



# **Epping Forest District Council**

## **AUDIT AND GOVERNANCE COMMITTEE Monday, 26th November, 2018**

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, 26th November, 2018  
at 7.00 pm .**

**Derek Macnab  
Acting Chief Executive**

**Democratic Services  
Officer**

Democratic Services Manager, S. Tautz  
Tel: 01992 564243 Email:  
democraticservices@eppingforestdc.gov.uk

### **Members:**

Councillors J Knapman (Chairman), P Bolton, L Hughes, R Jennings and J M Whitehouse

Independent N Nanayakkara (Vice-Chairman) and A Jarvis

### **WEBCASTING/FILMING NOTICE**

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**If you have any queries regarding this, please contact the Public Relations Manager on 01992 564039.**

**1. WEBCASTING INTRODUCTION**

This meeting is to be webcast. The Chairman will read the following announcement:

*“I would like to remind everyone present that this meeting will be broadcast live to the internet (or filmed) and will be capable of repeated viewing (or another use by third parties).*

*If you are seated in the lower public seating area then it is likely that the recording cameras will capture your image and this will result in the possibility that your image will become part of the broadcast.*

*This may infringe your human and data protection rights and if you wish to avoid this then you should move to the upper public gallery.*

*Could I please also remind Members to activate their microphones before speaking”.*

**2. APOLOGIES FOR ABSENCE**

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

**3. DECLARATIONS OF INTEREST**

To declare interests in any item on the agenda for the meeting of the Committee.

**4. MINUTES (Pages 5 - 10)**

To confirm the minutes of the meeting of the Committee held on 24 September 2018.

**5. MATTERS ARISING**

To consider any matters arising from the minutes of the previous meeting of the Committee.

**6. AUDIT & GOVERNANCE COMMITTEE - WORK PROGRAMME (Pages 11 - 12)**

To consider the attached work programme for the Committee for 2018/19.

**7. EXTERNAL AUDITORS**

In attendance would be Craig Wisdom and Oli Richardson from Deloitte LLP, who had been appointed to carry out the audit of the Council accounts for the 2018/19 financial year.

**8. AUDIT & GOVERNANCE COMMITTEE - REVIEW OF TERMS OF REFERENCE & EFFECTIVENESS (Pages 13 - 46)**

To consider the attached report.

**9. INTERNAL AUDIT MONITORING REPORT SEPTEMBER TO NOVEMBER 2018 (Pages 47 - 98)**

To consider the attached (AGC-010-2018/19).

**10. TREASURY MANAGEMENT MID-YEAR REPORT 2018/19 (Pages 99 - 114)**

To consider the attached report.

**11. ANY OTHER BUSINESS**

Section 100B(4)(b) of the Local Government Act 1972 requires 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.

**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):

<b><i>Agenda Item No</i></b>	<b><i>Subject</i></b>	<b><i>Exempt Information Paragraph Number</i></b>
<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

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.

Background Papers:

Article 17 of the Constitution (Access to Information) 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 and in respect of executive reports, the advice of any political advisor.

The Council will make available for public inspection one copy of each of the documents on the list of background papers for four years after the date of the meeting. Inspection of background papers can be arranged by contacting either the Responsible Officer or the Democratic Services Officer for the particular item.

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## EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

<b>Committee:</b>	Audit and Governance Committee	<b>Date:</b>	Monday, 24 September 2018
<b>Place:</b>	Council Chamber, Civic Offices, High Street, Epping	<b>Time:</b>	7.00 - 7.40 pm
<b>Members Present:</b>	Councillor J Knapman (Chairman), N Nanayakkara (Vice-Chairman), Councillor P Bolton, Councillor L Hughes, A Jarvis, Councillor R Jennings, Councillor J M Whitehouse		
<b>Other Councillors:</b>	Councillors A Patel, J Philip, D Sunger		
<b>Officers Present:</b>	S Hill (Service Director (Governance & Member Services)), J Bell (Principal Accountant), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), A Hendry (Senior Democratic Services Officer), A Rose (Webcasting Officer)		

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### 15. WEBCASTING INTRODUCTION

The Chairman made a short address to remind everyone present that the meeting would be broadcast live to the internet, and would be capable of repeated viewing, which could infringe their human and data protection rights.

### 16. DECLARATIONS OF INTEREST

No interests were declared by members of the Committee in any item on the agenda for the meeting, pursuant to the Council's Code of Conduct.

### 17. MINUTES

#### RESOLVED:

That the minutes of the meeting of the Committee held on 30 July 2018 be taken as read and signed by the Chairman as a correct record.

### 18. MATTERS ARISING

There were no matters arising from the minutes of the previous meeting of the Committee.

### 19. AUDIT & GOVERNANCE COMMITTEE - WORK PROGRAMME 2018/19

The Chief Internal Auditor presented the work programme for the Audit and Governance Committee for 2018/19. Members noted that the annual audit letter for 2017/18 was to be considered later in the meeting, having been brought forward from the next cycle of meetings as a result of changes to the timetable for the final accounts process for the year. The Committee was also advised that the Chief Internal Auditor was to provide appropriate training on the Council's assurance framework before the next meeting of the Committee.

#### RESOLVED:

That progress towards the completion of the work programme for the Audit and Governance Committee for 2018/19, be noted.

## **20. ANNUAL AUDIT LETTER 2017/18**

The Committee further considered the Annual Audit Letter for 2017/18, which summarised the key issues arising from the work undertaken by the Council's external auditor during the past year.

Members were reminded that the Committee had considered the Annual Audit Letter in detail at its previous meeting although, at that time, it had not been possible to report the assurances of the external auditor in terms of the matters required to be reflected within the audit letter.

The Committee was advised that relevant assurances had now been received from the external auditor and that the Annual Audit Letter confirmed that the financial statements gave a true and fair view of the Council's financial affairs and that the Annual Governance Statement was not misleading or inconsistent with other information. Members noted that the Annual Audit Letter also confirmed that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and that the external auditor had therefore issued an unqualified value for money conclusion. It was reported that the auditor had not exercised any statutory powers in relation to the financial statements and had no other matters to report.

The Committee enquired whether there were any implications arising from changes to the Essex Pension Fund that should be considered, as the financial statement within the Annual Audit Letter indicated that the Council's pension fund liability had increased by £2.9 million in 2017/18. The Principal Accountant reported that the Essex Pension Fund had made incorrect assumptions about the valuation of the pension fund in terms of the number of members of the fund and life expectancy and that revaluation had therefore been requested by the auditors of the Pension Fund. The Committee was advised that the revaluation of the Pension Fund had not left the Council exposed in any way and that the increase in the it's pension fund liability was considered to be insignificant in terms of its existing liability of £75 million. The Principal Accountant reported that the increase in the Council's pension fund liability would be met by additional contributions to the Essex Pension Fund, or by an extension to the term of repayment, which would be required to be agreed by Essex County Council as administrators of the Fund.

### **RESOLVED:**

That the Annual Audit Letter for 2017/18 noted.

## **21. INTERNAL AUDIT MONITORING REPORT**

The Committee considered the internal audit monitoring report for the period from August to September 2018, which updated members on work undertaken by the Internal Audit Shared Service and the Corporate Fraud Team since the previous meeting.

The Chief Internal Auditor reminded the Committee that it received details of all overdue recommendations and high-priority recommendations arising from audit activity, as part of its regular review of the Internal Audit Recommendation Tracker. Members were advised that there were currently four issues included in the tracker, the majority of which required the development of long-term solutions.

The Committee raised concern with regard to a medium-priority item contained in the Internal Audit Recommendation Tracker (Management of Council Housing Voids; Report No. 09.16/17 (June 2017)), for which the recommended action appeared to have been left unaddressed for over a year and which would not now be completed until April 2019. The Chief Internal Auditor advised members that the recommended action in this case had now been carried out, but that the Service Director (Housing property) was to further review the process for transferring keys for void properties once the Housing Repairs Depot had relocated to Oakwood Hill in Loughton and that this was the reason for the revised implementation date.

The Committee also expressed concern with regard to a further medium-priority item contained in the Internal Audit Recommendation Tracker (Leisure Management Contract; Report No. 18.17/18 (May 2018)), where financial monitoring and contract payment processes in relation to the Council's leisure management contract were not documented to ensure business continuity and that the documentation of such processes appeared to have been delegated to an administrative assistant. Members considered that this approach was unacceptable, given the significant value and complexity of the leisure management contract. The Chief Internal Auditor assured the Committee that the audit process had established that appropriate financial and contract payment monitoring was taking place in regard to the contract, and that it was considered important that relevant monitoring processes and procedures were fully documented to support the contract manager, who was currently working on his own, particularly in terms of ensuring continuity.

Members drew attention to the discussion at a previous meeting of the Committee, about the Council's corporate approach to contract management, which was currently delivered within each relevant service area. The Committee was concerned that the delivery of effective contract management by a Contact Manager working on their own did not provide good internal control arrangements. The Chief Internal Auditor emphasised that the audit had received substantial assurance and had indicated that contract management processes for the leisure management contract were operating effectively, and that the Contact Manager was now undertaking formal training to support the recommendations of the audit. The Chief Internal Auditor confirmed that, as a result of the findings of the audit, the Corporate Governance Group would be considering the Council's requirements for effective contract management across all relevant contract areas, particularly in view of the overall issue of capacity in organisations such as the Council and the need for the appropriate transfer of skills and succession planning.

The Chief Internal Auditor updated the Committee on the work of Corporate Fraud Team, which had prevented the completion of five fraudulent Right to Buy applications since the previous meeting, that had saved the Council approximately £393,000 in potential discounts.

Members were advised that the report of the Debtors Audit had been issued since the previous meeting of the Committee, which had provided substantial assurance that relevant processes were well managed across the Council. The Chief Internal Auditor was requested to clarify and amend as necessary the period for the completion of the recommendations of the proposed Payroll Audit, which members assumed was actually to commence in November 2018.

The Chief Internal Auditor advised the Committee that compliance with the General Data Protection Regulation (GDPR) was integrated into all Internal Audit activity and that compliance with the GDPR was monitored by the Corporate Governance Group. Members noted that it was intended to establish an officer-level Information Governance Group to oversee continued compliance with the GDPR framework. The

Chief Internal Auditor confirmed that the Council had appointed a Data Protection Officer as required by the GDPR and that Internal Audit had worked with the Data Protection Officer to organise a successful data 'de-clutter' day to support the GDPR, which it was intended be held on a regular basis.

The Chief Internal Auditor advised the Committee that some slippage had occurred in the delivery of the Internal Audit Plan for 2018/19 over the recent summer holiday period and that the delivery of the Plan was behind schedule at the end of the second quarter of the year. The Chief Internal Auditor reported that, whilst she was concerned at the current stage of progress with the achievement of the Internal Audit Plan, it was still hoped to complete the agreed programme of audit work by the end of the year. Members were advised that external resources had been commissioned to support the delivery of the Audit Plan and that, as a result, it was hoped that there would not be a need for the Committee to consider the deferral of audit work. The Chief Internal Auditor advised the Committee that criteria for the deferral of audit activity would be developed on a risk-based basis, but that no such criteria had yet been established to prioritise proposed audits. Members considered that any criteria for the proposed deferral of audit activity should be developed for consideration by the Committee.

Notwithstanding the arrangements implemented by the Chief Internal Auditor, the Committee was concerned that it would not be possible for the Council to complete the planned programme of audit work by the end of the year, whether due to over-programming of audit activity or under-resourcing of the Internal Audit Unit. Members emphasised that they had previously expressed a wish to avoid the deferral of audit work in the current year and stressed the hope that the internal audit resources available, together with the external support commissioned by the Chief Internal Auditor, would be sufficient to secure the delivery of the ambitious Audit Plan for the year, whilst accommodating the current level of slippage in the delivery of the Plan. The Committee considered that it would be helpful for the Chief Internal Auditor to undertake an assessment of the elements of the Internal Audit Plan that could now be realistically delivered in the current year, in order to avoid members being requested to agree the deferral or re-prioritisation of specific audit activity late in the year and that this exercise should include the reprioritisation of planned audit activity where necessary.

Members questioned whether the activities of the new Community Police Hub, where these complemented the work of the Corporate Fraud Team, should be included within future reports to the Committee. The Chief Internal Auditor was requested to consider this issue and to report further to the Committee at a future meeting.

**RESOLVED:**

- (1) That progress against the Internal Audit Plan for 2018/19 for August to September 2018 and the work of the Corporate Fraud Team, be noted;
- (2) That the concerns of the Committee with regard to the successful delivery of the adopted Internal Audit Plan for 2018/19 and the resources available to the Chief Internal Auditor in this regard, be noted;
- (3) That the Chief Internal Auditor undertake an assessment of the elements of the Internal Audit Plan for 2018/19 that could realistically be delivered by the end of the year, for consideration by the Committee at its next meeting;



- (4) That the Chief Internal Auditor develop appropriate criteria for the deferral of audit activity from the Internal Audit Plan for 2018/19, for consideration at the next meeting of the Committee; and
- (5) That, subject to (4) above, the Chief Internal Auditor develop a reprioritised Internal Audit Plan for 2018/19, for consideration by the Committee at its next meeting.

## 22. TREASURY MANAGEMENT & PRUDENTIAL INDICATORS - OUTTURN REPORT 2017/18

The Committee was advised that the Council's treasury activities were strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes a requirement for reporting on the treasury outturn on the financing and investment activity for the previous year

The Principal Accountant introduced the annual outturn report on the Treasury Management and Prudential Indicators for 2017/18, covering treasury activity for the year. Members noted that there had been no breaches of treasury management policy during the year. The Committee noted that:

- the Council had planned to borrow to finance the Capital Programme. However, an underspend on the programme and the availability of sufficient cash had allowed the external borrowing to be deferred;
- the risk involved with capital activity was the impact on reducing the balances of financial reserves to support the Capital Programme. This risk had the potential consequences of a loss of interest; loss of cover for contingencies; the financial strategy becoming untenable in the long-term; service reductions; and Council Tax increases;
- the Council's underlying need to borrow (the Capital Financing Requirement (CFR)), gauged its debt position. The Council had borrowed £185.456m to finance payment to Government for Housing Self-Financing, which had resulted in the CFR becoming an overall positive CFR (Housing revenue Account ((HRA) and Non-HRA). No further borrowing was incurred in 2017/18; and
- the Council did not breach the Authorised Limit (set at £250m for 2017/18) or the Operational Boundary (set at £240m for 2017/18) and the Maturity Structure of Fixed Rate Borrowing (restricted to 30 years and below).

The Committee sought an example of the credit and counterparty risk where a risk of failure of a third-party might occur. The Principal Accountant advised members that the credit and counterparty risks were reviewed on a regular basis by the Council's treasury advisor, who also advised the authority on what risks or companies, banks etc. it should avoid. Members also raised the issue of the working capital balance, which was a lot lower than budget, and whether this reflected a snapshot balance or was a typical level of balance. The Principal Accountant reported that the working capital fluctuated on a regular basis.

Members noted that non-HRA capital expenditure showed a significant variation between the original budget and the actual spend. The Principal Accountant advised that this could relate to slippage from previous years as the original budget was already set, or that it could be that further investment had been sought. The Committee also noted that HRA expenditure was underspent by roughly the same amount, which balanced the variation and the Principal Accountant confirmed that he would provide a separate explanation of these issues to all members of the Committee.

The Committee considered interest rate risks and the Council's ability to receive 'reasonable' rates on investments at fixed rates, and queried the level of a reasonable rate given that rates were currently low. The Principal Accountant advised the Committee that the Council was trying to keep its investments as short-term as possible, but that this approach did give a minimal amount of investment income in return. Members were advised that, by not going out into the borrowing market, the Council was saving money by not having to borrow at a higher rate than on investments. The Committee suggested that the word 'reasonable' was ambiguous and requested that an explanation of the significant variations between the initial budget proposal and actual outcome, be provided when the Treasury Management and Prudential Indicators report was considered by the Finance and Performance Management Cabinet Committee.

The Committee considered that it would also be helpful for members to be provided with a clearer narrative on how treasury management activity complemented the Council's investment strategy and risk appetite, as otherwise it was difficult to evaluate the information and how appropriate it was for the Council given its existing strategy. The Principal Accountant confirmed that such information would be included in future reports to be made to the Committee.

**RESOLVED:**

- (1) That the risks associated with the Council's treasury management activity during 2017/18 be noted;
- (2) That the Chief Finance Officer provide an explanation of the significant variation between the initial budget proposal and the actual outcome, to the next meeting of the Finance and Performance Management Cabinet Committee; and
- (3) That no other comments or suggestions on the Council's treasury management activity during 2017/18 be made to the Finance and Performance Management Cabinet Committee.

**23. ANY OTHER BUSINESS**

No other business was raised for consideration by the Committee.

**CHAIRMAN**

## **Audit & Governance Committee Work Programme 2018/19**

### **30 July 2018**

- Annual Report of the Chief Internal Auditor 2017/18.
- Audit and Governance Committee Annual Report 2017/18.
- Internal Audit Progress Report.
- Statutory Statement of Accounts 2017/18
- Annual Governance Statement 2017/18
- Corporate Fraud Team Strategy 2018/19 (deferred from March 2018)
  
- ❖ Audit of Accounts Annual Governance Statement 2017/18

### **24 September 2018**

- Treasury Management Annual Outturn Report.
- Internal Audit Progress Report.

### **26 November 2018**

- Treasury Management Mid-Year Report.
- Internal Audit Progress Report.
- Review of the Audit and Governance Committee Terms of Reference.
- Review of the Audit and Governance Committee Effectiveness.
- Anti-Fraud and Corruption Strategy
  
- ❖ Annual Audit Letter 2018/19.

### **28 January 2019**

- Treasury Management Investment & Strategy Statements.
- Internal Audit Progress Report.
- Review of Code of Corporate Governance.
- Review of the Internal Audit Charter.

### **25 March 2019**

- Effectiveness of Risk Management.
- Internal Audit Progress Report
- Internal Audit Strategy and Audit Plan 2019/20.
- Corporate Fraud Team Strategy 2019/20.
  
- ❖ Planning Letter 2019/20.
- ❖ Audit Plan 2018/19.
- ❖ Grant Claims Audit Report 2017/18.

### **Key**

- EFDC Officer Report.
- ❖ External Auditor Report.

*N.B...In addition, the Committee's annual private meetings with the External (7pm) and Internal (7.15pm) Auditors are scheduled to take place prior to the 25 March 2019 meeting in the Conference Room.*

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## **Report to the Audit and Governance Committee**



**Epping Forest  
District Council**

**Report reference:** **AGC-009-2018/19**  
**Date of meeting:** **26 November 2018**

**Portfolio:** Technology and Support Services (Councillor A. Lion)

**Subject:** Audit & Governance Committee - Review of Terms of Reference & Effectiveness

**Responsible Officer:** S. Marsh (01992 564446)

**Democratic Services Officer:** S. Tautz (01992 564180)

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### **Recommendations/Decisions Required:**

- (1) **The Committee endorse its current terms of reference; and**
- (2) **The Committee consider the results of the review of the effectiveness of the Audit and Governance Committee and agree the proposed action plan for improvements**

### **Executive Summary:**

An effective audit committee brings many benefits to an organisation. To ensure the Council continues to provide an effective Audit and Governance Committee, a review of the Committee's effectiveness and its terms of reference has been undertaken.

No changes to the Committee's Terms of Reference are proposed and an action plan has been developed to address minor weaknesses identified from the effectiveness review.

### **Reasons for Proposed Decision:**

To ensure the Audit and Governance Committee continues to be effective and to follow good practice within the sector.

### **Other Options for Action:**

None

### **Report:**

### **Background**

1. The purpose of this report is to review the terms of reference of the Audit and Governance Committee to ensure it satisfies the core functions of an audit committee as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA), following the issue of updated CIPFA guidance in 2018. The report also seeks to ensure that the Committee

remains effective, as it is a key component of the Council's governance framework.

2. The Audit and Governance Committee reviews its terms of reference and effectiveness on an annual basis. This was last undertaken in 2016. The review for 2017 review was deferred until 2018, to await the issue of new guidance by CIPFA. Such guidance, entitled 'Audit Committee: Practical Guidance for Local Authorities and Police', was published in Spring 2018 and replaces the 2013 edition of the guidance. The 2018 edition updates the core functions of the audit committee in relation to governance, risk management, internal control and audit. This includes new legislation affecting audit committees in combined authorities and updates to regulations and statutory guidance. The updates to the Public Sector Internal Audit Standards, and Delivering Good Governance in Local Government Framework and associated guidance, are also considered for their impact on the work of the audit committee.
3. There are changes to the core functions of the committee in relation to external audit, reflecting the new arrangements for auditor appointment and new guidance on ethical standards for auditors issued by the Financial Reporting Council. The role of the audit committee in relation to counter-fraud has also been updated to reflect the Code of Practice on Managing the Risk of Fraud and Corruption.
4. The CIPFA guidance also provides practical support to those wishing to evaluate their existing committee and plan improvements. The checklists provided in the guidance have been used in the review of the effectiveness of the Audit and Governance Committee and are attached to this report.

#### **Terms of Reference Review**

5. An effective audit committee brings many benefits to an organisation. To ensure that the Council continues to provide an effective Audit and Governance Committee, its terms of reference should be considered on an annual basis, which is in line with good practice. The Committee should ensure the terms of reference remain current and up to date and make recommendations for any significant changes to the Council.
6. The Committee last reviewed its terms of reference in November 2016 and proposed no changes at that time, as they remained fit for purpose. The Chief Internal Auditor has carried out a comparison of the Committee's current terms of reference with the 2018 CIPFA model terms of reference and has undertaken benchmarking with the terms of reference of the audit committees operated by Broxbourne Borough Council and Harlow District Council.
7. On this basis, there are no proposed changes to the current terms of reference for the Committee (Appendix 1), as they are considered to remain fit for purpose.

#### **Membership Review**

8. A good audit committee is characterised by a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. It is important to achieve the right mix of apolitical expertise. CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that councils actively explore the appointment of an independent member to the Committee.
9. The Council's Audit and Governance Committee currently has two independent (co-opted) members, who were appointed on the basis of their professional expertise, experience and background as relevant to the role and responsibilities of the Audit Committee.

10. The current terms of reference for the Committee provide that co-opted members shall serve for a period of three years from appointment and may serve for a total of two such terms as of right, but may be considered for two further three-year terms, provided they are successful after open competition following public advertisement.
11. Both current co-opted members are in their second three-year term of membership of the Committee. Mr. T. Jarvis was first appointed in October 2013, so could be considered for two further three-year terms of membership in October 2019, subject to open competition. The Committee will therefore need to consider arrangements for public advertisement of Mr. Jarvis' position in early 2019. Ms. N. Nanayakkara (Vice-Chairman) was first appointed to membership of the Committee in April 2015.
12. There is no consistency in the local government sector on the size of the audit committee. CIPFA's 2016 survey of audit committees found that the size of a committee ranged from five to fifteen or more members, although 47% had between six and eight members, with 2% having fewer and 50% having more. This Council has five councillor members on its Committee. Both Broxbourne Borough Council and Harlow District Council have ten councillor members each on their Audit and Standards Committee. Neither have independent members on their committee, although Broxbourne Borough Council had an independent Chairman until recently

### **Approach to the Effectiveness Review**

13. The effective operation of the audit committee forms a key element of the Council's assurance framework. An audit committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the Council's business.
14. Using the recommended practice in the CIPFA audit committee guidance will help the Committee achieve a good standard of performance. The checklists provided by CIPFA support an assessment against recommended practice to inform and support the Audit and Governance Committee. This should not be seen as tick-box activity.
15. This review was performed by the Chief Internal Auditor and is based on guidance issued in the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police (2018 edition).

### **Previous Results**

16. The review of the effectiveness of the Audit and Governance Committee was last undertaken in November 2016. This identified the following three minor areas for improvement, all of which have been completed:
  - (a) undertake a skills and knowledge analysis; which has subsequently been used to determine the work and training programme for the Committee;
  - (b) ensure the Committee has oversight of the Council's strategy for counter-fraud; and
  - (c) As part of the Annual Governance Statement (AGS) the Committee considers the coverage of assurances that underpin the AGS to make sure partnerships are adequately covered.

### **Results of the Effectiveness Review**

17. The results of the self-assessment show that the Council is able to demonstrate compliance with recommended best practice for an effective audit committee.

18. Resulting from the attached checklists (Appendices 2 and 3), two minor areas for improvement have been identified and are listed in the Action Plan below:

Area	Description and Proposed Actions
Skills and knowledge analysis	A skills and knowledge analysis was last undertaken in September 2017 and should be repeated as membership of the Committee has since changed.
Committee engagement	<p>The Audit Committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. CIPFA gives the following examples on how this can be achieved:</p> <ul style="list-style-type: none"> <li>• The committee focus on a significant risk area from the risk register and invite the head of service to attend to discuss risks and explain how the risk is mitigated.</li> <li>• When reviewing an audit report with significant weaknesses or disputed recommendations then the responsible head of service should be present to answer questions directly.</li> <li>• If other action plans are monitored by committee then again involve responsible heads.</li> <li>• Invite other members on other committees such as scrutiny if the agenda covers areas of interest to them.</li> </ul>

19. The Committee is requested to endorse its current terms of reference and consider the results of the review of its effectiveness, and to agree the proposed action plan for improvements.

**Resource Implications:**

None

**Legal and Governance Implications:**

To comply with CIPFA guidelines and as part of the process for gathering evidence for the production of the Annual Governance Statement, the Council is required to review the effectiveness of its Audit Committee. This effectiveness review and review of its Terms of Reference ensures that the Council fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

The Accounts and Audit (England Regulations) 2015 requires that a relevant authority must ensure that it has a sound system of internal control which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where the audit committee undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.



**Safer, Cleaner and Greener Implications:**

None

**Consultation Undertaken:**

Corporate Governance Group

**Background Papers:**

Audit Committees – Practical Guidance for Local Authorities 2018

Audit and Governance Committee Terms of Reference

**Risk Management:**

The Audit and Governance Committee has a pivotal role in how the Council delivers good governance. The purpose of the Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process, and reviewing the effectiveness of these arrangements.

**Equality Analysis:**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 4 to the report.

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## **Article 11 - Audit and Governance Committee**

### **Statement of Purpose**

1. The role of the Audit and Governance Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial statements and provides a forum for considering ethical issues and ensuring high standards of conduct.
2. The purpose of the Committee is to provide independent assurance to the members of the adequacy of the risk management framework and internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit arrangements, helping to ensure efficient and effective assurance arrangements are in place.
3. The specific functions of the Committee are:

#### **Governance, risk and control**

- (a) to review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances;
- (b) to review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control;
- (c) to note the Council's overall approach to value for money in ensuring the authority is making best use of its resources.
- (d) to consider the Council's framework of assurance and ensure it is adequately addresses the risk and priorities of the authority;
- (e) to monitor the effective development and operation of risk management in the Council;
- (f) to monitor progress in addressing risk-related issues reported to the Committee;
- (g) to consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions;
- (h) to review the assessment of fraud risks and potential harm to the Council from fraud and corruption;
- (i) to monitor the anti-fraud strategy, actions and resources;

#### **Internal Audit**

- (j) to approve the Internal Audit Charter;
- (k) to approve the internal audit strategy and plan, including internal audit resource requirements, the approach to using other sources of assurances and any work required to place reliance upon these other sources. To approve any significant interim changes to the plan and resource requirements and make appropriate enquires of both management and the Chief Internal Auditor to determine if there any inappropriate scope or resource limitations;
- (l) to consider regular reports from the Chief Internal Auditor which:

- update on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
  - highlights concerns about progress with the implementation of agreed actions or where management has accepted a level of risk that the Chief internal Audit considers is unacceptable to the Council;
  - reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement;
- (m) To consider the Chief Internal Auditor's annual report, including:
- the statement of the level of conformance with the Public Sector Internal Audit Standards and results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit;
  - the opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the Committee in reviewing the Annual Governance Statement;
- (n) To support the development of effective communication with the Chief Internal Auditor;

### **External Audit and Financial Reporting**

- (o) to consider the external auditor's annual letter, relevant reports and the report to those charged with governance;
- (p) to review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council;
- (q) to consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts;
- (r) to be responsible for the appointment of the Council's external auditors and ensure it is in line with the requirements of the Local Audit and Accountability Act 2014;

### **Treasury Management**

- (s) to be responsible for the scrutiny of the Council's Treasury Management Strategy, including receiving regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities, risks and associated assurances;

### **Accountability arrangements**

- (t) to report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions; and

- (u) to report to the full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

### **Membership**

4. The Committee shall comprise 7 members, including 5 Councillors and 2 co-opted members. Councillors serving as members of the Committee shall be appointed at the Annual Council meeting of Epping Forest District Council for a term of office of one year and shall be eligible for re-appointment for further terms of office.
5. Seats on the Committee should be allocated so they are not all drawn from one political group and are also open to Councillors who are not affiliated to any political group.
6. Co-opted members shall serve for a period of 3 years from appointment. Such three year appointments shall be overlapping in terms of their expiry dates. A co-opted member may serve for a total of two such terms as of right but may be considered for two further three year terms, provided he or she is successful after open competition following public advertisement. Re-appointment for further terms shall be subject to satisfactory attendance.
7. Casual vacancies for members of the Committee who are Councillors which occur shall be filled at the next ordinary Council meeting (but not an extraordinary meeting) with a term of office expiring on the date of the next Annual Council meeting.

### **Eligibility for Membership - Councillor Members**

8. Councillors appointed to the Audit and Governance Committee may not also be members of the Cabinet or any select Committee appointed by the Overview and Scrutiny Committee with responsibility for reviewing the Council's finances or financial procedures.
9. A Portfolio Holder Assistant (other than any Assistant involved in any portfolio dealing primarily with the Council's finances) appointed by the Leader of the Council shall be eligible for appointment to the Committee.
10. Appointment of Councillors shall be made on the basis of evidence of the aptitude, experience or interest and for this purpose the normal rules for pro rata appointments shall not apply.
11. Formal attendance standards be operated in respect of the three Councillor members when reappointment is under consideration by the Council's Appointments Panel and the Chairman and co-opted members of the Audit and Governance Committee be consulted informally about the appointment or reappointment of Councillors at the appropriate time.

### **Co-opted members**

12. Co-opted members, independent of the Council, shall be appointed by the Council on the basis of their professional expertise, experience and background as relevant to the role and responsibilities of the Audit and Governance Committee. Initial appointments of co-opted members and the filling of casual vacancies shall be made following public advertisement and interview, the latter conducted in accordance with arrangements

agreed by the Council. If the number of suitable applicants exceeds the number of co-opted places on the Committee, the Council shall keep a waiting list of suitable applicants should casual vacancies occur.

### **Chairman and Vice-Chairman**

13. The Chairman and Vice Chairman of the Audit and Governance Committee shall be appointed at the first meeting of the Committee in each Council year for a term of one year expiring on the date of the first meeting of the Committee of the next Council year.
14. Casual vacancies in the position of Chairman and Vice-Chairman shall be filled in the same way as required in respect of members of the Committee;
15. Both Councillors and co-opted members serving on the Committee shall be eligible for appointment to the office of Chairman and Vice-Chairman.
16. Where the Chairman of the Committee is a Councillor, the Vice-Chairman will be appointed from among the Co-opted members. Where the Chairman is one of the Co-opted members, the Vice-Chairman shall be a Councillor.
17. The Chairman and Vice-Chairman shall be eligible for re-appointment.

### **Meetings of the Committee**

18. The Committee shall meet at least three times each financial year.
19. The Committee shall be entitled to require any Member, Director, their representatives or any other officer to attend their meetings in order to discuss any matters under discussion including the annual audit programme.

### **Decision Making**

20. Only the Councillors and co-opted members serving on the Committee shall be entitled to vote.
21. All members of the Committee shall be entitled to all documents advice and facilities relevant to their membership of the Committee, regardless of their status as either a Councillor or Co-opted member.

### **Other Requirements**

22. All members of the Committee shall respect the confidentiality of Council information and proceedings where appropriate, particularly where exempt or confidential business is involved.
23. All co-opted members of the Committee shall be required to make a statutory registration of interests in the same form as those required of serving Councillors and to be aware at all times of the requirement to clear any interest relating to their work on the Committee.
24. Members of the Committee should seek to attend all meetings of the Committee unless there are exceptional circumstances which prevent this.

25. All members of the Committee should ensure that they participate fully in any training designed to assist them in their responsibilities as members of the Committee. Similarly all members should act on appropriate advice and other information supplied by the Council to improve their effectiveness.

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**Epping Forest District Council Audit and Governance Committee self-assessment of good practice:** This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police and this publication. This guidance was updated in 2018 and changes in the checklist since it was last used by the Committee in 2016 can be seen as **bold underlined** narrative.

Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good Practice Questions		Yes	Partly	No
<b>Audit committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?	The Committee meets 5 times a year.		
2	Does the audit committee report directly to full council?	Council receives all minutes from the Audit and Governance Committee.		
3	Do the terms of reference (ToR) clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	The Committee reviews its ToR on a regular basis to ensure they remain up to date; the last time being November 2016 and is on the November 2018 agenda		
4	Is the role and purpose of the audit committee understood and accepted across the authority?	The Audit and Governance Committee forms part of the Council's committee structure. Its role and function is set out in the Council's Constitution.		

Good Practice Questions		Yes	Partly	No
5	Does the audit committee provide support to the Authority in meeting the requirements of good governance?	Through its Terms of Reference, reports it receives, member training, review and challenge of the Annual Governance Statement (AGS), annual accounts, representation by members and officers.		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	There are arrangements for holding the committee to account through its reporting to Council (including annual report and effectiveness review).  For a more independent view consider the role of the Scrutiny Committee in assessing the performance of the Audit and Governance Committee.		
<b>Functions of the committee</b>				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement: <ul style="list-style-type: none"> <li>• good governance</li> <li>• assurance framework including partnerships and collaboration arrangements</li> <li>• Internal and external audit</li> <li>• financial reporting</li> </ul>	These are covered in the Committee's ToR and review of the Annual Governance Statement.		

Good Practice Questions		Yes	Partly	No
	<ul style="list-style-type: none"> <li>• risk management</li> <li>• value for money or best value</li> <li>• counter fraud and corruption</li> <li>• <b><u>supporting the ethical framework</u></b></li> </ul>			
8	<p>Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?</p>	<p>The committee produces an annual report and on a regular basis reviews its Terms of Reference and undertakes an effectiveness review.</p> <p>The Committee's annual report 2017/18 was approved at the 25 September 2018 Council meeting.</p>		
9	<p>Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?</p> <p><i>Note: CIPFA guidance states that Audit Committees can also support their authorities by undertaking a wider role in other areas including:</i></p> <ul style="list-style-type: none"> <li>• <i>considering governance, risk or control matters at the request of other committees or statutory officers</i></li> <li>• <i>working with the local standards <b><u>and ethics</u></b> committees to support ethical values</i></li> <li>• <i>reviewing and monitoring treasury management arrangements</i></li> <li>• <i>providing oversight of other public reports, such</i></li> </ul>	<p>The Committee includes treasury management (unlike neighbouring Councils) as evidenced in their Terms of Reference. The Committee considered merging with Standards in 2015 but decided to maintain separation subject to review.</p> <p>Other roles as suggested by CIPFA are adequately covered by other committees, Cabinet and the full Council.</p>		

Good Practice Questions		Yes	Partly	No
	<i>as the annual report.</i>			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	Various reports received by the Committee throughout the year ensure the majority of core areas are covered. This includes the Annual Governance Statement (AGS), Internal Audit's annual report and its regular progress reports, External Audit reports (including the Statement of Accounts), and risk management reports.		
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes.		
<b>Membership and support</b>				
12	Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> <li>• separation from the executive</li> <li>• an appropriate mix of knowledge and skills among the membership</li> <li>• a size of committee that is not unwieldy</li> <li>• where independent members are used, that they have been appointed using an appropriate process.</li> <li>• <b><u>consideration has been given to the inclusion</u></b></li> </ul>	Five councillors and two Independent Members sit on the Committee, with the main political parties represented. Each brings to the Committee a range of experiences and skills. This is supplemented with periodic member training.		

Good Practice Questions		Yes	Partly	No
	<u>of at least one independent member</u>			
<u>13</u>	<u>Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council as appropriate for the organization?</u>	Yes.		
14	Does the chairman of the committee have appropriate knowledge and skills?	Yes.		
15	Are arrangements in place to support the committee with briefings and training?	The formal work programme for the Committee is reviewed at each meeting. Periodic training opportunities (internal and external) are made available to members including joint events with Broxbourne and Harlow Councils		
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Member requirements and core knowledge and skills framework considered when developing the training programme.  A formal knowledge and skills analysis was undertaken and reported to the September 2017 Audit and Governance Committee meeting. Consideration should be given to repeating the exercise as membership of the committee has		

Good Practice Questions		Yes	Partly	No
		changed recently.		
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes, and is the opinion of the Monitoring Officer, Section 151 Officer and Chief Internal Auditor.		
18	Is adequate secretariat and administrative support to the committee provided?	Yes.		
<b>Effectiveness of the committee</b>				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	The Chairman meets periodically with the Chief Internal Auditor, the Monitoring and S151 Officers with access to External Audit. The Committee's annual report is approved by Council.		
<b>20</b>	<b><u>Are meetings effective with a good level of discussion and engagement from all the members?</u></b>	Yes. Attendance levels are high; discussion and debate actively encouraged by the Chairman.		
<b>21</b>	<b><u>Does the committee engage with a wider range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?</u></b>		Officers are held to account through the Committee's review of audit reports (internal and external) and progress being made to implement	

Good Practice Questions		Yes	Partly	No
			recommendations. The Committee can request Officers to attend if appropriate, and has done so on occasion.	
<b><u>22</u></b>	<b><u>Does the committee make recommendations for the improvement of governance, risk and are these acted on?</u></b>	This is undertaken through the Committee's work programme.		
23	Has the committee evaluated whether and how it is adding value to the organisation?	The Committee looks at itself by way of assessing its effectiveness and governance arrangements. The annual report assists with the process. In addition, the Committee adds value by ensuring audit recommendations are acted upon which assist Officers to spend more time doing audits.		
24	Does the committee have an action plan to improve any areas of weakness?	An action plan to address relevant issues is reported to the Committee as part of the review of effectiveness.		
<b><u>25</u></b>	<b><u>Does the committee publish an annual report to account for its performance and explain it works?</u></b>	Yes, and is approved by Council.		

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### Evaluating the Effectiveness of Epping’s Audit and Governance Committee

This appendix sets out an assessment of Epping Forest District Council’s Audit and Governance Committee against a set of criteria as prescribed in the CIPFA publication *Audit Committees – Practical Guidance for Local Authorities and Police 2018 edition*. Changes in the guidance from the 2013 version can be identified as **narrative** underlined and in bold.

This document has helped to inform the self-assessment as described in Appendix B.

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
1.Promoting the principles of good governance and their application to decision making	<p><b><u>Supporting the development of the local code of governance.</u></b></p> <p>Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it.</p> <p>Working with key members to improve their understanding of the AGS and their contribution to it.</p> <p>Supporting reviews/audits of governance arrangements.</p> <p>Participating in self-assessments of governance arrangements.</p> <p>Working with partner audit committees to review governance arrangements in partnerships. <i>(Note: Not applicable to Epping Forest District Council).</i></p>	<p>Annual Governance Statement review by the Committee prior to its presentation as part of the Statement of Accounts. Annual report from Internal Audit.</p> <p>There are a suite of training opportunities, not just those on the Audit and Governance Committee including risk management and treasury management. Through the Internal Audit shared service training opportunities with Members at Broxbourne and Harlow have been offered.</p> <p>Audit committee effectiveness last undertaken in November 2016 and was postponed for 2017 while waiting for new CIPFA guidance.</p> <p>Committee produces an annual report which outlines the Committee's work and achievements for the year.</p>	5
2. Contributing to the development of an effective control environment	<p><b><u>Actively</u></b> monitoring the implementation of recommendations from auditors.</p> <p>Encouraging ownership of the internal control framework by appropriate managers.</p> <p>Raising significant concerns over controls with appropriate senior managers.</p>	<p>Audit recommendation tracker to each Committee. Officers can and have been called to account if requested by the Committee. However, wider engagement with Officers should be explored.</p> <p>Annual report from Internal Audit and supplemented with regular progress reports of internal work undertaken.</p> <p>The Section 151 Officer (or their deputy) attend all Audit Committee meetings.</p>	5

Appendix 3

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
3. Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<p>Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.</p> <p>Monitoring improvements.</p> <p>Holding risk owners to account for major/strategic risks.</p>	<p>On an annual basis the Committee considers the effectiveness of the Council's Risk Management arrangement, and receives a report from the Section 151 Officer on this.</p> <p>The Committee approves the annual Internal and External work plan, both of which are risk based, and the outcomes of their work.</p> <p>On a periodic basis risk management training is provided to all Council Members.</p>	5
4. Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<p>Specifying its assurance needs, identifying gaps or overlaps in assurance.</p> <p>Seeking to streamline assurance gathering and reporting.</p> <p>Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.</p>	<p>The Committee reviews and will challenge reports from the different assurance providers including Internal and External Audit and risk management.</p>	5
5. Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<p>Reviewing the audit charter and functional reporting arrangements.</p> <p>Assessing the effectiveness of internal audit arrangements, <b><u>providing constructive challenge</u></b> and supporting improvements.</p> <p><b><u>Actively supporting the quality assurance and improvement programme of internal audit.</u></b></p>	<p>Internal audit progress report to each Committee meeting. Annual review of Internal Audit Charter and quality assurance and improvement programme, ensuring compliance with Public Sector Internal Audit Standards (PSIAS).</p> <p>Audit Chairman was actively involved in the 2016/17 External Quality Assessment of Internal Audit, which is required every five years under PSIAS.</p>	5

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
6. Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<p><b><u>Reviewing how the governance arrangements support the achievement of sustainable outcomes.</u></b></p> <p>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</p> <p>Reviewing the effectiveness of performance management arrangements.</p>	<p>Committee achieves this through assessment of risks, Internal Audit work and External Audit findings. The involvement of the Committee in the agreement of and content of the annual Audit Plan also enables key risks to be adequately monitored.</p> <p>In addition, the Committee reviews the Annual Governance Statement and Local Code of Corporate Governance.</p>	5
7. Supporting the development of robust arrangements for ensuring value for money (VfM)	<p>Ensuring that assurance on value for money arrangements are included in the assurances received by the audit committee.</p> <p>Considering how performance in value for money is evaluated as part of the AGS.</p>	<p>This is undertaken as part of the annual accounts process, VfM work undertaken and reported on by External Audit.</p> <p>This, in turn, along with other assurance providers (such as Internal Audit and the Corporate Governance Group), informs the Annual Governance Statement which is approved by the Committee after appropriate scrutiny and questioning.</p>	5
8. Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	<p>Reviewing arrangements against the standards set out in Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).</p> <p>Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</p> <p>Assessing the effectiveness of ethical governance arrangements for both staff and members</p>	<p>Fraud risks considered by the Committee as part of the risk management framework, the work of both Internal and External Audit and the Corporate Fraud Team. This includes regular updates on the work undertaken by the Council regarding the National Fraud Initiative.</p> <p>In line with good practice the Committee periodically reviews the Council's anti-fraud and corruption strategy and its approach to anti-fraud and corruption.</p>	5

Appendix 3

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1 See key above
		The Committee’s remit includes the local Code of Corporate Governance, incorporating risk management, internal control, standards of conduct and accountability, but excludes matters within the terms of reference of the Standards Committee.	
9. Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	<p>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</p> <p>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency.</p> <p><b><u>Publishing an annual report from the committee.</u></b></p>	<p>Formal committee structure in place, standard report, published on Council website.</p> <p>The Committee considers what assurances it requires regarding partnerships when approving the Internal Audit Plan as it includes partnerships as a theme.</p> <p>The Committee produces annually a report of its work, which is approved by Council.</p>	4

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## Equality Impact Assessment

1. Under s.149 of the Equality Act 2010, when making decisions, Epping District Council must have regard to the Public Sector Equality Duty, ie have due regard to:
  - eliminating unlawful discrimination, harassment and victimisation, and other conduct prohibited by the Act,
  - advancing equality of opportunity between people who share a protected characteristic and those who do not,
  - fostering good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.
2. The characteristics protected by the Equality Act are:
  - age
  - disability
  - gender
  - gender reassignment
  - marriage/civil partnership
  - pregnancy/maternity
  - race
  - religion/belief
  - sexual orientation.
3. In addition to the above protected characteristics you should consider the cross-cutting elements of the proposed policy, namely the social, economic and environmental impact (including rurality) as part of this assessment. These cross-cutting elements are not a characteristic protected by law but are regarded as good practice to include.
4. The Equality Impact Assessment (EqIA) document should be used as a tool to test and analyse the nature and impact of either what we do or are planning to do in the future. It can be used flexibly for reviewing existing arrangements but in particular should enable identification where further consultation, engagement and data is required.
5. Use the questions in this document to record your findings. This should include the nature and extent of the impact on those likely to be affected by the proposed policy or change.
6. Where this EqIA relates to a continuing project, it must be reviewed and updated at each stage of the decision.
7. All **Cabinet, Council, and Portfolio Holder reports must be accompanied by an EqIA**. An EqIA should also be completed/reviewed at key stages of projects.
8. To assist you in completing this report, please ensure you read the guidance notes in the Equality Analysis Toolkit and refer to the following Factsheets:
  - Factsheet 1: Equality Profile of the Epping Forest District
  - Factsheet 2: Sources of information about equality protected characteristics
  - Factsheet 3: Glossary of equality related terms
  - Factsheet 4: Common misunderstandings about the Equality Duty
  - Factsheet 5: Frequently asked questions
  - Factsheet 6: Reporting equality analysis to a committee or other decision making body

<b>Section 1: Identifying details</b>
Your function, service area and team: <b>Internal Audit</b>
If you are submitting this EqIA on behalf of another function, service area or team, specify the originating function, service area or team: <b>N/A</b>
Title of policy or decision: <b>Review of the Effectiveness and the Terms of Reference of the Audit Committee</b>
Officer completing the EqIA: Tel: <b>01992 564449</b> Email: <b>slinsley@eppingforestdc.gov.uk</b>
Date of completing the assessment: <b>25/10/18</b>

<b>Section 2: Policy to be analysed</b>	
2.1	Is this a new policy (or decision) or a change to an existing policy, practice or project? <b>Review of existing Terms of Reference and effectiveness.</b>
2.2	Describe the main aims, objectives and purpose of the policy (or decision):  What outcome(s) are you hoping to achieve (ie decommissioning or commissioning a service)? <b>To approve the Audit and Governance Committee's Terms of Reference and an action plan to improve the Committee's effectiveness.</b>
2.3	Does or will the policy or decision affect: <ul style="list-style-type: none"> <li>• service users</li> <li>• employees</li> <li>• the wider community or groups of people, particularly where there are areas of known inequalities?</li> </ul> <b>N/A</b>  Will the policy or decision influence how organisations operate? <b>N/A</b>
2.4	Will the policy or decision involve substantial changes in resources? <b>No</b>
2.5	Is this policy or decision associated with any of the Council's other policies and how, if applicable, does the proposed policy support corporate outcomes? <b>To improve governance processes in the Council.</b>



### Section 3: Evidence/data about the user population and consultation<sup>1</sup>

As a minimum you must consider what is known about the population likely to be affected which will support your understanding of the impact of the policy, eg service uptake/usage, customer satisfaction surveys, staffing data, performance data, research information (national, regional and local data sources).

3.1	<p>What does the information tell you about those groups identified?  <b>N/A – Does not affect any individuals</b></p>
3.2	<p>Have you consulted or involved those groups that are likely to be affected by the policy or decision you want to implement? If so, what were their views and how have their views influenced your decision?  <b>N/A – as above</b></p>
3.3	<p>If you have not consulted or engaged with communities that are likely to be affected by the policy or decision, give details about when you intend to carry out consultation or provide reasons for why you feel this is not necessary:  <b>N/A – as above</b></p>

## Section 4: Impact of policy or decision

Use this section to assess any potential impact on equality groups based on what you now know.

Description of impact	Nature of impact Positive, neutral, adverse (explain why)	Extent of impact Low, medium, high (use L, M or H)
Age	N/A	N/A
Disability	N/A	N/A
Gender	N/A	N/A
Gender reassignment	N/A	N/A
Marriage/civil partnership	N/A	N/A
Pregnancy/maternity	N/A	N/A
Race	N/A	N/A
Religion/belief	N/A	N/A
Sexual orientation	N/A	N/A

<b>Section 5: Conclusion</b>			
		<b>Tick Yes/No as appropriate</b>	
5.1	Does the EqIA in Section 4 indicate that the policy or decision would have a medium or high adverse impact on one or more equality groups?	No ✓	
		Yes <input type="checkbox"/>	If ' <b>YES</b> ', use the action plan at <b>Section 6</b> to describe the adverse impacts and what mitigating actions you could put in place.

## Section 6: Action plan to address and monitor adverse impacts

What are the potential adverse impacts?	What are the mitigating actions?	Date they will be achieved.

**Section 7: Sign off**

**I confirm that this initial analysis has been completed appropriately.  
(A typed signature is sufficient.)**

Signature of Head of Service: Sarah Marsh

Date: 25/10/18

Signature of person completing the EqlA: Sue Linsley

Date: 25/10/18

**Advice**

Keep your director informed of all equality & diversity issues. We recommend that you forward a copy of every EqlA you undertake to the director responsible for the service area. Retain a copy of this EqlA for your records. If this EqlA relates to a continuing project, ensure this document is kept under review and updated, eg after a consultation has been undertaken.

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## **Report to the Audit and Governance Committee**



**Epping Forest  
District Council**

**Report reference: AGC-010-2018/19**

**Date of meeting: 26 November 2018**

**Portfolio: Technology and Support Services**

**Subject: Internal Audit Monitoring Report September to November 2018**

**Responsible Officer: Sarah Marsh (01992 564446).**

**Democratic Services: Steve Tautz (01992 564180)**

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### **Recommendations/Decisions Required:**

(1) The Committee notes the progress made against the 2018/19 Internal Audit plan and the summary of the work of Internal Audit and the Corporate Fraud Team for the period September to November 2018.

(2) The revised Anti-Fraud and Corruption Strategy be referred to Council for approval

### **Executive Summary:**

This report updates members on the work completed by the Internal Audit Shared Service and the Corporate Fraud Team since the September 2018 Audit and Governance Committee, and also provides the current position in relation to overdue recommendations.

The revised Anti-Fraud and Corruption Strategy, attached at appendix 4, has been revised to reflect the new United Kingdom Anti-Corruption Strategy 2017-22.

### **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:**

#### **2018/19 Internal Audit Plan**

1. Work continues on the 2018/19 Audit Plan and timings have been agreed with Senior Management to ensure a steady flow of reports throughout the year.
2. Progress with the plan may be hampered because the Internal Audit service is currently carrying a vacancy (and the recent recruitment campaign was unsuccessful) and one of the team on is long term sick. In the short term specialist services have been brought in to undertake a set number of audits at no additional cost to Epping Forest. The situation is being

closely monitored by the Internal Audit Shared Service Board as this may affect Broxbourne and Harlow plans too.

3. The current audit plan has been reviewed and Appendix 1 sets out the current status and the order in which the audits will be completed based on their risk profile. Subject to approval some of the later audits may need to be deferred to the next financial year.
4. A proposed process for approving changes to the Audit Plan, and the criteria to be applied, is provided at Appendix 2.

### **Internal Audit Reports**

5. The following five reports have been issued since the Committee received its last update in September 2018:

- *Software Licencing – moderate assurance*

The Council cannot demonstrate definitively that it currently has sufficient licences as the data supporting assessment is drawn from a number of different sources. This is partly due to a lack of reconciliation between expected software licencing and the IT asset register/deployment database which is not up to date.

The Software Licencing Officer is able to track all devices as they attach to the network and any anomalies or unknown devices are then analysed in terms of the need for licencing. This is backed up by information provided by an external provider and together the details are assimilated to provide an assessment of the licences required.

Monitoring and reporting on software and access implications is limited due to resource constraints. This is an important issue as it acts as a means of identifying continued software utilisation and potential value for money issues where software or licences may no longer be required. Additionally, as the Council has transformed over recent years, administrative access that allows uploading of software is held by a number of users. Levels of access should be recorded, with continued permission being at the discretion of the Assistant Director, ICT and Facilities Management as a security measure.

- *Equalities Impact Assessments – moderate assurance*

The Council has formed appropriate structures for developing equality and diversity initiatives to help ensure it complies with the Equality Act 2010 and that it improves access to its services for certain disadvantaged groups

A key forum is the Equality Working Group whereby equality leads from each directorate meet on a regular basis to share approaches, discuss improvement actions underway and the status of Equality Impact Assessments (EqIAs). However, due to restructuring activities, the Group has not met since February 2017 although an exercise is currently underway assessing the suitability of the various working groups across the Council.

A significant number of EqIAs are completed across the Council each year and submitted with policy or project reports so the information can be considered by decision makers. EqIAs are also published in-line with best practice set out by the Equality and Human Rights Commission (EHRC). Notwithstanding, the Council is not currently using the EqIAs to proactively monitor the potential equality impact of its policy decisions and develop appropriate improvement actions. This should be overseen by Equality Working Group and developed into improvement actions to be progressed as part of the Council's Equality and Diversity Action Plan.

- *Creditors – moderate assurance*



There is adequate segregation of duties to ensure the same member of staff cannot set up a new supplier, raise orders, and approve payments.

The audit identified that whilst an 'Authorised Signatory List' is in place across the Council detailing levels of authorisation assigned to staff, it does not set out financial limits. Furthermore, the Council's 'Financial Scheme of Delegation' could not be located which increases the risk that staff may be authorising transactions which do not fall within their delegated authority albeit the audit did not find any evidence of this.

Additional recommendations have been made regarding the need to produce and follow-up regular exception reports, evidence due diligence checks on new suppliers and other financial controls such as review of the weekly payment run report.

- *St. John's Road Development – limited assurance*

An audit of the St John's Road Development project was carried out to review the governance arrangements and project management processes employed for the project. The audit included discussions with the District Council's Assets and Economic Development Portfolio Holder and the Clerk of Epping Town Council to get their views of the project from their perspectives.

In September 2018 the project changed direction and the following learning points need to be considered before further action is taken:

Establish clear governance arrangements for the new project to provide high level oversight of the project. Consideration given to establishing a 'project board' to ensure there is full stakeholder engagement to facilitate the new project and provide regular formal reporting.

Set up an internal project group which includes Officers from Legal and Accountancy with a project plan setting out the timescales for the project including key milestones and tasks which is monitored and reported upon.

Provide regular progress reports to the Council's Strategic Board and to Members, which details of progress against the project plan, budgets and significant risks.

- *Off Street Car Parking – moderate assurance*

An Off Street Parking Partnership Board was established to provide high level oversight of the new contract with NSL Limited, which started in April 2017. To properly monitor the contract, it is recommended the Partnership Board meets six-monthly, as agreed. At an operational level the contract is managed through monthly Officer meetings with the contractor. There is a robust process for monitoring the Key Performance Indicators set out in the contract, and penalties, where applicable, are calculated in accordance with the agreement.

Off street parking income is identified and reconciled, but there is no guidance around notifying the Parking Team of these differences. A process should be developed for reporting variances to ensure there is a formal and consistent approach to enable proper monitoring and resolution of discrepancies.

Off street parking enforcement complies with Council policies and procedures. Appeals and cancellations against Penalty Charge Notices (PCNs) are dealt with in line with Council policy and recovery processes are instigated promptly if the PCN remains unpaid. To ensure the Parking Team are aware of the status of outstanding parking debts, progress of PCN cases referred to the Council's Enforcement Agents should be monitored through quarterly update reports.

### **Recommendation Tracker**

6. The Audit and Governance Committee continues to receive details of all overdue recommendations, plus any high priority recommendations from final reports regardless of whether they are overdue or not. This tracker does not feature those recommendations made in very recent reports as these are in the process of being finalised.
7. The current tracker is shown at Appendix 3 and contains four medium and five low priority recommendations which have passed their due dates (compared to two medium and two low priority recommendations in September 2018).

Table 1. Summary of tracker as at November 2018.

Recommendation type	Number (November 2018)	Number (September 2018)	Number (July 2018)	Number (March 2018)
High Priority not passed its due date	0	0	0	0
High Priority passed its due date	0	0	0	1
Medium Priority passed its due date	4	2	2	1
Low Priority passed its due date	5	2	0	2
<b>Total</b>	<b>9</b>	<b>4</b>	<b>2</b>	<b>4</b>

### **Other Internal Audit Activities**

8. A number of assignments in the Audit Plan are included to provide advice and guidance throughout the year on current and future issues relevant to the Council, and ultimately help to inform the Chief Internal Auditor's annual opinion. These do not result in a traditional audit report and are summarised here for information.

**National Fraud Initiative:** The mandatory biennial National Fraud Initiative (NFI) exercise for 2018/19 has commenced. Data has been extracted and uploaded to the NFI site. Officers within individual departments have been responsible for extracting their own data and uploading it with assistance from Internal Audit. The annual Electoral Roll to Council Tax data matching exercise will be uploaded in December 2018. All matches are expected to be released in January 2019.

**Internal Audit plan 2019/20:** The annual planning process will commence shortly. The Audit Needs Assessment is being reviewed and Service Directors across the Council will be contacted to ensure that all service areas are captured and audits planned in accordance with risk.

**General Data Protection Regulation:** Work is ongoing in conjunction with ICT to identify and implement effective IT solutions to further ensure General Data Protection Regulation compliance.

### **Corporate Fraud Team Update**

9. Since September 2018, a further five Right To Buy applications have been stopped / withdrawn

as a result of Corporate Fraud Team (CFT) intervention resulting in a discount saving of approximately £399,000 and ongoing rent revenue streams of around £200,000. A further two Council properties, which were the subject of tenancy related fraud investigations, have been recovered, saving around £186,000.

10. Work has begun at looking at several areas of potential fraud relating to Council Tax discounts and exemptions, which includes some joint working with the Council's Compliance Team. This work is focusing on Single Persons Discount, Second Home Premiums and Student Discounts. The savings as a result of this work is currently around £32,000.
11. The CFT is working with the Police Hub within the Safer Communities Team and the two Teams have established processes for information sharing to assist with one another's investigations. Joint working regarding the investigation of social housing tenancy fraud and safeguarding concerns is currently ongoing.
12. The joint working arrangement to provide a fraud service, on a fee basis, for two days per week to Brentwood Borough Council is operating well with a number of successful investigations and outcomes being achieved for them.

**Revised Anti-Fraud and Corruption Strategy**

13. The Council's Anti-Fraud and Corruption Strategy has been revised and is attached as Appendix 4. The proposed changes are shown in bold and underlined. The main changes have been to incorporate amendments around preventing bribery introduced by the Public Contracts Regulations 2015, and to strengthen the anti-corruption elements in light of the new United Kingdom Anti-Corruption Strategy 2017-22, which sets out a long term framework for tackling corruption. The Audit and Governance Committee is requested to comment on and approve the revised Anti-Fraud and Corruption Strategy.

**Progress against the Annual Governance Statement**

14. In July 2018, the Audit and Governance Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts. The AGS outlines the proposed actions to be taken to deal with significant governance issues identified. The Corporate Governance Group monitors the actions set out in the AGS on a regular basis. The progress made to date on addressing the issues identified for improvement during 2018/19 is shown in table 2.

Table 2. Areas for improvement or monitoring during 2018/19

No.	Key Improvement Area	Action to be taken in 2018/19	Progress at November 2018
1	General Data Protection Regulations	On 25 May 2018, the EU General Data Protection Regulations came into force. It is important the Council not only maintains compliance but ensures there is a continuous process for improvement too. This will be delivered through the GDPR Working Group.	A GDPR action plan is being monitored by the Corporate Governance Group in conjunction with Internal Audit to address data protection issues and ensure compliance.
2	Transformation	The Council is embarking on an ambitious transformation programme which involves the delivery of new people, IT and	The transformation programme is being overseen by the new

		<p>accommodation strategies and implementation of new processes, structures and technology.</p> <p>This is being delivered through the Transformation Board and overseen by Council.</p>	Leadership Team.
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**Resource Implications:**

Within the report

**Legal and Governance Implications:**

None

**Safer, Cleaner and Greener Implications:**

None

**Consultation Undertaken:**

Corporate Governance Group

**Background Papers:**

2018/19 Audit and Resource Plan

**Risk Management:**

Failure to achieve the audit plan and poor follow up of audit recommendations may lead to a lack of assurance that internal controls are effective and risks properly managed, which ultimately feeds into the Annual Governance Statement.

**Equality Analysis:**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 5 to the report.

Appendix 1 - Audit Plan Monitoring 2018-19

Progress as at November 2018

	Directorate	Plan Days	Status	Fieldwork started	Report issued to Management	Finalised	Opinion: Level of Assurance	High Priority Recs	Medium Priority Recs	Low Priority Recs
<b>Report to September Audit and Governance Committee</b>										
Debtors	Resources	12	Final Report	■	■	■	Substantial	0	1	2
<b>Report to November Audit and Governance Committee</b>										
Equality Impact Assessments	Corporate	12	Final Report	■	■	■	Moderate	0	3	1
Governance - St. John's Road	Neighbourhoods	8	Draft Report	■	■		Limited	1	5	0
Off Street Parking	Neighbourhoods	12	Draft Report	■	■		Moderate	0	4	1
Creditors	Resources	12	Draft Report	■	■		Moderate	0	2	4
IT Software Licensing	Resources	10	Draft report	■	■		Moderate	0	4	1
<b>Report to January Audit and Governance Committee</b>										
IT Systems Access and Mobile Working	Resources	10	In Progress	■						
Code of Conduct - Gifts and Hospitality	Corporate	10	In Progress	■						
Right to Buy	Communities	10	Scoping							
Business Rates / Council Tax	Resources	18	Scoping							
Procurement - Contract Register and GDPR	Resources	15								
Access to Housing	Communities	20								
Business Continuity Planning	Neighbourhoods	12								
<b>Report to March Audit and Governance Committee</b>										
Health & Safety - Corporate	Neighbourhoods	12								
Planning Applications	Governance	10								
Safeguarding	Communities	12								
S106 agreements	Governance	10								
Performance Management - Stronger Council	Corporate	20								
<b>Report to June/July Audit and Governance Committee</b>										
Project - Council Housebuilding	Communities	10								
HR - starters, leavers and movers	Resources	5								
<b>Potential Deferrals to 2019/20</b>										
Business Rates - Council wide approach	Resources	15	Is a separate audit to the Key Financial Control audit currently taking place							
North Weald Airfield	Neighbourhoods	16	Establishment review							
Joint Working - Museum Services	Communities	12	Scoping meeting has not highlighted any areas of concern or weakness							

Economic Development	Neighbourhoods	14	Economic Development Strategy delayed
Income - Commercial Rents	Neighbourhoods	15	Last audited in March 2016 and awarded substantial assurance

## Appendix 2

### Process for approving changes to the Internal Audit Plan

The Internal Audit Plan (the Plan) is indicative and may need to be adjusted in response to changes in the Council's business, risks, operations, programmes, systems and controls.

In line with good practice, and to ensure the Plan remains relevant, it is reviewed with the Corporate Governance Group and the Audit and Governance Committee to facilitate discussions of emerging or changing risks which may affect the Plan.

It is important to ensure that there is a clearly established and defined process for changes to the Plan and explain what will happen to cancelled or deferred assignments.

Changes to the Plan can be proposed by the Chief Internal Auditor based on the Council's changing risk profile, or requested by management.

All changes proposed will be clearly documented, with the rationale for the change and the associated risks clearly set out.

In deciding whether to defer an audit the following questions will be considered:

- Is the audit area key to the Council achieving the Corporate Plan ambitions, aims or objectives?
- Does the control environment for the audit area feature in either the corporate risk register or the service level risk register?
- Have there been any issues or incidences in the audit area within the last 12 months that may influence the decision whether to defer or not?
- If management are requesting a deferral what is the justification and what is the impact if the audit was deferred say 3 months, 6 months or one year?
- Can assurances be delivered an alternative way e.g. internally by Officers or buying in expertise?
- Has there been competing priorities or unforeseen work of Internal Audit that has led to the deferral request?
- Does the deferral have an impact on the Internal Audit plan and the Chief Internal Auditor's annual opinion?

The final decision regarding proposed changes will be made by the Audit and Governance Committee.

A clear audit trail supporting the rationale for all proposed changes and the final decision made will be retained by Internal Audit.

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### Appendix 3

#### EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)

Last updated: 09 November 2018

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
<b>Audit Recommendations 2016/17</b>									
<b>Recruitment of Staff</b> Report No. 15.16/17 June 2017	4	The Recruitment Toolkit procedure should be reviewed and updated if appropriate to ensure that they reflect current working practices. Once updated, the latest version should be added to the intranet, so that they are available for reference by all members of staff.	Low	Human Resources have an overall policy review timetable and are currently updating the 'organisational change' policy. The Recruitment Toolkit is scheduled to be reviewed later in the year.	HR Manager	30/08/18	31/12/20	<b>Aug/Oct 18:</b> This is now proposed as part of the wider recruitment strategy work plan and will be the last item in 2020.	Overdue
<b>Management of Council Housing Voids</b> Report No. 09.16/17 June 2017	1	The system for transferring void property keys between Housing Options and Housing Repairs should be reviewed ahead of the relocation of the Housing Repairs Service to Oakwood Hill Depot.	Med	A review of the process for transferring keys will be undertaken, both now and when the Repairs Service relocates, to consider if any time can be saved.	Assistant Director Housing Operations/ Assistant Director Housing Property/  Director of Communities	31/03/18	31/04/19	<b>June/Aug/Oct 18:</b> The movement of keys between the Repairs Service currently located at Epping Depot and Housing Options has been reviewed and minimised. The transfer of void property keys will need to be reviewed again as part of the relocation of the Housing Repairs Service. This is logged as an action on the live project P150 Relocation of the Repairs Service to Oakwood Hill Depot. The revised target date is in advance of the intended move in April 2019.	Overdue
<b>Audit Recommendations 2017/18</b>									
<b>Commercial Properties – Service Charges</b> Report No.	1	The correct Service Charge relating to 2016/17 for the Broadway should be	Med	Agreed	Chief Estates Officer/ Director of Neighbourhoods.	31/10/18	31/03/19	<b>Sept / Oct 18:</b> The first part of the reconciliation has been undertaken. The service charges will be completed	Overdue

### Appendix 3

#### EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)

Last updated: 09 November 2018

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
15.17/18 April 2018		calculated and invoices or credit notes issued.						once the service charge figures for 2017-18 have been received.	
<b>Commercial Properties – Service Charges</b> Report No. 15.17/18 April 2018	3	A management fee should be introduced for service charges at the Broadway.	Med	Agreed	Chief Estates Officer/ Director of Neighbourhoods.	31/10/18	31/03/19	<b>Sept / Oct 18:</b> The appropriate level of management fee is currently being looked into.	Overdue
<b>Leisure Management Contract</b> Report No. 15.17/18 May 2018	4.4	The financial monitoring and contract payment process should be documented to ensure business continuity.	Low	The processes will be formally documented when resources become available.	Leisure Contract Manager in conjunction with the Assistant Director Accountancy	30/06/18	30/12/18	<b>June/Sept/Oct 18:</b> This has been delayed due to resource issues. Although there are no formal written processes, in addition to the Contract Manager, the Senior Capital Accountant is aware of the financial monitoring and contract payment processes.  The situation regarding an administrative assistant will be reviewed following the outcome of the current restructure.	Overdue
<b>Payroll</b> Report No. 22.17/18 April 2018	3	The new electronic new starter forms should incorporate an in-built application control that mandates the completion of all fields in the form prior to submission. The HR Team should raise this at the next project development meeting (or equivalent forum).	Low	A form is in the process of being developed with ICT. It will need thorough testing before implementation	HR Manager, People Team	31/08/18	28/02/19	<b>Aug/Oct 18:</b> This will be completed as part of the proposed recruitment strategy work plan which is due to start in November 2018 and complete in February 2019.	Overdue

### Appendix 3

#### EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)

Last updated: 09 November 2018

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
Absence Management Report No. 23.17/18 April 2018	1	<p>The HR Department should increase the frequency in which it reviews key absence policies and procedures.</p> <p>Policies and procedures should be updated to incorporate the following points:</p> <ul style="list-style-type: none"> <li>▪ Include a 'related documents' section with hyperlinks to additional relevant information.</li> <li>▪ Include details of the policy author and who the policy is applicable to, date the policy or procedure was ratified and when it is due for review.</li> </ul> <p>Include details of relevant legislation, if applicable.</p>	Med	<p>It should be noted that Absence-related policies and procedures do currently reflect existing legislation. Notwithstanding this, HR policies are in the process of being reviewed. Updated policies will include name of author, and implementation and review dates.</p>	HR Manager, People Team	31/10/18	31/10/19	<b>Sept / Oct 18:</b> Work has not yet commenced on the policy and will not meet the original deadline. This is due to resource issues and although recruitment is underway, this has so far been unsuccessful. The HR policies are being reviewed on a risk basis.	Overdue
	3	<p>The Managing Absence Procedure should be updated to state the processes to be applied should an employee report absent via text message – for example If an employee sends a text as they are unable to contact their manager</p>	Low	<p>Some of this information can be communicated to managers via District Lines as an update.</p> <p>The Managing Absence Procedure will be reviewed next (currently three other policies – grievance, disciplinary and change are being updated)</p>	HR Manager, People Team	31/10/18	31/10/19	<b>Sept / Oct 18:</b> Work has not commenced on the policy yet and will not meet the original deadline. This is due to resource issues and although recruitment is underway, this has not yet been successful. The HR policies are being reviewed on a risk basis.	Overdue

**Appendix 3**

**EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)**

Last updated: 09 November 2018

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
Page 60		<p>via telephone, the employee should be advised they must follow up with a telephone call to their manager or designated individual as soon as practicable.</p> <p>The Managing Absence Procedure to be updated to provide guidance to managers on undertaking Return to Work and Evaluation meetings in private to protect the privacy of the individuals concerned</p> <p>These messages to be reiterated as part of wider Communications from the HR Department raising awareness of the Managing Absence Procedure, including the process to be applied when an employee falls ill either just before or during a period of annual leave.</p>							
	<b>Capital Programme (Non-Housing Related) Projects</b> Report No.	2	To improve monitoring of the development of the Council's property assets by the AMEDCC,	Low	Where appropriate, highlight reports from Pentana will be presented to the Asset Management and Economic	Acting Chief Executive/ Head of Transformation	31/10/18	31/03/19	<b>Oct 18:</b> Highlight reporting from Pentana was not presented to the October meeting. Project management processes, including the

**Appendix 3****EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)**

Last updated: 09 November 2018

<b>Audit Year (Date Report Issued)</b>	<b>Rec Ref</b>	<b>Original Recommendation</b>	<b>Priority</b>	<b>Managers Original Response</b>	<b>Responsible Officer / Assistant Director</b>	<b>Original Imp Date</b>	<b>Revised Imp Date</b>	<b>Status Update from Management</b>	<b>Status</b>
12.17/18 August 2018		consideration should be given to including highlight reporting from Pentana as part of the update reports to the AMEDCC.		Development Cabinet Committee.				reporting mechanisms from Pentana, are currently being reviewed.	

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# Anti-Fraud and Corruption Strategy

November 2018



*Epping Forest District Council*

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## Anti-Fraud and Corruption Policy

Epping Forest District Council (EFDC) is committed to high legal, ethical and moral standards, and the proper accountability of public funds.

The Council will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Council.

The Council's expectation of propriety and accountability is that Members and staff at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices.

The Council also expects that individuals and organisations with which it comes into contact will act towards the Council with integrity.

The key controls in place to reduce the likelihood of fraud and corruption are:

- The Council has an effective anti-fraud and corruption policy and maintains a culture that will not tolerate fraud or corruption
- All Members and staff act with integrity and lead by example
- Senior managers are required to deal swiftly and firmly with those who defraud or attempt to defraud the authority or who are corrupt
- High standards of conduct are promoted amongst Members by the Standards Committee
- The maintenance of a register of interests in which any hospitality or gifts offered which are accepted or refused must be recorded
- Confidential reporting procedures are in place and operate effectively
- Legislation including the Public Interest Disclosure Act 1998 is adhered to
- Standard contract clauses prohibit fraud and corruption

Additionally, the Council:

- Maintains a Corporate Fraud Team which plays a key role in both the prevention and investigation of matters relating to suspected fraud, corruption and abuse of council services and property.
- Uses the Internal Audit Service as an independent appraisal function for the review of the Council's internal control system as a contribution to the proper, economic, efficient and effective use of resources
- Recognises the importance of criminal prosecution in deterring fraud and will seek to prosecute offenders where appropriate
- Supports the work of the police and other external agencies in fighting fraud and corruption in the public sector.

- Is a member of the National Anti-Fraud Network (NAFN), and
- Participates in the National Fraud Initiative, which is the Cabinet Office's biennial data matching exercise designed to combat fraud.

This policy applies to suspected fraud and corruption, which concerns EFDC, involving employees, Members and/or external parties unless the matter is more properly a matter for the Police. Any investigation required will be conducted without regard to any person's relationship to EFDC, position or length of service.

## Section One

### Introduction

EFDC aims to provide community leadership and quality services. This strategy document embodies a series of measures designed to frustrate any attempted fraudulent or corrupt act and the steps to be taken if such an act occurs.

In applying this strategy regard will be had to all relevant EFDC policies and any obligations as an employer and the requirements of the Code of Conduct for Local Government Employees.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines fraud and corruption as:

**Fraud** – *“the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain”*.

In addition, fraud can be defined as *“the intentional distortion of financial statements or other records by persons internal or external to the authority, which is carried out to mislead or misrepresent”*.

**Corruption** – *“the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”*.

The Fraud Act 2006 created the following specific criminal offences surrounding fraud:

- Fraud by False Representation
- Fraud by Failing to Disclose Information (where there is a legal duty to do so)
- Fraud by Abuse of Position
- Obtaining services dishonestly
- Possession of Articles for use in fraud
- Making or Supplying Articles for use in fraud

This policy strongly advocates the following four key principles in the Council's approach to combatting fraud and corruption, namely:

- **Culture** – The ongoing process of maintaining and developing a “top to bottom” anti fraud and corruption culture throughout the organisation focusing not just on employees, but Members, suppliers, contractors and the public also. **This includes risk management processes, fraud/corruption proofing policy and processes, fraud and corruption awareness.**
- **Prevention** – Ensuring that a range of anti-fraud and corruption measures are deployed throughout the Council such as internal audits, fraud aware sessions, **staff and supplier vetting, participation in the National Fraud Initiative and the pan-Essex council tax matching campaign, staff and Member code of conduct and declarations of interest, information security and IT policies. etc.**
- **Detection and Investigation** – Where fraud and / or corruption is suspected, the Council must ensure that investigations are carried out by professional and qualified investigators to the highest standards of fairness and probity, having due regard to the appropriate legislation at all times.
- **Deterrence** – In the event of fraud and / or corruption being discovered, the Council must take appropriate steps to ensure that further instances do not occur by utilising methods such as criminal prosecution, disciplinary action, etc. The Council will also seek to obtain financial redress where public money has been lost by utilising The Proceeds of Crime Act wherever appropriate.

## Section Two

### Culture

EFDC will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Council. Fraud risk is considered as part of the Authority's overall risk management strategy.

The prevention and detection of fraud and corruption, and the protection of the public purse is everyone's responsibility.

The Members and employees play an important role in creating and maintaining this culture. They are positively encouraged to raise concerns regarding fraud and corruption, irrespective of seniority or status, in the knowledge that such concerns will, wherever possible, be treated in confidence. In order to make sure this occurs; the Council has and maintains a separate Whistleblowing Policy.

Members, employees or contractors are encouraged to raise concerns in line with the fraud response plan (section 8) if they reasonably believe that one or more of the following has occurred, is in the process of occurring or is likely to occur:

- a criminal offence
- a failure to comply with a statutory or legal obligation
- improper unauthorised use of public or other funds
- improper use or misappropriation of assets
- a miscarriage of justice
- maladministration, misconduct or malpractice
- any other similar occurrences
- deliberate concealment of any of the above.

Management Board will ensure that any allegations received in any way, including anonymous letters or phone calls, will be taken seriously and investigated in an appropriate manner, subject to legislative requirements.

The Council has agreed the provision of a Corporate Fraud Team in order to bring a uniform approach to fraud investigation and to adequately resource the detection and prevention of fraud.

The Corporate Fraud Team (CFT) investigate matters of suspected fraud, theft and corruption within EFDC (except for Housing Benefit fraud investigation which transferred to the Department for Work and Pensions). The CFT will, as one of its key operating principles also seek to maintain an anti-fraud and corruption culture by engaging staff, Members and the general public by way of fraud awareness sessions and seeking to publicise its successes both internally and externally.

EFDC will deal firmly with those who defraud the Council, or who are corrupt, or who are responsible for financial malpractice.

When fraud or corruption has occurred because of a breakdown in the Council's systems or procedures, the Corporate Governance Group in conjunction with the Corporate Fraud Team and Internal Audit will ensure that appropriate improvements in systems of control are implemented to prevent a recurrence.

## Section Three

### Prevention

It is important that the Council recognises and manages the risks relating to fraud and corruption in order to prevent them from occurring. Furthermore, it is imperative that these risks are routinely considered as part of the Council's overall approach to risk management. In order to understand the nature of these risks, the following have been identified as key issues that are relevant to EFDC:

- Social Housing Tenancy Fraud – this includes risks such as fraudulent housing applications, mutual exchanges, illegal subletting etc.
- The Right to Buy scheme – fraudulent applications and suspected money laundering
- Money Laundering – Exposure to suspect transactions
- Council Tax – fraudulently claimed discounts (including Local Council Tax Support), refund scams
- Non-Domestic Rates – fraudulent applications for exemptions, unlisted properties
- Grants (including Disabled Facilities Grants) – false eligibility and applications, diverted funds, works not carried out.
- Insurance Fraud – suspected false claims particularly those relating to personal injury
- No recourse to public funds – fraudulent eligibility for Council services such as Social Housing
- Payroll Fraud – false and “ghost” employees, overtime and mileage claims, expenses.
- Internal Frauds – such as fund diversion, accepting bribes, stealing monies and / or Council property, social housing misallocations for personal gain, working elsewhere whilst off sick, abuse of position such as misuse of assets / resources.
- Procurement Fraud – tendering issues, split contracts, double invoicing
- Cyber Crime / Fraud – frauds such as false applications for services, fund diversion.

It is important to note that the above represents the key fraud risk areas and examples of each. It is not intended to be an exhaustive list.

As with the culture, the concept of fraud prevention applies to the organisation from top to bottom.

**The United Kingdom Anti-Corruption Strategy 2017-22 sets out a long term framework for tackling corruption. For local government, including Epping Forest District Council, this sets out the following goals:**

- **Greater procurement transparency, enabling better identification and mitigation of corruption risks.**

- **Strengthened awareness and capability within contracting authorities leading to a stronger awareness of corruption risks and more capability to detect and deter illegality.**

## Members

As elected representatives, all Members of the Council must act in accordance with statutory requirements and the Members' Code of Conduct. These matters and other guidance are specifically brought to the attention of Members at the induction course for new Members and include rules on the declaration and registration of potential areas of conflict between Members' Council duties and responsibilities, and any other areas of their personal or professional lives.

Members sign to the effect that they have read, understood and will comply with the Member's Code of Conduct when they take office. The Monitoring Officer advises Members of new legislative or procedural requirements.

## Managers

Managers at all levels are responsible for the communication and implementation of this policy in their work area. They are also responsible for ensuring that staff are aware of the Council's Financial Regulations and Procurement Rules, and that the requirements of each are being met in their everyday business activities. In addition, managers must make sure their staff are aware of the requirements of the Officers' Code of Conduct through the induction process **and regular reminders**

Managers are expected to strive to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities. Where they are unsure of the procedures, they must refer to the information in the Whistleblowing Policy.

Special arrangements will apply where employees are responsible for cash handling or are in charge of financial systems and systems that generate payments, for example payroll, the integrated benefits computer system or council tax. Managers must ensure that relevant training is provided for staff. Checks must be carried out at least annually to ensure that proper procedures are being followed.

The Council recognises that a key preventative measure in dealing with fraud and corruption is for managers to take effective steps at the recruitment stage to establish, as far as possible, the honesty and integrity of potential employees, whether for permanent, temporary or casual posts.

The Council has a formal recruitment procedure, which contains appropriate safeguards on matters such as written references and verifying qualifications held.

As with other public bodies, police checks are undertaken on employees working with children.

Further checks will be introduced in areas where an increased risk of potential fraud and corruption has been identified (for example, positions whereby a professional qualification is essential).

Human Resources will keep under review the checks that legislation allows.

## Employees



Each employee is governed in their work by the Council's Procurement Rules and Financial Regulations, the Officer Code of Conduct and various policies. Guidelines on gifts and hospitality, and codes of conduct associated with professional and personal conduct and disclosure of interests are contained within the Staff Handbook, which is available to all staff via the corporate intranet.

Employees are responsible for ensuring that they follow the instructions given to them by management, particularly in relation to the safekeeping of the assets of the Authority. These will be included in induction training and procedure manuals. Employees are expected always to be aware of the possibility that fraud, corruption or theft may exist in the workplace and be able to share their concerns with management. If for any reason, they feel unable to speak to their manager, they can relay their suspicions to either the Chief Internal Auditor or the Corporate Fraud Manager. Employees can also avail themselves of the Whistleblowing Policy.

## **Conflicts of Interest**

Both Members and employees must ensure that they avoid situations where there is a potential for a conflict of interests. Such situations can arise with externalisation of services, partnering arrangements, internal tendering, planning and land issues, etc. Effective role separation will ensure decisions made are, and are seen to be made, based upon impartial advice thereby avoiding improper disclosure of confidential information. Since 2017, the Performance Development Review process requires employees to annually confirm their position regarding any potential conflicts of interest.

## **Official Guidance**

In addition to Financial Regulations and the Procurement Rules, Services will have their own procedures to prevent and detect fraud. There may also be audit reports that recommend methods to minimise losses to the Council. Staff must be made aware of these various sources of guidance and alter their working practices accordingly.

## **Role of the Corporate Fraud Team**

The Corporate Fraud Team role is in both the prevention and investigation of instances of suspected fraud against the Council. Fraud awareness training is given to officers within the Council to assist in ensuring that any cases referred to the team contain good quality information to assist with the investigation. All investigations are carried out in accordance with the respective legislation.

In cases where the offence is deliberate and serious enough to warrant prosecution, consideration will be given to the Council's fraud prosecution / sanction policy. If deemed appropriate legal proceedings will be undertaken in conjunction with Legal Services and / or other bodies such as the Police.

Utilising the provisions of Section 222 of The Local Government Act 1972, the Corporate Fraud Team in conjunction with Legal Services are appropriately authorised to undertake investigations and criminal prosecutions into cases of fraud and corruption that involve the Council.

## **The Role of Internal Audit**

Internal Audit plays a vital preventative role in trying to ensure that systems and procedures are in place to prevent and detect fraud and corruption. They liaise with management to recommend changes in procedures to prevent potential or further losses to the Council. Internal Audit works closely in conjunction with the Corporate Fraud Team.

## **The Role of External Audit**

Independent external audit is an essential safeguard in the stewardship of public money. This role is delivered through the carrying out of specific reviews that are designed to test (amongst other things) the adequacy of the Council's financial systems, and arrangements for preventing and detecting fraud and corruption. It is not the external auditor's function to prevent fraud and irregularity, but the integrity of public funds is at all times a matter of general concern. External auditors are always alert to the possibility of fraud and irregularity, and will act without undue delay if grounds for suspicion come to their notice. The external auditor has a responsibility to review the Council's arrangements to prevent and detect fraud and irregularity, and arrangements designed to limit the opportunity for corrupt practices.

## **Co-operation with Others**

The Corporate Fraud Team and Internal Audit have arranged (subject to legislative requirements regarding data sharing) and will keep under review procedures and arrangements to develop and encourage the exchange of information on national and local fraud and corruption activity in relation to local authorities with external agencies such as:

- Police
- County, Unitary and District groups
- External Audit
- Government departments
- National bodies such as The National Fraud Intelligence Bureau, Action Fraud etc.

## Section Four

### Detection and Investigation

The Corporate Fraud Team and Internal Audit play an important role in the detection of fraud and corruption. Included in their respective business plans are reviews of system financial controls and specific fraud and corruption tests, spot checks and unannounced visits.

In addition to Internal Audit, there are numerous systems controls in place to deter fraud and corruption, but it is often the vigilance of employees and members of the public that aids detection.

In some cases, frauds are discovered by chance or 'tip-off' and arrangements are in place to deal with such information properly.

All suspected irregularities are required to be reported (orally or in writing) either by the person with whom the initial concern was raised or by the originator, as detailed in the Council's Whistleblowing Policy. This will:

- ensure the consistent treatment of information regarding fraud and corruption
- facilitate a proper and thorough investigation by an investigator from the Corporate Fraud Team in accordance with the requirements of current legislation. Should a member of the Corporate Fraud Team be implicated or the subject of an investigation, either the Chief Internal Auditor or Monitoring Officer will provide a suitable, qualified investigator.

This process will apply to all the following areas:

- a) fraud/corruption by Members
- b) fraud/corruption by Council employees
- c) fraud/corruption by contractors' employees
- d) fraud/corruption by the public/ external parties

In most cases of reported fraud and / or corruption, any allegation or suspicion will, in the first instance be investigated by the Corporate Fraud Team. Depending on the nature of the case, the CFT may consider undertaking joint investigations with other relevant parties (such as other Local Authorities, Government Departments, and the Police etc.).

Alternatively, the CFT may, in some cases, refer the investigation on to another investigating body if more appropriate to do so.

Any decision to refer a matter to the police will be taken by the Chief Executive in consultation with the Monitoring Officer, the s151 Officer, the Director of the responsible service and the Corporate Fraud Manager / Chief Internal Auditor however any investigation whereby financial impropriety is discovered, will be dealt with, normally, in the first instance by the Corporate Fraud Team. However, the mere fact that a Corporate Fraud Team and / or police investigation leads to them taking no further action will not compromise any private action/procedure or investigation that the Council may pursue.

The Council's disciplinary procedure will be used to facilitate a thorough investigation of any allegation of improper behaviour by employees. Decisions to refer potential criminal activity by a Member to the Police will be taken by the Monitoring Officer in consultation with the Chief Executive and s151 Officer.

If a Member is suspected of the specific offence of failing to disclose a Disclosable Pecuniary Interest as defined by the Localism Act 2011 the decision to refer the matter to the Police will be taken by the Monitoring Officer.

## **Section Five**

### **Deterrence**

#### **Criminal Prosecution**

In order to strike the correct balance taking into account punishment and deterrence, the Council will undertake criminal prosecutions where it is considered evidentially appropriate and in the public interest. A corporate policy will be developed taking account of legal guidelines, to encompass the public, Members, contractors and employees. It is designed to clarify the Authority's action in specific cases and to deter others from committing offences against the authority. However, it also recognises that it may not always be in the public interest to refer cases for criminal proceedings and will seek to always take a fair and balanced view on each matter according to each case's particular merits.

#### **Disciplinary Action**

Theft, fraud and corruption are serious offences against the Council and employees will face disciplinary action if there is evidence that they have been involved in these activities. Disciplinary action may be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case, but in a consistent manner.

Members will face appropriate action under this strategy if they are found to have been involved in theft, fraud or corruption against the Council. Action may be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case, but in a consistent manner.

This aspect of the policy is to be read in conjunction with the powers of the Standards Committee, the delegated powers of the Monitoring Officer and the adopted Code of Conduct.

#### **Publicity**

The Council will optimise the publicity opportunities associated with anti-fraud and corruption activity within the Council. As a matter of course, a press release will be drafted following any successful criminal prosecution and passed to Public Relations (PR) in order for them to ensure that the results of any action taken, are reported positively in the media. This will be particularly relevant where a financial loss to the Council has occurred and any action taken to recover any such losses will also be promoted.

Provision will also be made for publicity to be taken for any such cases whereby details cannot be made public (for example: where formal cautions and / or financial penalties are utilised). In these cases, any press release will contain the pertinent details but will not identify individuals by name.

From time to time, the Council may be approached by the media such as television, radio etc. in order to provide content regarding anti-fraud and corruption activities. It is acknowledged that this type of media publicity can be extremely useful in promoting anti-fraud and corruption activities and as a tool for deterrence. Should such approaches be received, they are to be considered on a case by case basis with the involvement of both PR and Corporate Governance Group at the earliest opportunity.

All anti-fraud and corruption activities, including the update of this strategy, will be publicised in order to make employees and the public aware of the Council's commitment to taking action on fraud and corruption when it occurs.

Regular reports will be made to the Audit and Governance Committee, about countering fraud and corruption activities and their success or otherwise.

## Section Six

# Anti-Bribery Policy

### Objective of this policy

This policy provides a coherent and consistent framework to enable Epping Forest District Council (EFDC) Members and employees to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable Members and employees to identify and effectively report a potential breach.

We require that Members and all staff, including those permanently employed, temporary agency staff and contractors:

- act honestly and with integrity at all times and safeguard the organisation's resources for which they are responsible
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities.

### Scope of this policy

This policy applies to all of the Council's activities. For partners, joint ventures, agents and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.

Within the Council, the responsibility to control the risk of bribery occurring resides at all levels of the Council. It does not rest solely within assurance functions, but in all business units and corporate functions.

This policy covers all staff, including all levels and grades, those permanently employed, temporary agency staff, contractors, agents, elected Members, co-opted members of the public, volunteers and consultants.

### The Council's commitment to action

The Council commits to:

- Setting out a clear anti-bribery policy and keeping it up to date
- Making all Members and employees aware of their responsibilities to adhere strictly to this policy at all times
- Raising awareness and where appropriate offer training so all Members and employees can recognise and avoid the use of bribery by themselves and others
- Encouraging its Members and employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately

- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- Taking firm and vigorous action against any individual(s) involved in bribery
- Provide information to all Members and employees to report breaches and suspected breaches of this policy
- Include appropriate clauses in contracts to prevent bribery.

## Facilitation payments

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions.

## Gifts and hospitality

This policy does not change the requirements of our gifts and hospitality policy. This makes it clear that:

Sample tokens of modest value (for example, pens, diaries or calendars) whether given personally, or received in the post, may be retained unless they could be regarded as an inducement or reward.

You should refuse the offer or invitation (or return the gift) unless your Service Director has advised you that it may be accepted or retained.

## Public contracts and failure to prevent bribery

~~Under the Public Contracts Regulations 2015 (which gives effect to EU law in the UK), a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence or “the offence of bribery”.~~

~~Organisations that are convicted of “failing to prevent bribery” are not automatically barred from participating in tenders for public contracts, however, the Council has the discretion to exclude organisations convicted of this offence.~~

**One of the main changes introduced by the Public Contracts Regulations 2015 is that a company will no longer face permanent debarment (referred to as an ‘exclusion’ in the 2015 Regulations) from bidding for public contracts following a corporate conviction for certain economic crimes. Instead, a company will face a period of debarment and will be able to recover eligibility to bid for public contracts if it has undergone a ‘self-cleaning’ process.**

## Member and Staff responsibilities

All Members and staff are required to avoid activity that breaches this policy. The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or under its control.

Members and staff must:

- ensure that they read, understand and comply with this policy
- raise concerns as soon as possible if they believe or suspect that a conflict with this policy has occurred, or may occur in the future.



## Staff

As well as the possibility of civil action and criminal prosecution, staff who breach this policy may face disciplinary action, which could result in summary dismissal for gross misconduct. Dismissal can still be an outcome with or without civil action or criminal prosecution.

## Members

The Member Code of Conduct requires that where a Member acts as a representative of the Council he or she must not use or attempt to use their position as a Member improperly to confer on or secure for themselves or any other person, an advantage or disadvantage.

Allegations against a Member for breach will be routed through the Standards complaints process administered by the Monitoring Officer.

## Raising a concern

This Council is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity. We want Members and each and every member of staff to know how they can raise concerns.

We all have a responsibility to help detect, prevent and report instances of bribery. If you have a concern regarding a suspected instance of bribery or corruption, please speak up – your information and assistance will help. The sooner you act, the sooner it can be resolved.

Preferably the disclosure will be made and resolved internally (e.g. to your Section Manager/Service Director). Secondly, where internal disclosure proves inappropriate, concerns can be raised with the External Auditor or relevant professional bodies or regulatory organisations.

Concerns can be reported anonymously. In the event that an incident of bribery is reported, we will act as soon as possible to evaluate the situation. We have a clearly defined Anti Fraud and Corruption Strategy which sets out procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind.

Members and staff who refuse to accept a bribe, or those who raise concerns can understandably be worried about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

The Council is committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery, or because of reporting a concern in good faith.

## **Section Seven**

# **Anti-Money Laundering Policy**

### **Introduction**

Although local authorities are not directly covered by the requirements of the Money Laundering Regulations 2007, guidance from CIPFA indicates that they should comply with the underlying spirit of the legislation and regulations.

Epping Forest District Council is committed to the highest possible standards of conduct and has, therefore, put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

### **Scope of the Policy**

This policy applies to all employees and contractors, whether permanent or temporary, and Members of the Council.

Its aim is to enable employees and Members to respond to a concern they have in the course of their dealings for the Council. Individuals who have a concern relating to a matter outside work should contact the Police.

### **Definition of Money Laundering**

The most common motive for crime is financial gain or to obtain valuable property. Whenever criminals do anything with that financial gain or criminal property, they 'launder' it. Money laundering offences are serious; they carry sentences of up to 14 years imprisonment, but criminals and their associates still commit them every day.

Money laundering is the process by which criminals try to hide the origin of the proceeds of their crimes, making it look as if those proceeds were acquired legitimately. In doing so, criminal property obtained unlawfully is turned into property or money that can be accessed via legitimate methods without arousing suspicion. In other words, 'laundering' is the process of turning 'dirty' money into 'clean' money.

Money laundering has three distinct phases. They are:

- Placement; the movement of criminally-obtained money into the wider economy;
- Layering; undertaking transactions (perhaps bogus) to conceal the origin of the money; and
- Integration; making it look as if money has come from a legitimate source.

Two distinct offences affect employees, contractors and Members of the Council

- Failure to disclose one of the offences listed above, where there are reasonable grounds for knowledge or suspicion.

- Tipping off a person(s) who is or is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice an investigation.

Although the term 'money laundering' is generally used to describe the activities of organised crime, for most people it will involve a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

Successful money laundering means criminals can enjoy the fruits of their criminality and fund further criminal activity. Stopping money laundering disrupts organised crime by removing the life-blood of the 'business' and prevents low level criminals from moving up into major level crime.

## **Requirements of the Money Laundering Legislation**

The main requirements of the legislation are:

- To appoint a money laundering reporting officer.
- Maintain client identification procedures known as know your customer (KYC) and know your business (KYB).
- Implement a procedure to enable the reporting of suspicions of money laundering.
- Maintain record keeping procedures.

## **The Money Laundering Reporting Officer (MLRO)**

The Council must appoint an MLRO to act as the focal point within the organisation for money laundering matters. The MLRO is responsible for:

- receiving disclosures from other staff; and
- deciding whether disclosures should be passed on to NCA.

The MLRO must keep copies of all disclosures received by them, notes of action taken and copies of all correspondence with NCA and other agencies.

## **Identifying and disclosing suspicious transactions**

Epping Forest District Council will consider the threats to Council being used by money launderers and put systems in place to guard against them. Policies and procedures should be laid out clearly so that all relevant staff understand and have access to them.

The officer nominated to receive disclosures about money laundering activity within the Council is the Section 151 Officer Peter Maddock. He can be contacted as follows:

Peter Maddock - Section 151 Officer  
Civic Offices  
Epping  
Essex  
CM16 4BZ

Telephone: 01992 564602.  
Email: [pmaddock@eppingforestdc.gov.uk](mailto:pmaddock@eppingforestdc.gov.uk)

**In the absence of the MLRO, the deputy MLRO (also the deputy Section 151 Officer) should be contacted in their absence, telephone number 01992 564387 or by email at [jbelle@eppingforestdc.gov.uk](mailto:jbelle@eppingforestdc.gov.uk)**

All suspicions should be reported directly to the MLRO or his deputy using the relevant documentation.

## **Client Identification Procedures**

Although not a legal requirement, the Council has developed formal client identification procedures which must be followed when Council land or property is being sold. These procedures require individuals and if appropriate, companies to provide proof of identity and current address (KYC).

All verification documents are capable of being forged and can be bought over the internet. For this reason, industry guidance usually recommends face-to-face meetings with new clients. Excuses for non-attendance and excuses for missing documents should be explored and treated with some scepticism.

If satisfactory evidence is not obtained at the outset of a matter, then the transaction must not be progressed and a disclosure report must be submitted to the Money Laundering Reporting Officer.

All personal data must be collected, kept or destroyed in compliance with the General Data Protection Regulation and The Data Protection Act 2018.

## **Reporting Procedure for Suspicions of Money Laundering**

Where you know or suspect that money laundering activity is taking/has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under the Act, you must disclose this as soon as practicable to the MLRO. The disclosure should be within "hours" of the information coming to your attention, not weeks or months later.

Your disclosure should be made to the MLRO using the disclosure report; the report must include as much detail as possible including

- Full details of the people involved
- Full details of the nature of their/your involvement.
- The types of money laundering activity involved
- The dates of such activities
- Whether the transactions have happened, are ongoing or are imminent;
- Where they took place;
- How they were undertaken;
- The (likely) amount of money/assets involved;

- Why, exactly, you are suspicious.

Along with any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering and to enable him to prepare his report to the National Crime Agency (NCA), where appropriate. You should also enclose copies of any relevant supporting documentation.

Once you have reported the matter to the MLRO you must follow any directions he may give you. You must NOT make any further enquiries into the matter yourself: any necessary investigation will be undertaken by the NCA. Simply report your suspicions to the MLRO who will refer the matter on to the NCA if appropriate. All members of staff will be required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.

Similarly, at no time and under no circumstances should you voice any suspicions to the person(s) whom you suspect of money laundering, even if the NCA has given consent to a particular transaction proceeding, without the specific consent of the MLRO; otherwise you may commit a criminal offence of “tipping off”.

Do not, therefore, make any reference on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note will obviously tip them off to the report having been made and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

## **Consideration of the disclosure by the Money Laundering Reporting Officer**

Upon receipt of a disclosure report, the MLRO must note the date of receipt on his section of the report and acknowledge receipt of it. He should also advise you of the timescale within which he expects to respond to you.

The MLRO will consider the report and any other available internal information he thinks relevant e.g.:

- reviewing other transaction patterns and volumes;
- the length of any business relationship involved;
- the number of any one-off transactions and linked one-off transactions;
- any identification evidence held;

And undertake such other reasonable inquiries he thinks appropriate in order to ensure that all available information is taken into account in deciding whether a report to the NCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with you.

Once the MLRO has evaluated the disclosure report and any other relevant information, he must make a timely determination as to whether:

- there is actual or suspected money laundering taking place; or
- there are reasonable grounds to know or suspect that is the case; and

- whether he needs to seek consent from the NCA for a particular transaction to proceed.

Where the MLRO does so conclude, then he must disclose the matter as soon as practicable to the NCA on their standard report form and in the prescribed manner, unless he has a reasonable excuse for non-disclosure to the NCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).

Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then he must note the report accordingly; he can then immediately give his consent for any ongoing or imminent transactions to proceed.

In cases where legal professional privilege may apply, the MLRO must seek **independent legal advice or consult with an Accredited Financial Investigator** to decide whether there is a reasonable excuse for not reporting the matter to the NCA.

All disclosure reports referred to the MLRO and reports made by him to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.

The MLRO commits a criminal offence if he knows or suspects, or has reasonable grounds to do so, through a disclosure being made to him, that another person is engaged in money laundering and he does not disclose this as soon as practicable to the NCA.

## Training

Officers considered likely to be exposed to suspicious situations, will be made aware of these by their senior officer and provided with appropriate training.

Additionally, all employees and Members will be familiarised with the legal and regulatory requirements relating to money laundering and how they affect both the Council and themselves.

Notwithstanding the paragraphs above, it is the duty of officers and Members to report all suspicious transactions whether they have received their training or not.

## Section 8

# Epping Forest District Council Fraud Response Plan

### Introduction

The Fraud Response Plan defines the way in which the Council applies its various policies and procedures to suspected instances of theft, fraud corruption and bribery. It fits in with, and is designed to be read in conjunction with the Council's Anti Fraud and Corruption Policy, Anti-Bribery Policy, Anti Money Laundering Policy and the Whistleblowing / Confidential Reporting Policy. The aim of this plan is to provide clear guidance for dealing with these issues, access to rapid relevant advice and a guide for managers on how to react and deal with suspicions of fraud, theft, corruption and bribery.

Additionally, it seeks to give a brief outline on how investigations will be progressed (although no detail will be given regarding investigation techniques etc.).

The Fraud Response Plan is designed to ensure timely and effective action in the event of suspected fraud by:

- Seeking to minimise the extent of the fraud by taking prompt action
- Preventing further losses where fraud had occurred.
- Maximising the recovery (or the chances of recovering) any financial losses
- Ensuring the accuracy and integrity of evidence for successful criminal prosecution and / or disciplinary action
- The early identification of any system weaknesses and the lessons to be learnt for preventing them in the future
- Maximising positive publicity where frauds are discovered and dealt with.
- Deterring others from any illegal / inappropriate conduct they may be committing or contemplating.

## The Manager's Role in dealing with suspected fraud

### First Response

Where managers suspect a fraud or involvement in a fraud is taking place, the first course of action **must** be to contact the Section 151 Officer, Chief Internal Auditor or the Corporate Fraud Manager who will ensure that the Section 151 Officer and the Chief Executive are informed.

Although, the Council no longer investigates Housing Benefit fraud, where a suspicion occurs of a staff member's involvement in a Housing Benefit (including Local Council Tax Support) fraud, the above steps should still be followed.

All other suspicions of benefit fraud (including Local Council Tax Support) must be reported to the Compliance Manager within the Benefits Division. Suspicions can also be reported directly to The Department for Work and Pensions (DWP) via their website ([www.gov.uk/report-benefit-fraud](http://www.gov.uk/report-benefit-fraud)) or by calling the National Benefit Fraud Hotline on 0800 854440 or by textphone on 0800 328 0512. It may be prudent to seek the advice of either The Corporate Fraud Manager or The Compliance Manager before contacting the DWP however, as Local Council Tax Support cannot be investigated by the DWP.

In usual circumstances, the suspicion will be passed to the Corporate Fraud Team to assess and undertake an investigation if appropriate. The Corporate Fraud Manager / Chief Internal Auditor will retain overall responsibility for the conduct of the investigation; however it is probable that the matter will be allocated to a member of the Corporate Fraud Team to undertake any investigation. As part of the Internal Audit service, the Corporate Fraud Team will be independent of any service area under investigation and all of the officers comprising the Corporate Fraud Team currently are fully trained and accredited investigators each holding the qualification of Accredited Counter Fraud Officer / Specialist whilst the Corporate Fraud Manager also holds the qualification of Accredited Counter Fraud Manager.

There may be circumstances where it is appropriate for managers to undertake some preliminary enquiries to ascertain the validity of an allegation or irregularity (for example, to establish whether on the face of it, there is a case to be investigated), however before embarking on such action, advice should always be sought from a member of the Corporate Fraud Team as such action may alert the fraudster and could result in the concealing or destroying of vital evidence or compromise the investigation and the collection of further evidence.

The investigating officer will liaise and work with Human Resources at the earliest available opportunity on disciplinary matters such as suspending the staff member to enable further investigation and protect vital evidence.

### Initial Enquiries

As stated above, the manager may make discreet initial enquiries in order to:

- Determine any facts that gave rise to the suspicion
- Examine any factors to determine whether there has been a genuine mistake made or whether an irregularity has occurred



Any actions and findings should be clearly recorded and documented ensuring that access is restricted (for example, not held on an “open” area of the computer network or in the case of paper notes, making sure they are securely locked away).

It is important that the suspected perpetrator is not interviewed at this stage nor any allegations / suspicions put to them. If in doubt at any point, the manager must seek the guidance of the Corporate Fraud Team or the Chief Internal Auditor.

## **Formal Investigation**

If a formal investigation is required, it will be conducted by a qualified Corporate Fraud Investigator. The nature of the investigation, lines of enquiry followed and evidence obtained will vary depending on the irregularity being investigated and will, for the most part be fluid and reactive. Generally, however, the investigating officer will be seeking to gather evidence by way of interviews, the taking of written witness statements and the obtaining of evidence be it physical, documentary etc.

The investigating officer will consult and take advice from Human Resources particularly on matters regarding employment law, policies and procedural matters. It is imperative however, that a clear distinction must be made in these circumstances between those advising the investigating officer and those advising the staff member.

Legal Services will be consulted as appropriate to advise or seek external advice in order to support any investigation.

Any investigation will be conducted with full compliance with The Criminal Procedures and Investigations Act 1996 which governs the conduct of a criminal investigation (such as obtaining and recording evidence etc.) as well as any other legislation that may apply such as The Police and Criminal Evidence Act 1984 (PACE), The Regulation of Investigatory Powers Act 2000 (RIPA), The Human Rights Act 1998 and Data Protection Act etc. (this list is meant as an example and is not exhaustive).

In general terms however, the following principles will apply to the investigation:

- Any investigation will be conducted promptly (subject to evidence gathering activities) with periodic updates given as appropriate to the Chief Internal Auditor and / or the relevant Service Director.
- All actions and evidence will be recorded either by written or electronic means and stored securely with access given purely on a “need to know” basis.
- Enquiries and evidence gathering activities will be undertaken as discreetly as possible with sensitivities observed where appropriate.
- Confidentiality will be maintained throughout with information only shared where circumstances and the law allows.

Where it is considered appropriate, the investigation may involve the input of other agencies such as local authorities as well as other law enforcement agencies such as the Police and HM Revenue & Customs. Liaison and / or joint working will be conducted in accordance with established guidelines and protocols.

The investigating officer must not and will not accept any offer of repayment of monies or resignation at any stage during the investigation, however any such offers

will be noted and recorded on the investigation file and reported to the Chief Internal Auditor/responsible Service Director.

The Council has a right to suspend any employee involved pending the outcome of an investigation. Any such suspension, is, in the opinion of the Council, a neutral act and does not imply any guilt on behalf of the suspended employee. The suspension of an employee can, in some circumstances aid the speed in which an investigation can be conducted and serve to preserve vital evidence.

When suspects are not suspended, supervision of the employee will usually need to be increased and any manager should seek the advice of Human Resources and ICT on how this can best be accomplished.

## **Actions following the completion of an investigation**

Upon the completion of an investigation, the investigating officer will report their findings in the first instance to the Corporate Fraud Manager and Chief Internal Auditor, who will in turn make the findings known to Human Resources, relevant Service Director or the Chief Executive

In the case of any monetary losses, a report will be given to the Council's Insurance Officer.

Should any control weaknesses be identified, the Service Director and relevant manager will be informed and remedies be actioned immediately. The Chief Internal Auditor / Internal Audit Service will be able to provide advice and support regarding effective control mechanisms.

Should there be disciplinary issues identified as part of the investigation, a full report will be made to Human Resources who will work with the relevant Service Director and manager to decide what happens next. Should any course of action result in a disciplinary hearing, the investigating officer will (if required) make themselves available to give evidence at the hearing.

Although some organisations delay the bringing of any disciplinary action pending the outcome of any criminal prosecution, the Council will seek to deal with any disciplinary matters using the appropriate processes.

Should it be the case that criminal action presents itself as an option, this decision will be fully explored and subject to the Council's Fraud Prosecution Policy. Should fraud be proven, the Council will make every effort to recover any monetary losses. The method of doing so may vary depending on the type of loss and relevant legislation, however all options will be explored including civil court proceedings and in the case of criminal prosecution, proceedings brought under The Proceeds of Crime Act 2002.

## Equality Impact Assessment

1. Under s.149 of the Equality Act 2010, when making decisions, Epping District Council must have regard to the Public Sector Equality Duty, ie have due regard to:
  - eliminating unlawful discrimination, harassment and victimisation, and other conduct prohibited by the Act,
  - advancing equality of opportunity between people who share a protected characteristic and those who do not,
  - fostering good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.
2. The characteristics protected by the Equality Act are:
  - age
  - disability
  - gender
  - gender reassignment
  - marriage/civil partnership
  - pregnancy/maternity
  - race
  - religion/belief
  - sexual orientation.
3. In addition to the above protected characteristics you should consider the cross-cutting elements of the proposed policy, namely the social, economic and environmental impact (including rurality) as part of this assessment. These cross-cutting elements are not a characteristic protected by law but are regarded as good practice to include.
4. The Equality Impact Assessment (EqIA) document should be used as a tool to test and analyse the nature and impact of either what we do or are planning to do in the future. It can be used flexibly for reviewing existing arrangements but in particular should enable identification where further consultation, engagement and data is required.
5. Use the questions in this document to record your findings. This should include the nature and extent of the impact on those likely to be affected by the proposed policy or change.
6. Where this EqIA relates to a continuing project, it must be reviewed and updated at each stage of the decision.
7. All **Cabinet, Council, and Portfolio Holder reports must be accompanied by an EqIA**. An EqIA should also be completed/reviewed at key stages of projects.
8. To assist you in completing this report, please ensure you read the guidance notes in the Equality Analysis Toolkit and refer to the following Factsheets:
  - Factsheet 1: Equality Profile of the Epping Forest District
  - Factsheet 2: Sources of information about equality protected characteristics
  - Factsheet 3: Glossary of equality related terms
  - Factsheet 4: Common misunderstandings about the Equality Duty
  - Factsheet 5: Frequently asked questions
  - Factsheet 6: Reporting equality analysis to a committee or other decision making body

<b>Section 1: Identifying details</b>
Your function, service area and team: <b>Internal Audit, Governance Directorate</b>
If you are submitting this EqIA on behalf of another function, service area or team, specify the originating function, service area or team: <b>N/A</b>
Title of policy or decision: <b>Internal Audit Monitoring Report</b>
Officer completing the EqIA: Tel: <b>01992 564449</b> Email: <b>slinsley@eppingforestdc.gov.uk</b>
Date of completing the assessment: <b>09/11/18</b>

<b>Section 2: Policy to be analysed</b>	
2.1	Is this a new policy (or decision) or a change to an existing policy, practice or project? <b>N/A - report is an update to Audit and Governance Committee on the work of Internal Audit Service</b>
2.2	Describe the main aims, objectives and purpose of the policy (or decision): <b>For Audit and Governance Committee to note the work of Internal Audit Service between September and November 2018</b>  What outcome(s) are you hoping to achieve (ie decommissioning or commissioning a service)? <b>N/A – Report is for noting only</b>
2.3	Does or will the policy or decision affect: <ul style="list-style-type: none"> <li>• service users</li> <li>• employees</li> <li>• the wider community or groups of people, particularly where there are areas of known inequalities?</li> </ul> <b>N/A</b>  Will the policy or decision influence how organisations operate? <b>N/A – report is not decision-based, it is for noting only.</b>
2.4	Will the policy or decision involve substantial changes in resources? <b>N/A – report is for noting only</b>
2.5	Is this policy or decision associated with any of the Council's other policies and how, if applicable, does the proposed policy support corporate outcomes? <b>N/A</b>

### Section 3: Evidence/data about the user population and consultation<sup>1</sup>

As a minimum you must consider what is known about the population likely to be affected which will support your understanding of the impact of the policy, eg service uptake/usage, customer satisfaction surveys, staffing data, performance data, research information (national, regional and local data sources).

3.1	<p>What does the information tell you about those groups identified?  <b>N/A – report is for noting only</b></p>
3.2	<p>Have you consulted or involved those groups that are likely to be affected by the policy or decision you want to implement? If so, what were their views and how have their views influenced your decision?  <b>N/A – as above</b></p>
3.3	<p>If you have not consulted or engaged with communities that are likely to be affected by the policy or decision, give details about when you intend to carry out consultation or provide reasons for why you feel this is not necessary:  <b>N/A – as above</b></p>

## Section 4: Impact of policy or decision

Use this section to assess any potential impact on equality groups based on what you now know.

<b>Description of impact</b>	<b>Nature of impact</b> Positive, neutral, adverse (explain why)	<b>Extent of impact</b> Low, medium, high (use L, M or H)
Age	N/A	N/A
Disability	N/A	N/A
Gender	N/A	N/A
Gender reassignment	N/A	N/A
Marriage/civil partnership	N/A	N/A
Pregnancy/maternity	N/A	N/A
Race	N/A	N/A
Religion/belief	N/A	N/A
Sexual orientation	N/A	N/A

<b>Section 5: Conclusion</b>			
		<b>Tick Yes/No as appropriate</b>	
5.1	Does the EqlA in Section 4 indicate that the policy or decision would have a medium or high adverse impact on one or more equality groups?	No ✓	
		Yes <input type="checkbox"/>	If ' <b>YES</b> ', use the action plan at <b>Section 6</b> to describe the adverse impacts and what mitigating actions you could put in place.

## Section 6: Action plan to address and monitor adverse impacts

What are the potential adverse impacts?	What are the mitigating actions?	Date they will be achieved.



**Section 7: Sign off**

**I confirm that this initial analysis has been completed appropriately.  
(A typed signature is sufficient.)**

Signature of Head of Service: Sarah Marsh

Date: 09/11/18

Signature of person completing the EqIA: Sue Linsley

Date: 09/11/18

**Advice**

Keep your director informed of all equality & diversity issues. We recommend that you forward a copy of every EqIA you undertake to the director responsible for the service area. Retain a copy of this EqIA for your records. If this EqIA relates to a continuing project, ensure this document is kept under review and updated, eg after a consultation has been undertaken.

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## **Report to: Audit and Governance Committee**



**Report reference: AGC-011-2018/19**  
**Date of meeting: 26 November 2018**

**Epping Forest  
District Council**

**Portfolio: Finance**

**Subject: Mid-Year Report on Treasury Management and Prudential  
Indicators 2018/19**

**Responsible Officer: John Bell (01992 564387).**

**Democratic Services Officer: Steve Tautz (01992 564180).**

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### **Recommendations/Decisions Required:**

- (1) To note how the risks associated with Treasury Management have been dealt with in the first half of 2018/19; 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 2018/19.

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 £19.75m and there have been no significant 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 plan to borrow in order to carry out its capital programme. The original estimate, along with the spend to 30 September 2018 is shown below in the table.

<b>Financial Year 2018/19</b>		
<b>Capital Expenditure</b>	<b>Estimated £m</b>	<b>to month 6 £m</b>
Non-HRA capital expenditure	11.203	6.491
HRA capital expenditure	18.146	7.475
<b>Total Capital expenditure</b>	<b>29.349</b>	<b>13.966</b>
<b>Financed by:</b>		
Capital grants	0.080	
Capital receipts	4.632	
Internal Borrowing	9.897	
Revenue	14.740	
<b>Total resources Applied</b>	<b>29.349</b>	

5. The revised capital programme is currently being worked on and will be going to Cabinet for approval in December.

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; service reductions required; and 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. The forecast Capital Programme for the five years to 2021/22 totals £127m and was partly funded by £28m borrowing. It was predicted that at the end of this period there would still be £2.1m available in Capital Receipts and £5.9m in the Major Repairs Reserve. These figures will be revised as part of the update to the Capital Programme.

### 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, and will need to borrow for capital purpose as highlighted in the previous section.

CFR	Financial year 2018/19		
	Estimated £m	Revised £m	to month 6 £m
Non-HRA	63.5	63.5	58.5
HRA	154.4	154.4	154.4
<b>Total Capital expenditure</b>	<b>217.9</b>	<b>217.9</b>	<b>212.9</b>

9. The Chief Financial Officer confirms that there were no breaches of the Authorised Limit (£250m), the Operational Boundary (£240m) and the Maturity Structure of Fixed Rate Borrowing during the period to 30 September 2018.

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 Communities Select Committee. 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', in part, by a corresponding increase in interest earned on Council investments. The refinancing risk is that maturing borrowings cannot be refinanced on suitable terms. Within the original capital programme, it was anticipated that all borrowing would be repaid on maturity and the capital programme would be financed through internal resources. The Council does though intend to borrow later in 2018-19 in order to finance approved capital projects e.g. Waltham Abbey Sports Centre.

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 2018/19 the average investment position for the first half of the year was £19.75m. The table below shows the treasury position as at 30 September 2018.

Treasury position	31/03/2018 £m	30/09/2018 £m
<b>Total external borrowing</b>	<b>(185.5)</b>	<b>(185.5)</b>
Short term investment		
▪ Fixed investment	9.7	9.0
▪ Cash and Cash Equivalents	17.0	9.3
<b>Total investments</b>	<b>26.7</b>	<b>18.3</b>

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 Chief Financial Officer confirms that there have been no breaches of:
- a) The Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (75%) on investment during the period. At the end of September 2018 neither upper limit was breached and investments were split 50% fixed and 50% in cash and cash equivalents.
  - b) The limit set for investment over 364 days (£30m). The Council made no investments over 364 days. The average length of short term investment for the period is 17.6 days.
  - c) The limit set for investment in non UK Country (30%). The Council made one investment (13%) to a counterparty outside of the UK.
15. The risks associated with 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 50% of its investments in variable rates, and the remainder are in fixed rate deposits on average for around 17.6 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 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.
  - c) Potentially losing out on investment income when interest rates start to increase by ensuring that most deposits are kept within one year.

### **Resource Implications:**

The continued low interest rate was reflected in estimated investment income to the Council of £101,740 in 2018/19.

### **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;
- 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 MHCLG) 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 2018/19 to 2020/21 and the Treasury Management Strategy for 2018/19 to 2020/21 went to Council on 22 February 2018.

### 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.

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



# Treasury Management Mid-term Report 2018/19

## Introduction

In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2018/19 was approved at a meeting on 1 February 2018. 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. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England MHCLG (Ministry for Homes and Local Government) published its revised Investment Guidance which came into effect from April 2018.

The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority will be producing its Capital Strategy later in 2018-19 for approval by full Council.

## External Context

**Economic background:** Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August *Inflation Report*, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However, real wages (i.e. adjusted for inflation) grew by 0.2%, a marginal increase unlikely to have had much effect on households.

The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.

The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29<sup>th</sup> March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

**Financial markets:** Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the net change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher money market rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

**Credit background:** Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.

The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc - is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

### Local Context

On 31<sup>st</sup> March 2018, the Authority had net borrowing of £157.9m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured

by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	<b>31.3.18 Actual £m</b>
General Fund CFR	52.7
HRA CFR	154.4
<b>Total CFR</b>	<b>207.1</b>
Internal borrowing	-21.6
<b>Borrowing CFR</b>	<b>185.5</b>
Less: Usable reserves	-42.2
Less: Working capital	-0.1
<b>Net Worth</b>	<b>143.2</b>

\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The treasury management position at 30<sup>th</sup> September 2018 and the change during the period is show in Table 2 below.

Table 2: Treasury Management Summary

	<b>31.3.18 Balance £m</b>	<b>Movement £m</b>	<b>30.9.18 Balance £m</b>	<b>30.9.18 Rate %</b>
Long-term borrowing	185.5	0	185.5	3.02
<b>Total borrowing</b>	<b>185.5</b>	<b>0</b>	<b>185.5</b>	
Short-term investments	8.0	1.0	9.0	0.82
Cash and cash equivalents	18.7	-9.2	9.3	0.22
<b>Total investments</b>	<b>26.7</b>	<b>-8.2</b>	<b>18.3</b>	
<b>Net Borrowing</b>	<b>158.8</b>	<b>-8.2</b>	<b>167.2</b>	

The figures in the tables above show the Net Borrowing figure from differing scenarios. Table 1 depicts the net borrowing if the General Fund would have entered the borrowing market to fund its capital programme, with the HRA "Bailing out" by using some of its reserves.

Table 2 shows the borrowing position from a cash aspect with the movements in year giving a revised total.

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

### Borrowing Strategy during the period

At 30<sup>th</sup> September 2018 the Authority held 185.5m of loans, a similar position to 31<sup>st</sup> March 2018, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30<sup>th</sup> September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.18 Balance £m	Q1 Net Movement £m	30.9.18 Balance £m	30.9.18 Weighted Average Rate %	30.9.18 Weighted Average Maturity (years)
<b>Total borrowing - PWLB</b>	<b>185.5</b>	<b>0</b>	<b>185.5</b>	<b>3.02</b>	<b>18.46</b>

The Authority's chief objective when borrowing has been to strike 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.

There has been no increase in borrowing during the period as investment balances have been maintained at around the same levels.

### Treasury Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Authority's investment balance ranged between £23.7m and £19.5 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.18 Balance £m	Net Movement £m	30.9.18 Balance £m	30.9.18 Rate of Return %	30.9.18 Weighted Average Maturity Days
Banks & building societies (unsecured)	7.0	0.8	7.8	0.67	140
Government (incl. local authorities)	5.0	-2.0	3.0	0.80	142
Money Market Funds	10.0	-2.5	7.5	0.69	1
Non-treasury items					
Waste Management Contractor	1.7	-0.5	1.2	4.90	488
<b>Total investments</b>	<b>23.7</b>	<b>-4.2</b>	<b>19.5</b>		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an

appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority has kept investment balances short term in line with the cash flow so as to enable funds to be available when required by operational and capital requirements. The progression of risk and return metrics are shown in the extracts from Arlingclose’s quarterly investment benchmarking in Table 5 below.

**Table 5: Investment Benchmarking - Treasury investments managed in-house**

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return %</b>
31.03.2018	4.03	AA-	55%	35	1.05%
30.09.2018	4.29	AA-	65%	18	0.70%
<b>All Las</b>	<b>4.12</b>	<b>AA-</b>	<b>61%</b>	<b>98</b>	<b>1.37%</b>

The limit of Bail-in for the Council is higher than that of other Local Authorities due to our reliance on keeping funds in banks for “on-call” demand due to liquidity issues of the capital programme.

On 1 January 2018 the Movements in Financial Instruments Directive II (MiFID2) came into force and Councils were allowed to elect to be classed in one of two areas: (i) Professional Clients or (ii) Agency Clients, with this Council opting for Professional Status on the grounds of cost and accessibility to better products.

As part of this we are now required to keep £10m of investments at all times and make a number of transactions per annum. Investigations are now being made into the use of “Pooled Funds” so that funds are gathered from a number of areas, pooled together to make an investment with the aim of gaining better returns.

MHCLG consulted on statutory overrides relating to the IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognised that the requirement in IFRS 9 for certain investments to be accounted for as fair value through profit and loss may introduce “more income statement volatility” which may impact on budget calculations. The consultation proposed a time-limited statutory override and sought views whether it should be applied only to pooled property funds.

### **Non-Treasury Investments**

The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Authority also holds £1.2m of such investments in loans to the current Waste Collection Contractor which is repayable over the next 16 months.

This investment will generate returns of £56,000 of investment income for the Authority, representing a rate of return of 4.9%. This deal was brokered at the commencement of the current contract to enable the contractor to purchase vehicles for use on the contract at favourable rates to both parties.

## Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £m	Budget £m	Over/ under	Actual %	Benchmark %	Over/ -under
Total borrowing	-185.5	-212.0	26.5	3.02	2.97	-0.05
Total treasury investments	18.5	10.0	9.5	0.70	0.29	0.41
	167.0	-202.0	36.0	n/a	n/a	n/a

## Compliance

The S151 Officer reports that all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy with the exception of a few minor breaches to allow cash to be held in the Councils bank account for up to 4 days prior to the monthly precept payments to Essex authorities. Compliance with specific investment limits is demonstrated in table 8 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	H1 Maximum	30.9.18 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied?
Total debt	212.0	185.5	240.0	250.0	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

**Table 8: Investment Limits**

	H1 Maximum	30.9.18 Actual	2018/19 Limit	Complied?
Any single organisation, except the UK Government	£3m	£3m	£3m each	Yes
UK Central Government	0	0	Unlimited	Yes
Local Authorities	£5m	£3m	£25m in total	Yes
Any group of organisations under the same ownership	£3m	£3m	£3m per group	Yes
Any group of pooled funds under the same management	0	0	£5m per manager	Yes
Negotiable instruments held in a broker's nominee account	0	0	£7m per broker	Yes
Limit per non-UK country	0	0	£3m per country	Yes
Registered providers	0	0	£5m in total	Yes
Unsecured investments with building societies	0	0	£5m in total	Yes
Money Market Funds	£15m in total	£7.5m	£15m in total	Yes

**Treasury Management Indicators**

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

**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. Unrated investments are assigned a score based on their perceived risk.

	30.9.18 Actual	2018/19 Target	Complied?
Portfolio average credit rating	AA-	A-	Yes

**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. Due to capital cash being ahead of cash flow expectations the value was under by £0.7m, but income from Council Tax Direct Debits the following working day brought this back into line.

	30.9.18 Actual	2018/19 Target	Complied?
Total cash available within 3 months	£9.3m	£10m	No

**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 net principal borrowed was:

	30.9.18 Actual	2018/19 Limit	Complied?
Upper limit on fixed interest rate exposure	82.8%	100%	Yes
Upper limit on variable interest rate exposure	17.2%	75%	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

**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 were:

	30.9.18 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	0	100%	0%	Yes
12 months and within 24 months	0	100%	0%	Yes
24 months and within 5 years	0	100%	0%	Yes
5 years and within 10 years	0	100%	0%	Yes
10 years and above	83%	100%	0%	Yes

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 365 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 long-term principal sum invested to final maturities beyond the period end were:

	2018/19	2019/20	2019/21
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£5m	£3m	£3m
Complied?	Yes	Yes	Yes



## Outlook for the remainder of 2018/19

Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
<b>Official Bank Rate</b>													
<b>Upside risk</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Ca:</b>	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
<b>Downside risk</b>	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

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