.72	3.89	3.95
30/09/2014	378/14	2.18	2.82	3.48	3.79	3.97	4.05
	Low	1.99	2.73	3.38	3.71	3.87	3.95
	Average	2.19	2.92	3.70	4.05	4.23	4.30
	High	2.39	3.13	3.89	4.26	4.43	4.50

Semi-annual Treasury Outturn Report 2014/15

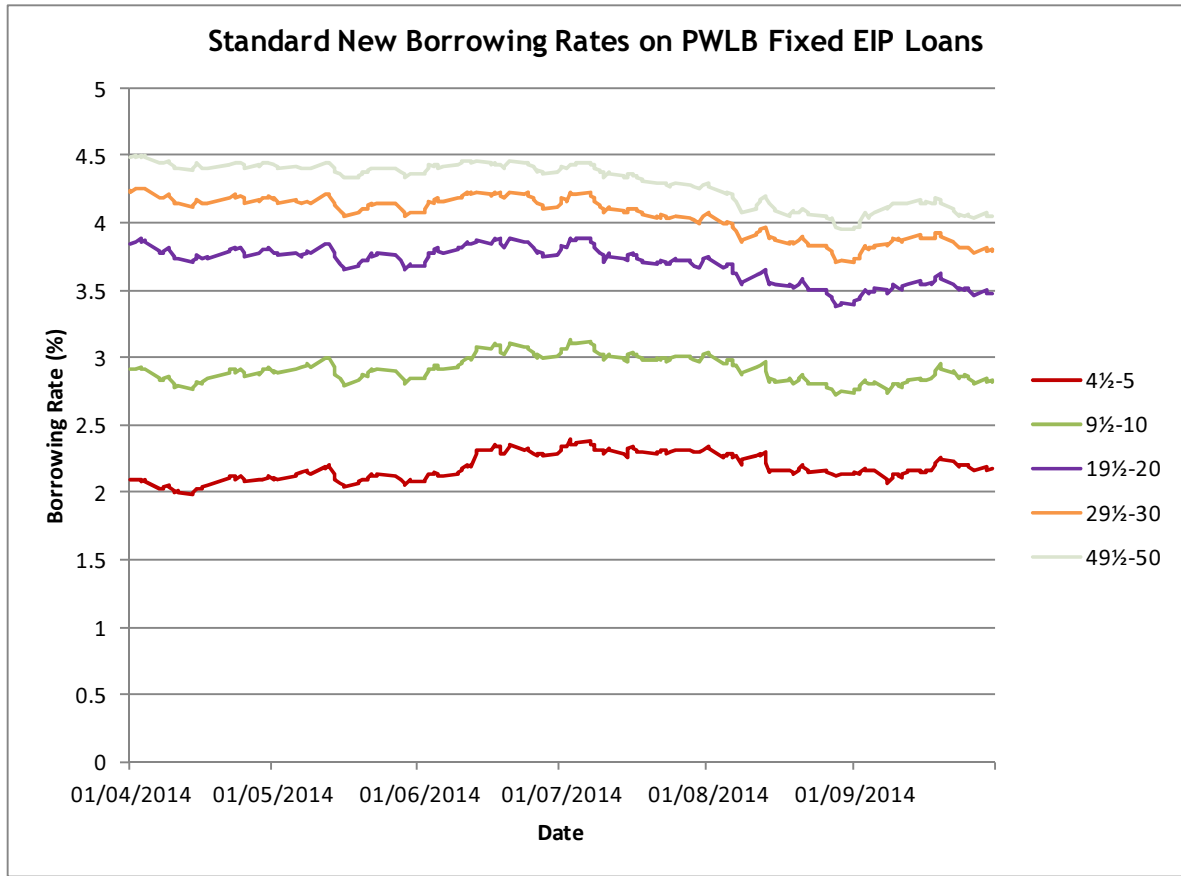


Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59
31/08/2014	0.58	0.62	0.72	1.48	1.52	1.62
30/09/2014	0.64	0.68	0.75	1.54	1.58	1.65
Low	0.55	0.56	0.57	1.45	1.46	1.47
Average	0.58	0.60	0.65	1.48	1.50	1.55
High	0.64	0.68	0.76	1.54	1.58	1.66

Report to the Audit and Governance Committee



Report Reference: AGC-013-2014/15 Epping Forest
Date of meeting: 24 November 2014 District Council

Portfolio: Finance

Subject: Annual Audit Letter 2013/14

Responsible Officer: Bob Palmer (01992 564279)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

- (1) To consider and note the External Auditor's Annual Audit Letter.

Executive Summary:

This Committee has within its Terms of Reference the considering of reports made by the external auditor. The Annual Audit Letter summarises the key issues arising from BDO's work during the year.

Reasons for Proposed Decisions:

To comply with the Committee's Terms of Reference and ensure proper consideration of the Annual Audit Letter.

Other Options for Action:

There are no other options for action.

Report:

1. The Annual Audit Letter confirms that the Financial Statements gave a true and fair view of the Council's financial affairs. It also confirms that the Annual Governance Statement contained in the Financial Statements was not misleading or inconsistent with other information.
2. The external auditors concluded that the significant financial systems were adequate for preparing the Financial Statements and that the work of Internal Audit could be relied upon.
3. In addition to the Financial Statements the Council is also required to complete a return that the Department for Communities and Local Government consolidates to prepare the Whole of Government Accounts. This return did require an amendment for the pension deficit figure, following a revised statement from the actuary.
4. The external auditors were able to satisfy themselves that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. This enabled them to issue an unqualified value for money conclusion.

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, 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:

Statutory Statement of Accounts and associated reports made to the Audit and Governance Committee and Full Council.

Risk Management:

Action plans have been agreed to address areas of risk identified during the audit.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
12/11/14 Director of Resources	The report is a summary of the work conducted in the year by the external auditor and has no equality implications.



EPPING FOREST DISTRICT COUNCIL

Annual Audit Letter 2013/14

Page 29
29 October 2014

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the council

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.

Our responsibility 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 Statement of Accounts

whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
22 October 2014

STATEMENT OF ACCOUNTS

1

We issued an unqualified true and fair opinion on the financial statements on 30 September 2014.
No material misstatements were identified during the audit.
We noted one area where the control environment could be strengthened relating to the monthly reconciliations between the housing rents system and the general ledger.

USE OF RESOURCES

2

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
We issued an unqualified value for money conclusion on 30 September 2014.

OTHER MATTERS

3

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).
The Council's WGA is below the threshold for review and we are required only to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. We confirm that these reported totals are consistent with the audited financial statements.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

We have completed our review of the Housing Pooled Capital Receipts return, which resulted in one adjustment. Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.
We will report the findings from this work in January 2015.

STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2014.

Financial performance

The Council reported a surplus on the provision of services of £27.7 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £596,000 before transfers to earmarked revenue reserves of £382,000. The HRA reported a surplus of £32.3 million.

Financial statements

The following misstatements were identified and corrected during the audit:

- Following approval of the draft statement of accounts and their submission for audit, the Council were notified by Essex Pension Fund that, during the preparation of the pension disclosures for 2013/14 the value used for the investment return had been understated. Following receipt of the updated actuarial report, management have amended the financial statements for the revised values, which has resulted in a reduction of £496,000 in the pension liability recognised in the balance sheet in the final published statements.

One remaining misstatement was identified that was not corrected in the final published financial statements:

- Our testing identified an amount of £5,000 which had been recognised as income when it should have been included within deferred income. We estimated a value for the impact of this error rate on the whole of the population. This resulted in a worst case projected misstatement of £115,000, but a more detailed analysis would reduce this figure.

The overall impact of correcting for this remaining misstatement would result in the Council reporting a worst case scenario of a £115,000 lower surplus for the year. We consider that this misstatement did not have a material impact on our opinion on the financial statements.

Internal controls

We noted a one area where the control environment could be strengthened:

- Monthly reconciliations between the housing rents system and the general ledger had not happened during the year.

Internal audit has reported that there have been improvements in the above control since our work and that this issue have been addressed.

Management has agreed to review and strengthen this internal control.

USE OF RESOURCES

2

CONCLUSION

We issued an unqualified value for money conclusion on 30 September 2014.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience. The focus of the criteria is that the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We draw sources of assurance relating to their value for money responsibilities from:

- the Council's system of internal control as reported on in its annual governance statement
- the results of the work of the Commission, other inspectorates and review agencies
- any work mandated by the Commission
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates.

We also review the Council's relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

Financial resilience

The 2013/14 final published accounts report that the Council has achieved an underspend of £373,000 against the revised budget for 2013/14 and has recognised an increase of £7.6 million in its usable reserves (comprising the general fund, earmarked reserves, housing revenue account, capital receipts reserve, major repairs reserve and capital grants unapplied) when compared to the closing balances in 2012/13.

The Council has set a balanced budget for 2014/15 and had identified required savings prior to the start of the year. From our review of current documentation, the Council is on track to deliver its 2014/15 budget. The Council also has a good track record of achieving budgets and successful financial management arrangements have put the Council in a relatively strong position of having built up notable levels of funds and reserves to provide support during the continuing period of financial pressures.

The medium term financial plan forecasts that it will be necessary to utilise reserves until 2017/18. However, at the end of this period it is estimated that revenue reserves will still be approximately £7.5 million, which is more than the minimum level of reserves necessary to comply with its own financial management policies.

The Council already outsources a number of services in order to achieve savings and has been actively reviewing the on-going value for money (VFM) of these arrangements. This includes a retendering exercise in relation to the waste contract, where annual savings of over £400,000 have been realised.

Challenging economy - efficiency - effectiveness

The Council has continued to review and consolidate its baseline arrangements for challenging and securing value for money during 2013/14. The arrangements operated during the year remain adequate. Business plans continue to outline annual value for money considerations and implications for each service and include benchmarking comparisons where appropriate.

Performance management and risk management arrangements that support the achievement of value for money are evidenced as continuing to operate as previously assessed with no contra-indicators.

The Council makes use of consultation, option appraisal and partnership working to assist in achievement of savings and delivery of improved services.

OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

Whole of Government Accounts

The Council's WGA is below the threshold for review and we are required only to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. We are required to confirm whether or not these reported totals are consistent with the audited financial statements.

Our review identified one difference, which we have reported to the National Audit Office. This was in respect of the pension liability recognised in the final published accounts was £496,000 lower than the corresponding total in the Data Collection Tool

GRANT CLAIMS AND RETURNS CERTIFICATION

4

CERTIFICATION WORK

The 2012/13 Housing and Council Tax Benefit subsidy claim was subject to qualification.

Certification findings 2012/13

We presented our most recent Grant claims and returns certification report in February 2014, which included the results of the audited returns for 2012/13. We certified 3 returns amounting to over £80 million.

No amendments were made to the national non-domestic rates return or the pooled housing capital receipts return and neither were subject to qualification.

The housing and council tax benefit subsidy claim was amended resulting in a decrease of £5,652 in the amount payable to the DWP. We also issued a qualification letter as a result of the errors identified by our testing. In our 2012/13 grant claims and certification report, we made the following recommendations relating to the housing benefit and subsidy return:

- Investigate any differences arising from the completion of the subsidy reconciliation prior to claim submission
- Carry out refresher training for staff that specifically covers the input of rent liability and the treatment of eligible rent and tax credits.

Regarding the first recommendation, management noted that the tight timescale for submitting the claim means that pursuing small differences on the reconciliation is not always an efficient use of resources. Management agreed to implement the second recommendation. We will include further details on the progress against these recommendations in our 2013/14 Grant claims and returns certification report (to be issued in January 2015).

Work in progress for 2013/14

Following the introduction of local business rate retention, we are no longer required to certify the national non-domestic rates return.

We have completed our review of the Housing Pooled Capital Receipts return and this resulted in one adjustment. This adjustment has not affected any amounts due to or from the Council.

Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.

We will report the findings from this work in January 2015.

APPENDIX

Reports issued

We issued the following reports in respect of the 2013/14 financial year.

REPORT	DATE
Planning letter	April 2013
Grant Claims and Returns Certification Report	January 2014
Audit Plan	April 2014
Final Audit Report	September 2014
Annual Audit Letter	October 2014

Page 36

Fees update

We reported our original fee proposals in our Audit Plan issued in April 2013. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Scale fee	85,329	85,329
Certification work	28,100	<i>(note 1)</i> 24,884
Total fees for audit services	113,429	110,213

Note 1 - Following the publication of our Audit Plan, the Audit Commission confirmed a 12% reduction in the scale fee following the cessation of council tax benefit and the corresponding reduction in work required on the housing benefit subsidy return. Our work on the audit of the housing benefit subsidy return for 2013/14 is in progress and we will report the findings from this work and the final fees separately.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Report to Audit and Governance Committee

Report Reference: AGC-014-2014/15
Date of Meeting: 24 November 2014



**Epping Forest
District Council**

Portfolio: Leader

Subject: Overview and Scrutiny Panel Framework - Review

Responsible Officer: Stephen Tautz (01992 564180)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

(1) That the Committee considers the operation of the current overview and scrutiny panel framework and options for a future panel structure.

Executive Summary

This report provides details of possible options for the future structure of the Council's overview and scrutiny panel framework, as part of a review being undertaken by a Task and Finish Panel during 2014/15.

Reasons for proposed decision:

Future scrutiny arrangements for certain functions within the responsibility of the Governance Directorate, may have implications for audit and governance matters.

Other options for action:

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

Report

1. At its meeting on 25 February 2014, the Overview and Scrutiny Committee established a new Task and Finish Panel to review the existing framework of the Council's scrutiny panels and make recommendations for how the structure could best complement the new management structure of the Council. The remit of the Task and Finish Panel is only to address the future structure of the scrutiny panel framework, and wider constitutional aspects or the operation of the Overview and Scrutiny Committee itself, are excluded from the scope of the review exercise.

2. The Task and Finish Panel has met on two occasions so far, to agree the terms of reference for the review and to receive feedback from some of the Chairmen and Vice-Chairmen of the existing panels, service directors and lead officers, regarding the operation of the current panel structure.

3. At the time of the establishment of the Panel by the Overview and Scrutiny Committee, the Chairman of the Audit and Governance Committee expressed reservation in

respect of future scrutiny arrangements for certain functions within the responsibility of the Governance Directorate, including audit and standards matters. It is understood that the Chairman was particularly concerned as to how these such arrangements would interrelate with the work of the Audit and Governance and Standards Committees, if the scrutiny panel framework was aligned with the management structure in future

4. The Chairman of the Committee has been unavailable to attend meetings of the Task and Finish Panel to present his views in respect of a possible directorate-aligned panel arrangement, but has requested that an item be placed on this agenda to enable the Committee to formally participate in the review process and make appropriate comment to the Task and Finish Panel as part of the evidence gathering phase of its review. It is hoped that the Vice-Chairman of the Task and Finish Panel, Councillor M. Sartin, will be able to attend the meeting to present this item on behalf of the Chairman, Councillor K. Angold-Stephens.

5. Details of the current panel arrangement and a possible framework aligned with the management structure, as originally considered by the Overview and Scrutiny Committee in February 2014 is attached as Appendix 1 to this report.

6. This report also presents a further option for a scrutiny panel model based on five thematic 'Select Committees' that broadly reflect the existing panel structure. This approach allows for scrutiny responsibilities to be allocated appropriately, as the current arrangements appear to have resulted in a situation where not all service areas are subject to scrutiny (if required) or allocated to a particular panel for scrutiny purposes. An indicative illustration of this option is attached as Appendix 2.

7. Both of these options would continue to provide for relevant scrutiny activity to also occur by way of the creation of task and finish panels (as necessary), would ensure that all services have a 'reporting' route for overview and scrutiny and that there is clear scope to the scrutiny activities of each Committee. Both of these options are supported by Management Board.

8. The establishment of an 'Audit and Standards Select Committee' as part of the thematic approach, would allow this body to act in a cross-cutting role and assume some of the responsibilities previously identified for the responsibility of the Governance Scrutiny Panel in the earlier proposed directorate-aligned model. This option could allow the existing Audit and Governance and Standards Committees to be absorbed into the new 'Audit and Standards Select Committee. Under this option, the existing Constitution and Member Services Scrutiny Panel could be re-established as a task and finish panel, in order to complete the ongoing review of the Constitution. At this point it could then be disbanded and any future related workload transferred to the new Audit and Standards Select Committee.

9. The Committee is requested to consider the operation of the current overview and scrutiny panel framework and the options for a future panel structure identified within this report, and to comment to the Task and Finish Panel as part of its review, as appropriate.

10. The views of the Committee in this respect will be presented to the Task and Finish Panel at its meeting on 25 November 2014, when all options for the future framework of the overview and scrutiny panels, including the adoption of a 'commissioning' model and the retention of the existing framework, will be considered

Resource Implications:

Resource requirements arising from revisions to the future structure of the Council's overview and scrutiny panel framework will need to be identified.

Legal and Governance Implications:

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

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations of this report in respect of the Council's commitment to the Climate Local Agreement, the corporate Safer, Cleaner, Greener initiative, or any crime and disorder issues within the district.

Consultation Undertaken:

This report is presented at the specific request of the Chairman of the Audit and Governance Committee. Consultation on a preferred option for the future structure of the Council's overview and scrutiny panel framework will be undertaken with all members and relevant stakeholders

Background Papers:

None

Riak Management:

Failure to consider best practice in terms of audit and governance matters could have negative implications for the Council's reputation and for judgements made about the progress or governance of the authority.

Equality:

There are no equality issues arising from the recommendations of this report.

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Current Structure of Panels

Panel	Current Responsibilities	Directors reporting under new structure
Constitution and Members Services	Constitution, Civic matters, elections, governance, services for members	Governance Resources (for CSO's) CEO/CIA (elections/Audit)
Finance and Performance Management	KPI's, performance and outturns, public consultation and engagement, draft portfolio holder budgets, budget monitoring, ICT Monitoring, VFM reviews, equality objectives review	Governance Resources + all for KPI's
Housing	Public/Private sector housing policy, Housing strategies, monitoring of ethnicity and actions plans Traveller issues, Repairs management contract monitoring,	Communities Neighbourhoods (Traveller issues)
Planning Services	Planning Performance, Business Processes, Staffing, Forward planning, Local Plan, Planning ICT, Planning budgets	Neighbourhoods Governance Resources
Safer Cleaner Greener	Environmental enforcement Safer Communities activities Waste Partnership Climate change Bobbingworth Nat Res Liaison NEPP liaison PCC/ P and Crime Panel liaison Local Highways Liaison	Neighbourhoods Communities

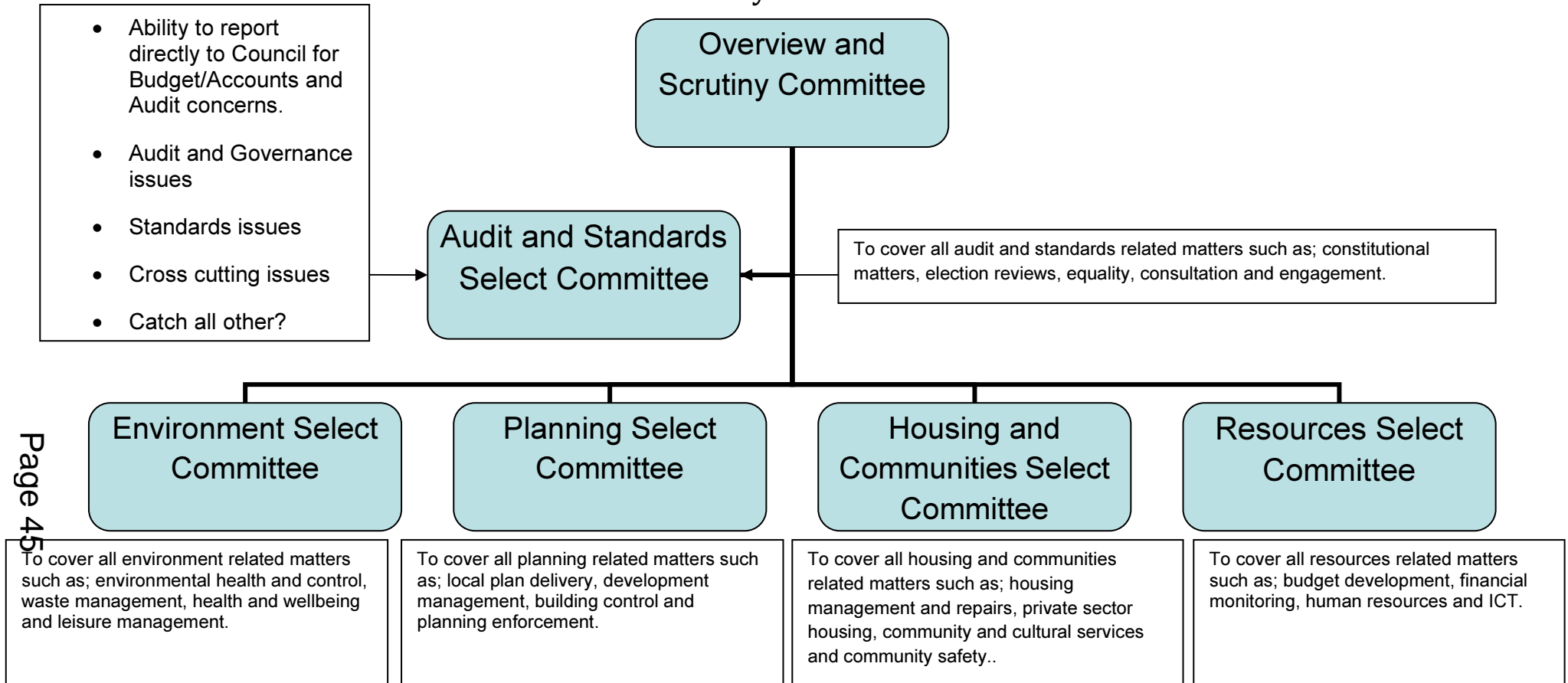
Not covered tacitly:

Support Services Scrutiny (all)
 CT and Benefits
 HR/Health and Safety (some JCC)
 Procurement Policy
 Data Protection/FOI
 Landscape and built heritage (some local plan?)
 Leisure management contract/Leisure and cultural strategy (PFH A Group)
 Arts and sports Development
 Young people (OSC annual review)
 Health and Wellbeing (some at OSC level)
 Car Parking
 Flood alleviation
 Depot strategy
 Estates strategy
 Grants policy

Directorate-Aligned Scrutiny Panel Structure

<p>Resources:</p> <p>Budget Scrutiny – stages as set out in the agreed Scrutiny Review recommendations.</p> <p>Revenue/Capital Monitoring (outurn)</p> <p>Quarterly Financial monitoring</p> <p>Fees and charges consultation</p> <p>Value for Money review</p> <p>HR related matters (sickness/manpower)</p> <p>ICT Strategy implementation</p> <p>Further Reviews of referred KPI's from Governance Panel</p> <p>Directorate Specific Scrutiny Proposals</p> <p>Directorate Specific government consultations</p>	<p>Governance:</p> <p>Equality Scheme and objectives progress monitoring</p> <p>KPI performance monitoring and KPI RAG flagging for further scrutiny by other Panels</p> <p>Consultation and Engagement scrutiny</p> <p>Constitutional related matters</p> <p>Elections reviews</p> <p>Governance matters not within remit of Audit and Governance/Standards Committee (i.e Backstop)</p> <p>Further Reviews of KPI's not within remit of other Panels</p> <p>Directorate Specific Scrutiny Proposals</p> <p>Directorate Specific government consultations</p>
<p>Neighbourhoods:</p> <p>Leisure Strategy/ Leisure Contracts monitoring</p> <p>Local Plan delivery scrutiny</p> <p>Highways Panel liaison</p> <p>LSP liaison</p> <p>Waste Contract scrutiny</p> <p>NEPP liaison</p> <p>Health and Wellbeing liaison</p> <p>Environment related matters (E. Health/environmental issues, climate control and land holdings related)</p> <p>Further Reviews of referred KPI's from Governance Panel</p> <p>Directorate Specific Scrutiny Proposals</p> <p>Directorate Specific government consultations</p>	<p>Communities:</p> <p>Housing related Business Plans, Policies and Strategies scrutiny/monitoring</p> <p>Public and private sector housing scrutiny</p> <p>Repairs Management contractor performance monitoring</p> <p>HRA account monitoring</p> <p>PCC liaison/ Police and Crime Panel liaison</p> <p>Designated Crime and Disorder meetings</p> <p>Safer Communities scrutiny</p> <p>Communities and Cultural Services Strategy</p> <p>Further Reviews of referred KPI's from Governance Panel</p> <p>Directorate Specific Scrutiny Proposals</p> <p>Directorate Specific government consultations</p>

Overview and Scrutiny Select Committee Structure



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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-015-2014/15

Date of meeting: 24 November 2014

Portfolio: Governance and Development Management

Subject: Internal Audit Monitoring Report July - September 2014

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 second quarter monitoring report for 2014/15:

- (a) the reports issued between July and September 2014 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); and**
- (d) the 2014/15 Audit Plan status report (Appendix 4).**

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between July and September 2014, and details the overall performance to date against the Audit Plan for 2014/15. The report also contains a status report on previous priority 1 audit recommendations which continues to be monitored by the Corporate Governance Group.

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 second quarter are listed in paragraph 3 below.
2. At the end of the quarter a further six audits were in progress or at the draft report stage.

Reports Issued

3. The following audit reports were issued in the quarter:

- (a) Full Assurance
None
- (b) Substantial Assurance
Business Plans
Commercial Property Management
Reprographics
North Weald Airfield
Key Performance Indicators
- (c) Limited Assurance
Facilities Management
Planning fees
- (d) No Assurance
None
- (e) At Draft Report Stage
Car Mileage Claims
Corporate Procurement
Contracts – Fraud Prevention
Private Sector Housing Grants
Corporate Asset Register
Car Parking Contract

Limited Assurance

4. During the quarter a report on Facilities Management was given a Limited Assurance rating due to a number of departures from Contract Standing Orders, specifically failure to monitor expenditure and take action when financial thresholds are reached. Management have given assurance that procedures are now in place to monitor expenditure to individual suppliers and highlight when thresholds are approached.

5. An audit of Planning Fees identified weaknesses within the reconciliation process which resulted in a Limited Assurance report. Planning staff are bringing the reconciliation up to date with the assistance of Accountancy staff and will ensure that reconciliation will be carried out in a timely manner.

Follow Up of Previous Priority 1 Recommendations

6. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management. These recommendations are monitored on a monthly basis by the Corporate Governance Group.

Follow Up of Previous Limited Assurance Audits

7. Attached at Appendix 3 is a schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management.

Audit Plan 2014/15 (Appendix 4)

8. The status of the 2014/15 Audit Plan is set out at Appendix 4.

Performance Management

9. The Internal Audit Team has local performance indicator targets to meet in 2014/15, as set out below:

	Actual 2011/12 For year	Actual 2012/13 For year	Actual 2013/14 For year	Target 2014/15 For year	Actual 2013/14 Quarter 2	Actual 2014/15 Quarter 2
% Planned audits completed	82%	85%	88%	90%	36%	36%
% chargeable "fee" staff time	71%	69%	74%	75%	77%	78%
Average cost per audit day	£213	£243	£225	£245	£217	£227
% User satisfaction	89%	N/A	N/A	90%	93%	93%

10. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan.

(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 taken from the budget monitoring reports, divided by the number of fee earning days extracted from the time recording system.

(d) % User Satisfaction – A customer survey is given to the relevant Assistant Director or Manager at the audit exit meeting.

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

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.

EFDC - Definition of Levels of Assurance

Assurance levels:

The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Level	Evaluation opinion	Priority Triggers
Full assurance	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.	Priority 3s or no audit recommendations.
Substantial assurance	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.	Priority 2s and one Priority 1 (if assessed as a low risk).
Limited assurance	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.	Between 1 and four 1s and (usually) several Priority 2s.
No assurance	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.	Five or more Priority 1s.

Priority Ratings

Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 2
July - September 2014

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Business Plans	Governance Directorate	<p>Substantial Assurance The systems surrounding the preparation of the Directorate Business Plans are operating satisfactorily. Corporate guidance for Business Plans is provided by the Performance Improvement Unit.</p>	<p>All Directorate Business Plans were available at the time of the audit and had been prepared in accordance with the Corporate Guidance. Small variations in format from the guidance were discussed and agreed as acceptable with the Performance Improvement Manager.</p> <p>All Directorate Business Plans had been approved by the relevant Portfolio Holders, although a number of approval forms had been received after the 30th April deadline.</p>
Commercial Property Management	Governance Directorate	<p>Substantial Assurance The systems and controls surrounding the management of the Council's commercial property portfolio are operating effectively, and ensure that rent reviews and lease renewals are carried out in a timely manner and that rent invoices are accurate.</p>	<p>Outstanding debts are currently monitored by the Sundry Debtors Section and the majority of old debts are being dealt with by Legal Services. This is being reviewed by the Corporate Debt Working Party.</p> <p>The section is in the process of procuring a replacement IT system for GVA, which will improve day-to-day property management and ensure that all commercial property information is held securely on one system.</p>
Reprographics	Resources Directorate	<p>Substantial Assurance The systems and controls in the reprographics section are operating effectively. However, the amount spent on the purchase of copier paper needs to be kept under review to ensure that Contract Standing Orders are complied with.</p>	<p>Testing demonstrated that departments are obtaining quotes for jobs from reprographics and are only placing the order with external suppliers where it is either cheaper or reprographics are unable to do the work.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
North Weald Airfield	Neighbourhoods Directorate	<p>Substantial Assurance The systems and controls are operating satisfactorily.</p>	<p>By the end of the audit, new procedures had been put in place for purchasing fuel using Shell fuel cards rather than the local garage. The general manager had also revised the forms for documenting fuel usage.</p> <p>This audit identified the following areas of good practice:</p> <p>Income charges are approved and applied correctly.</p> <p>Runway inspections are completed and documented in compliance with the requirements of the Aviation Third Party Liability Insurance policy.</p>
Key performance Indicators	Governance Directorate	<p>Substantial Assurance There are sound procedures in place for monitoring the Council's performance and achievement of the key objectives.</p>	<p>This audit has recommended additional checks should be put in place to ensure KPI data and full supporting documentation is reported to the Performance Improvement Unit, in accordance with the data quality strategy.</p>
Facilities Management	Resources Directorate	<p>Limited Assurance The system in place for the management of the planned and routine maintenance programmes operate effectively but Management should ensure compliance with Contract Standing Orders.</p>	<p>Value for money should be demonstrated to evidence economic and effective use of public money.</p> <p>The procurement of works, goods and services should be in accordance with the thresholds within Contract Standing Orders.</p> <p>Overall expenditure by each supplier will be monitored in future. Management implemented a system 1st April</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			2014 to enable the section to monitor committed expenditure. The Procurement section will also provide quarterly reports of expenditure by supplier on request.
Planning Fees	Governance Directorate	<p>Limited Assurance The key income reconciliation is not being undertaken, resulting in a key control being absent from the process. This was a recommendation in the previous audit and therefore has resulted in this assurance rating.</p>	Development Control management to liaise with ICT and Accountancy to establish reports from M3 that are easily reconcilable and if required Cashiers to ensure referencing in the right format to enable reconciliation. Reconciliation to be brought up to date and then completed monthly to establish control within the process.

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT 14th October 2014**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Commercial Property Portfolio	Some rent review dates on GVA do not agree to the information held on the Valuers spreadsheets. Therefore the data held on GVA should be checked to ensure that it is correct prior to transferring it to the new IT system.	Assistant Director (Asset Management & Economic Development)	31/3/14	<p>Agreed. The data will be cleansed before being loaded onto the new system.</p> <p>Following the failure of the replacement system to meet the required specification, the market is being researched prior to a re-tendering exercise.</p> <p>The license for the original system has been extended for one year to maintain continuity of the database during the acquisition process.</p>	Awaiting system acquisition process.	
Commercial Property Portfolio	A system should be set up whereby outstanding commercial rent debts are regularly monitored in order that appropriate action can be taken in a timely manner	Assistant Director (Asset Management & Economic Development)	1/1/15	The quarterly debt monitoring meetings which used to be held between Finance, Legal Services and Estates ended in March 2013 when Finance were no longer able to attend. It is considered that there are currently insufficient resources within the Estates Section to carry out debt monitoring. This issue will be discussed as part of the Corporate Debt Working Party. In addition, as part of the ongoing restructure		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
				within the Council, consideration will be given to resource levels required in the Economic Development & Estates and Valuation Section.		
Reprographics	Portfolio Holder approval should be sought for a waiver of Contract Standing Orders. A review of the purchase of copier paper should be carried out in order to assess the likely future expenditure on copier paper and the requisite number of quotes/tenders that need to be obtained.	Reprographics Manager	31/08/2014	Agreed		
Planning Fees	Development Control management to liaise with ICT to establish reports from M3 that are easily reconcilable and if required Cashiers to ensure referencing in the right format to reconcile. Reconciliation to be brought up to date and then completed monthly to establish control within the process.	Assistant Director Development Control	Sept 2014	Planning staff are bringing the reconciliation up to date with the assistance of Accountancy staff and will ensure that reconciliation will be carried out in a timely manner.		
Facilities Management	Where similar items of work are required, repeat orders should not be submitted without consideration of the total sum of expenditure	Facilities Manager.	1.12.2014	FM will involve the Essex Procurement Hub for all relevant purchases. The commitment accounting system will be further developed to more clearly		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
	<p>during previous years with reference to Contract Standing Orders.</p> <p>Overall expenditure with individual suppliers should be reviewed and (if required) a retrospective waiver of Contract Standing Orders should be obtained from the Portfolio Holder. (CSO C2 (10). This was also recommended following a previous audit (February 2010).</p> <p>Facilities Management should consult the Essex Procurement Hub for advice regarding tender specifications and to ensure the best potential suppliers are selected on the basis of the quality of work and best price. (CSO C3(3))</p>			highlight companies nearing the contract standing order thresholds. Reports will also be generated from the Market Place system and these will all be monitored by the FM manager on a regular basis.		
Facilities Management	<p>All Marketplace orders should include comprehensive details of goods and services. Employment details such as the nature and period of work should be provided.</p> <p>The employment of an</p>	Facilities Manager	1.12.2014	Of these orders 2 were for emergency works following the water leak in the then Planning Directorate, and there was a requirement to use of electrician at short notice and with a knowledge of the building and the 3rd was for an electrician, at the end of the		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
	<p>additional member of staff could be considered more cost effective than using a contractor.</p>			<p>financial year, with a good knowledge of the building who could work alone, to complete the replacement of lighting, LED, in the Conder Building. A request for an additional electrician will be made in due course. This will ultimately result in revenue savings as well as addressing the issues identified above.</p>		
Facilities Management	<p>Procurement services will be utilised to provide a Marketplace reports of the value of orders raised (by supplier) to the Facilities Manager on a monthly basis.</p> <p>Facilities Management should also consider the use of reports of actual expenditure by supplier from Accountancy.</p>	Facilities Manager	1.12.2014	<p>Agreed. Results from the reports generated from the commitment accounting, marketplace and accountancy systems will be collated and monitored regularly to prevent any future departure from CSO.</p>		
Facilities Management	<p>Written quotations should be obtained in accordance with Financial Regulations and Contract Standing Orders.</p> <p>The Marketplace order descriptions should provide more information than 'as per quotation'.</p>	Facilities Manager	1.12.2014	<p>The required number of quotes will be obtained and full details entered onto Marketplace.</p>		

**INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT October 2014**

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
<p style="text-align: center;">Page 59</p> <p>Car Parking Income</p>	Neighbourhoods Directorate	March 2014	P1. 0 P2. 1 P3. 0	P1. 0 P2. 1 P3. 0	Q3 2014/15	<p>The pay and display off street car parking income is adequately monitored. However, the introduction of new ticket machines will enable the pay and display income to be more effectively monitored.</p> <p>As little supporting documentation is received in relation to the Penalty Charge Notice (PCN) and Season Ticket income, it is not possible to verify this. This is in the process of being addressed by management. In the meantime however, the volume of PCNs is being monitored to ensure there are no significant fluctuations and the any issues identified are raised with NEPP.</p> <p>Additionally, some assurance should be provided as the car parking contract is subject to independent review by Colchester Borough Council Internal Audit Section.</p>
Facilities Management	Resources Directorate	September 2014	P1. 4 P2. 2 P3. 0	P1. 4 P2. 2 P3. 0	Q4 2014/15	<p>Value for money should be demonstrated to evidence economic and effective use of public money.</p> <p>The procurement of works, goods and services should be in accordance with the thresholds within Contract Standing Orders. The Authority's Procurement section should be consulted at the start of each contract to ensure compliance with Council policy.</p> <p>Overall expenditure by each supplier will be monitored in future. Management implemented a system 1st April 2014 to enable the section to monitor committed expenditure. The</p>

						Procurement section will also provide quarterly reports of expenditure by supplier on request.
Planning Fees	Governance Directorate	July 2014	P1. 1 P2. 0 P3. 1	P1. 1 P2. 0 P3. 1	Q3 2014/15	The importance of the key income reconciliation between M3 and the General Ledger is understood but has not been performed. This is highlighted as a serious control weakness and needs to be rectified for any assurance to be given in regards this aspect of the Planning Fees process. Previous improvements and efforts in regards these processes has been made but have not been followed through with. The key individuals have been communicated with and with management support and commitment the reconciliation should be able to be completed.

AUDIT PLAN 2014/15

Key		Risk Identifier		
AC		Audit Commission		
FFS		Fundamental Finance System		
R no.		Risk No. in Corporate Register		
R		Reputation of Council		
Audit area	Audit type	Days allocated	Completed	Risk Identifier
Resources				
Accountancy				
Bank Reconciliation	system/follow up	15		FFS
Sundry Debtors	system/follow up	15		FFS
Creditors	system/follow up	15		FFS
Treasury Management	system/follow up	10		FFS/R4
Budgetary Control (capital and revenue)	system/follow up	10		FFS
Risk Management and Insurance	system/follow up	10		FFS
Main Accounting and Financial Ledger	system/follow up	15		FFS
Provision for 'top up' testing	systems	30	Completed	FFS
Benefits				
Housing Benefits	system/follow up	15		FFS
Council Tax Reduction	system/follow up	15		FFS
Revenues				
Council Tax	system/follow up	20		FFS/R4/AC
Business Rates	system/follow up	20		FFS/R4
Cash receipting and Income control	system/follow up	15		FFS
Human Resources				
Payroll	System/follow up	20		FFS
Recruitment and Selection	verification	10		R
Management of Sickness absence	verification	10	Completed	R
Overtime and Committee Allowances	verification	10		R
Travelling & Subsistence Claims	verification	10		R
Car Mileage claims	verification	10	In Progress	R

Reprographics	System	10	Completed	
ICT and Facilities Management				
ICT Procurement	ICT	10		AC/R6
Access controls	ICT	10		R6
Facilities Management Contracts	system	10	Completed	AC
TOTAL		315		
Governance				
Governance and Performance Mgmt.				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10		R
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Legal				
Debt recovery	Follow up	10		R4
Development Management				
Planning Fees	System	20	Completed	R4
TOTAL		75		
Neighbourhoods				
Neighbourhood Services				
North Weald airfield	establishment	15	Completed	R4
Technical Services				
Waste Management and Recycling	system	20		R
Car Parking Contract	system	10	Completed	R4
Fleet Operations income	system	5	Completed	R4
Forward Planning & Economic Devel.				
Commercial Property portfolio	Follow up	10	Completed	R2
TOTAL		60		
Communities				
Housing Property				
Housing Repairs Service	system	20		R

Council Housebuilding Programme	system	15		AC
Housing Contracts	follow up	5		AC
Housing Operations				
Housing Rent Collection and Arrears	system/follow up	20		FFS/R4
Norway House/Rental Assistance Loans	Estab/system	10	Completed	R4
Private Sector Housing & Comm. Support				
Right to Buy	system	10	Completed	AC
Private Sector Housing - Grants	system	15	In Progress	AC
TOTAL		95		
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15	In Progress	AC
Procurement	fraud	15		AC
Council Tax Discounts	fraud	15		AC
National Fraud Initiative (NFI)	fraud	20	In Progress	AC
Data matching and analysis (IDEA software)	fraud	25	In Progress	AC
TOTAL		90		
CORPORATE				
Corporate Procurement	system/follow up	15	In Progress	AC
Corporate Asset Register	system	5	In Progress	FFS
Priority 1 Audit recommendations	follow up	10	In Progress	R
Governance Statement	management review	5	Completed	R
TOTAL		35		
TOTAL DAYS ALLOCATED		670		
Contingency/Minor investigations		40		
Corporate/Service Advice		65		
TOTAL		775		

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