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## AGENDA

<b>Committee:</b>	<b>AUDIT</b>
<b>Date and Time:</b>	<b>Wednesday 4th January 2017 at 7.30 p.m.</b>
<b>Venue:</b>	<b>Committee Room 1</b>
<b>Membership:</b>	<b>Councillors Ladzrie (Chairman), Blackwell, Hart, May and Mrs Wass</b>
	<b>Substitutes: Councillors Acott, Greig, MacLean and Mumford</b>
<b>Officers attending:</b>	<b>Ian Stapleton, Financial Services Manager Craig Watts, Head of Performance and Service Support Linda Everard, Head of Internal Audit</b>
<b>Also attending</b>	<b>Martina Lee, Manager, EY Kevin Suter, Executive Director, EY</b>
<b>Enquiries:</b>	<b>John Riley, Ext. 2417</b>

### **PART I** **(Business to be taken in public)**

- 1. Apologies**
- 2. Members' Interests**
- 3. Minutes**  
A copy of the Minutes of the meeting held on 19.9.2016 is attached.
- 4. Quarterly Monitoring Report of the Council's Governance Arrangements**  
Report of the Head of Performance and Service Support is attached.
- 5. Counter Fraud & Investigation Directorate: Quarterly Performance Report**  
Report of the Group Manager, Counter Fraud & Investigation is attached.
- 6. EY Annual Audit Letter for the year ended 31 March 2016**  
Report of the External Auditor is attached.

- 7. EY: Audit Committee Progress Report**  
Report of the External Auditor is attached.
- 8. Treasury Management and Investment Strategy 2017/18**  
Report of the Financial Services Manager is attached.
- 9. Internal Audit Service, Quarterly Performance Report**  
Report of the Head of Internal Audit is attached.

***Current Information Items (standing item)***

1. CIPFA Survey on Local Authority and Police Audit Committees Briefings:
  - a. Commentary on the Survey
  - b. Effectiveness of Audit Committees
  - c. Internal Audit and the Audit Committee
  - d. The Structure, Membership and Operation of Local Authority Audit Committees
  - e. Training and Support for Audit Committees
2. Public Sector Audit Appointments, Annual Regulatory Compliance and Quality Report, EY LLP, June 2016, Audit 2015/16

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## **AUDIT COMMITTEE**

**19<sup>th</sup> SEPTEMBER 2016**

**PRESENT:** Ladzrie (Chairman), Acott and Mrs Wass.

Head of Performance and Service Support, Craig Watts, Head of Internal Audit, Linda Everard, Financial Services Manager, Michael Dineen, Fraud Investigator, Ian Stapleton, Financial Services Manager and External Auditors Martina Lee (EY) and Kevin Suter (EY) were also present.

Councillors Hart and Riley also attended.

Apologies for absence were received from Councillors Blackwell and May.

### **8. MEMBERS' INTERESTS**

There were no disclosures of interest.

### **9. MINUTES**

The Minutes of the meeting held on 28<sup>th</sup> June 2016 were taken as read and signed as correct.

### **10. COUNTER FRAUD AND INVESTIGATION DIRECTORATE PLAN 2016/17**

Michael Dineen gave an update on the progress made in delivering the Corporate Counter Fraud and Investigation Service.

The main areas of work the service had focused on to date had been Housing Tenancy Fraud, Insider Threat, Business Rate/Council Tax Fraud and National Fraud Initiative. The service also worked closely with Internal Audit in relation to its scheduled audits and where risks and non-compliance were found collaboration had taken place to rectify this. Changes had also been made to the Housing Allocation process to strengthen and assist in the early detection of fraudulent/dishonest claims.

A copy of the Proactive Work Programme as of August 2016 was set out at Appendix 1 of the report. A copy of the Counter Fraud and Investigation Strategy for 2016/17 which set out a plan for the delivery of projects to further the anti-fraud culture across the Council was attached at Appendix 2.

In response to questions from the Committee it was stated that fraud in local government was estimated to amount to 2.1bn and that according to national average figures it was estimated that fraud affected 3% of a Council's turnover. The work of the Fraud and Investigation Service was both reactive i.e. resulted from referrals from members of the public and proactive where the service planned to target specific areas of fraud, as detailed in Appendix 1.

Following discussion it was:-

**Resolved –**

1. That the amendments to the Anti Fraud and Corruption Policy and Strategy is agreed and recommended to Cabinet for approval.
2. That the work being done to mitigate the risk of fraud is noted.

*(Note: The amendments to the Anti Fraud and Corruption Policy and Strategy agreed in resolution 1 above, were not referred to Cabinet for approval as the Audit Committee is authorised to resolve this matter).*

**11 EY AUDIT RESULTS REPORT (UK AND IRELAND) 260 FOR THE YEAR ENDED 31 MARCH 2016**

The Audit Committee was presented with a report by the external auditors which summarised the results of the work completed to date for the 2015/16 financial year with regard to the opinion on the Statement of Accounts and the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

The Committee noted that there were no issues to report and that it had been a very positive audit. The Financial Services Manager and his team were praised for their hard work and co-operation during the audit.

**Resolved –** That the Audit Results Report 2015/16 is noted and the Letter of Representation contained within the report is approved.

**12. MONITORING REPORT – CORPORATE GOVERNANCE ARRANGEMENTS**

The findings from the quarterly monitoring of the governance arrangements in place for the Council were reported to the Committee.

The Head of Performance and Service Support highlighted the monitoring results for key governance processes set out in the report.

The arrangements for business strategy and planning were adequate. There was a corporate action plan, service plans and team plans in place. The current Corporate Plan was nearer the end of its life and a refreshed plan had been developed. This had been considered by Cabinet in September. A detailed



review of the Corporate Plan would begin with public consultation in autumn 2016.

With regard to risk management, a corporate risk register continued to be in place and was subject to monitoring by Executive Management Team (EMT). This had been re-assessed in June following the completion of service plans and a copy of the register was attached at Appendix 1. An internal audit of the risk management process was currently underway and the results would be reported to a future meeting of the Audit Committee.

With regard to Performance Management it was reported that core processes were operating satisfactorily, including the production of a corporate scorecard considered quarterly by the Cabinet.

As to partnerships, assurance processes were subject to further development work. It was planned to progress a partnership strategy which would set out the key partnerships and how these linked to each other. Partnership was also being audited and progress would be monitored.

The complaints system had been subject to an internal audit and a number of recommendations had been made including the need for the procedure to refer to how complaints handled by the Council's contractors were dealt with and additional training for staff. Monitoring of the complaints database had revealed that completion of the database was still patchy in some areas and EMT had requested compliance from operational managers. Work in the area would continue to be monitored.

A Member enquired whether there were funds available for the Council to purchase any more properties. It was confirmed that there was funding available which would be used to build two new properties at Lawns Court.

**Resolved** – That the Quarterly Monitoring Report and risk register is noted.

### **13. TREASURY MANAGEMENT MID YEAR REPORT**

The Committee was informed that the mid-year treasury report was a requirement of the Council's reporting procedures. It summarised the Council's treasury management activity for the first five months of the current financial year. The report met the requirements of both the CIPFA Code of Practice for Treasury Management in Local Authorities and the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Committee was requested to consider and approve the report prior to its submission to Council.

Following consideration of the report it was:-

**Resolved** – That the Treasury Management Activity Mid-Year Report is approved.

#### **14. INTERNAL AUDIT QUARTERLY PERFORMANCE REPORT**

The Committee was updated on progress made in delivering the Internal Audit Strategy for 2016/17.

The current status of work planned for the year as at 31 August 2016 was set out in Appendix A. Since the Audit Plan had been reported to the Committee in March the outstanding audits from 2015/16 had been added in and the Individual Electoral Registration review had been deleted and would be added to the Risk Watch List for consideration when planning for next year.

Appendix B summarised the results and audit opinions given on work completed. No significant issues had arisen from the work reported.

With regard to Performance Targets, the service was on target to deliver sufficient work to enable the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements.

It was reported that the Public Sector Internal Audit Standards had been updated and had come into force on 1 April 2016. Key changes included a Mission Statement and Core Principles for Professional Practice in Internal Auditing. A full assessment of the Audit Service's compliance with these revised standards still need to be completed and the results would be reported to the Committee in due course.

During discussion a Member commended the Audit Team on the low figure for sickness absence.

Following discussion it was:-

**Resolved** - That the assurance provided by the audit work completed this quarter is noted.

Chairman

**Committee:                   AUDIT COMMITTEE**

**Date:                           4 January 2017**

**Subject:                       Quarterly Monitoring Report of the Council's  
Governance Arrangements**

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**1.     Purpose of Report**

To present the findings from the quarterly monitoring of the Council's governance arrangements.

**2.     Background**

- 2.1   Part of the requirement of the Council's governance arrangements is a quarterly report on the operation of the assurance framework for the Council. The assurance process includes the work of external auditors and is supplemented by the work of the internal audit service, as well as other assurance processes, including internal officer and member processes.
- 2.2   The Committee will be aware that governance arrangements include individual staff leads who have taken responsibility for the governance processes set out below and are members of the Governance Group. This report was developed in consultation with officers from the governance group.
- 2.3   This report also incorporates an assessment of progress against the actions identified in the Annual Governance Statement, which was considered and agreed by the Committee in June 2016.

**3.     Monitoring Results for Key Governance Processes**

**3.1   Community Engagement**

- 3.1.1 Assurance arrangements are satisfactory. Services undertake specific consultation as required and there are a number of customer satisfaction surveys. Planned consultation activities include consultation for a refreshed corporate plan to be undertaken in the winter / spring of 2017.

**3.2   Business Strategy and Planning**

- 3.2.1 The arrangements for business strategy and planning are adequate. There is a corporate action plan, service plans and team plans in place. Highlight reporting to corporate management team remains in operation and team and service plans for 2017/18 have recently been developed by services. A detailed review of the corporate plan has begun and is subject to review by Policy and Scrutiny Committee.

### **3.3 Financial Planning, Reporting and Budgetary Control**

- 3.3.1 Robust processes are evident to be assured that the arrangements for financial planning, reporting and budgetary control are effective. For example, a budget exception report is considered by the Executive Management Team and Councillors on a monthly basis. Variances at year end are reported on all service areas, with commentary on those in excess of +/- £10k, and analysis of changes in income and expenditure from the previous financial year. External assurance has been provided by the annual audit of the Council's Statement of Accounts and the work of external audit. The processes in place give adequate officer and member assurance.
- 3.3.2 The Council maintains a five year rolling financial forecast which is reviewed and reported through to Cabinet on a bi-monthly basis unless there is no significant change to report. The forecast is supported by three years detailed budget workings with the final two years of the forecast being adjusted for future anticipated cost pressures. Assumptions adopted in the forecast are contained in a detailed report made to Special Council in February annually.
- 3.3.3 The Council maintains a level of reserves in excess of the minimum level recommended by the Council's Chief Finance Officer and has set a balanced budget for 2016/17, with 2017/18 also expected to be balanced. Full Council agreed the Policy Framework and Budget Setting report in February 2016 which includes the financial planning strategy, the medium term financial forecast and a summary of completed efficiency work.
- 3.3.4 However, significant savings are required for the medium term from 2018/19 onwards and the Council is undertaking a number of actions through the efficiency programme and the Austerity and commercial strategy.

### **3.4 Asset Management**

- 3.4.1 There are adequate routine assurance processes for Asset Management which include bi-monthly Asset Management sessions, which are integrated into programmed meetings of the Operational Management Team. Significant Asset Management based projects conform to the Councils project management methodology (PROMPT) and are reported to Cabinet.
- 3.4.2 A programme of annual planned repairs and maintenance is in place for corporate buildings. Funding provision has been earmarked and completion of all works is planned within the lifetime of the current medium term financial forecast.

### **3.5 Policy Framework**

- 3.5.1 The policy framework operates satisfactorily, and policies and strategies largely continue to be refreshed by services. A register of policies and strategies is in place as well as guidance on the elements of a good strategy or policy and an assessment of key policies and strategies. The policy framework is set out in the Business Planning and Budget Framework and was reported to Cabinet in February 2016.

### **3.6 Risk Management including Fraud & Corruption, Whistleblowing, Money Laundering and Health & Safety**

- 3.6.1 A corporate risk register continues to be in place and is subject to monitoring by Executive Management team. Risks have been identified as part of the development of team and service planning and risks get escalated to the corporate risk register should the identified issue be considered significant. The corporate risk register was considered by the Committee in September. An internal audit of the risk management process has been progressed and the results of this will be reported to a future meeting of the Audit Committee.

### **3.7 Business Continuity**

- 3.7.1 Satisfactory progress has been made to the business continuity arrangements in place. Impact assessments have been completed by all services and have been used to help services develop their Service Delivery Action Plans. A corporate generic business continuity plan is also in place which is refreshed biennially. A refresh of service specific business continuity plans was undertaken during the autumn and testing by individual services is scheduled to be completed during the spring of 2017.

### **3.8 Performance Management**

- 3.8.1 Core processes operate satisfactorily, including highlight reporting to Corporate Management Team and the production of a corporate scorecard which is considered quarterly by Cabinet, the most recent of which was in the November Cabinet for the second quarter 2016/17 results.
- 3.8.2 Control arrangements include the production of quarterly reports of performance indicators by all services for consideration by EMT.

### **3.9 Data Quality**

- 3.9.1 Arrangements are satisfactory. The service planning process includes a requirement for team managers and heads of service to sign a declaration which includes consideration of data quality and the commitment to spot checking of data.

### **3.10 Value for Money**

- 3.10.1 Arrangements are in place and the assurance processes are operating appropriately. For example, a programme of work to identify and obtain efficiencies is in place for council services and is set out in the corporate plan. The Council has also identified a set of value for money ratios and these are used to monitor progress and retain understanding of comparative value for money.

### **3.11 Procurement**

- 3.11.1 There are satisfactory arrangements in place and the assurance processes are operating appropriately. Procurement is integrated into the meetings of the Operational Management Team and assists in the implementation of corporate requirements. The Council's commissioning and Procurement Strategy and Procurement Toolkit was updated in 2015 to take into account changes in legislative requirements. The Commissioning and Procurement Policy was updated in March 2016.

### **3.12 Partnerships**

- 3.12.1 Assurance processes are subject to further development work. A partnership strategy is planned to be progressed which will set out the key partnerships and how these link to each other. Partnership work is also being audited and progress will be monitored.

### **3.13 Project Management**

- 3.13.1 The arrangements are satisfactory. The service plans include an indication of planned projects with a prioritisation. These have been incorporated into a corporate programme and the most important projects will be set out as part of the corporate plan.

### **3.14 Complaints**

- 3.14.1 An internal audit of the complaints system has been undertaken and a number of recommendations have been set out. This includes the need for the procedure to refer to how complaints handled by the Council's contractors are dealt with, the development of standard letter templates and additional training for staff, as well as further requirements to ensure consistency of use and explore greater security. This work is being progressed. Monitoring reveals that completion of the database remains patchy in some areas and EMT have requested compliance from operational managers. Progress has been made in the development of templates. Work in this area will continue to be monitored.

### **3.15 Ethical Governance**

- 3.15.1 Satisfactory arrangements are in place. A common code of conduct is in place along with appropriate mechanisms including a governance committee. Following an audit of the arrangements further work has been identified such as updating the Protocol on the use of IT and ensuring the Council is compliant with the Local Government Transparency Code. A review of progress is planned and the arrangements will continue to be monitored.

### **3.16 Officer Conduct**

- 3.16.1 There are appropriate assurance arrangements in place to ensure robust officer conduct. This includes a range of human resource policies and procedures. The processes in place continue to give adequate assurance. Following the ethical governance audit, the Employee Code of Conduct is to be amended to include ethical standards, the Nolan principles and relevant information from the new Fraud and Bribery Act. In addition, the expected behaviour on social media will be added to the Employee Code of Conduct.

### **3.17 Information Governance**

- 3.17.1 The Council has implemented an information governance strategy, which is underpinned by associated guidance. The Council's Head of Law acts as the Senior Information Risk Owner. The 'How it Works' guidance also contains a section on information governance.

#### 4. Progress against the actions identified in the Annual Governance Statement

These are set out below as follows:

Number	Issues	Action 2016/17	Action date	Progress
1.	Need for an up to date corporate plan that incorporates recent consultation results as well as deal with significant challenges faced by the Borough and national and local priorities.	Significant re-development of the Corporate Plan.	June 2017	Work is in progress as part of Policy and Scrutiny Programme.
2.	The Council needs to have a local plan that sets out the development of the borough in the medium term and reduces the risk of successful and costly legal challenge.	Submission to Department for Communities and Local Government.	March 2017	Awaiting the findings of the inspector following the 'Duty to Co-operate' hearing.
3.	The Council needs to re-clarify ambitions with partners which take into account recent developments in partnership working.	Develop a Partnership Framework and associated Strategy.	March 2017	Awaiting results of internal audit report. Loss of staff and will need to re-evaluate date.
4.	Implement new arrangements to manage Fraud control work in the Council	Trial Service Level Agreement for provision of services by Thurrock Council for a one year period and assess impact and effectiveness.	June 2017	SLA in place and will monitor progress.
5.	Complaints not consistently monitored in corporate database.	Ensure new database operates effectively and all services are recording complaints information. Implement actions from the Internal Audit of Complaints.	March 2017	Various actions undertaken following audit report. Need to embed arrangements with services.

Number	Issues	Action 2016/17	Action date	Progress
6.	Risk management arrangements are not fully embedded.  The current risk management framework has not been refreshed recently nor does it include guidance on how to apply risk appetite or tolerance.	Revise risk management strategy and re-consider working practices.  Implement improvements.	March 2017	Awaiting results of Internal Audit Report and will implement improvements and incorporate into refreshed risk management framework.
7.	Implement various improvements to service planning and performance management arrangements.	Workshop with Operational Managers  Development and implementation of controls for Appraisals  Assessment of compliance with arrangements	March 2017	Workshop undertaken with operational managers. Review of appraisal process currently being undertaken.

## **5. Corporate Implications**

### **a. Legal implications**

There are no direct legal implications arising from this report.

### **b. Financial implications**

There are no direct financial implications arising from this report.

### **c. Human Resource & Equality**

The monitoring and development of the assurance framework is delivered within existing resources.

The Council's equality policy is applied as an inherent element of the assurance processes. Equality is also an area that is subject to audit scrutiny. All key decisions require an Equality Impact Assessment.

### **d. IT and Asset Management implications**

There are no direct IT or Asset Management implications arising from this report.

## **6 Links to Council's priorities and objectives**

All assurance processes and improvement work support the corporate priority of Efficient and Effective Customer Focussed Services.

## **7. Timescale for implementation and risk factors**

The monitoring of the effectiveness of the assurance framework will be undertaken every three months and reported to the Audit Committee. The Council will not be able to fully achieve its objectives and priorities without a robust assurance framework.



**Recommendation:**

1. Committee are requested to consider the findings of this report as outlined in section 3.
2. Committee are requested to consider the summary of progress of the actions identified in the Annual Governance Statement as set out in section 4.

**Resolution required.**

**Background Papers:** Local Code of Governance

**Report Author:** Craig Watts, Head of Performance & Service Support

**AUDIT COMMITTEE**

**4<sup>th</sup> January 2017**

**Counter Fraud & Investigation Directorate: Quarterly Performance Report**

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**1. Purpose of Report**

- 1.1 To update the Audit Committee on the progress made in delivering the Corporate Counter Fraud & Investigation Service at Castle Point Borough Council.

**2. Performance**

- 2.1 The work programme consists of three main strands:
- Assessing compliance with relevant national frameworks
  - Delivering a proactive programme of counter fraud work
  - Investigating allegations of fraud, theft, bribery, corruption and money laundering offences, reported to the Directorate.
- 2.2 The current status of each of these work streams are detailed in this report, supported by individual appendices.
- 2.3 The directorate has been well received at the council and has recently seen an increase in the referrals coming through to the intelligence department. The following are the figures in relation to work loads
- 9 Incidents have been reported and recorded
  - 4 Unregistered Referrals remain within the system
  - 7 Current investigations
  - 3 Confidential Reports being compiled

This is in stark contrast to the first 3 months of the existence of the directorate in which only 1 referral was placed with the intelligence team. This shows the fraud awareness training that has already taken place has had an impact at a very direct level.

**3. Fighting Fraud & Corruption Locally**

- 3.1 The original Local Government Fraud Strategy (Fighting Fraud Locally) ran from 2012 to 2015. The Council has periodically assessed its compliance with this Strategy during this period and reported it to the Audit Committee.
- 3.2 Responsibility for the reviewing and production of this strategy rests with CIPFA, supported by the Home Office and Cabinet Office who produced a revised strategy in May 2016.

- 3.3 The Directorate are currently conducting reviews ensuring up to date compliance with legislation and best working practices with regards to relevant policy. Thus far the directorate has reviewed the Money Laundering Policy, Regulation of Investigative Powers Act Policy and the Whistle blowing policy. All of these reviews have been handed back to the 'owner' of that policy with recommendations attached to them.

#### **4. Proactive work programme**

- 4.1 The proactive work programme can be found in **Appendix 1** and sets out the current status of all the activities proposed in the Strategy for the year, which was supplied in its original form in the September Committee meeting. The main areas of work that the service has focused on to date remain:

- Housing Tenancy fraud
- Insider Threat
- Business Rate/Council Tax Fraud
- Right to Buy Fraud

- 4.2 The service continues to work closely with Internal Audit in relation to their scheduled audits on various areas and where risks and non-compliance is found collaboration is to take place to rectify this.

- 4.3 Input from the directorate into the Housing Allocation process, to show areas that can be strengthened, have already been put into motion and a supplementary document is to be sent out with all Right to Buy applications requesting further information from the applicant that will assist in the early detection of fraudulent/dishonest claims. This has recently been reviewed by the legal department within the council and complies with all relevant legislation.

#### **5. Counter Fraud & Investigation Strategy for 2016/17**

- 5.1 A plan for the delivery of projects to further the anti-fraud culture across the Council and with its partners is detailed in **Appendix 2**. This is a directorate wide strategy and includes projects and strategies affecting all of the directorates' partners. This was also provided in the September committee meeting.

#### **6. Fraud Awareness Training**

- 6.1 As noted in Section 4.1 (**Appendix 1**) of this report there is an intention to complete training to all staff working for Castle Point Borough Council. This training has been tailored to each individual department and follows on from the successful training programme that has taken place at both Thurrock Borough Council and Southend Borough Council by the directorate. To date, Finance, Legal, HR, Facilities and Housing have all had Fraud Awareness Training delivered and within the next 3 months the remaining departments within the council will receive the training as well. This will include but will not be limited to Revenues & Benefits, Environmental Health, Planning and Licensing and Safer Communities.

#### **7. National Fraud Initiative**

The responsibility for complying with this initiative fell with the directorate instead of its past 'owner', the finance team. Although labour intensive all

material was gained from various departments from across the council and collated by the Counter Fraud & Investigation Directorate. This material was screened and then downloaded to the appropriate website within good time. The results of this initiative will start to be released in early 2017, updates on any relevant outcomes will be highlighted to the committee in subsequent reports.

## **8. Corporate Implications**

### **Financial Implications**

Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

### **Legal Implications**

The Accounts and Audit (England) Regulations 2011 require that:

*The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes the arrangements for the management of risk.*

Therefore failure to do so would be a breach of a statutory duty.

### **Human Resources, Equality, IT and Asset Management Implications**

None

## **9. Links to Council's Priorities and Objectives**

The implementation of the various fraud related strategies and action plans helps deliver all the Council priorities and objectives.

## **10. Timescale for Implementation**

Timescales where relevant are set out in the body of the report.

## **11. Risk Factors**

Failure to implement a robust assurance framework which includes fit for purpose risk management arrangements increases the risk that Council objectives will not be delivered.

Failure to operate a strong anti fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

Although risk can not be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

### **Recommendations**

#### **The Audit Committee:**

- notes the work being done to mitigate the risk of fraud.

#### **Resolution Required**

#### **Background Papers**

- Fighting Fraud locally, The Local Government Fraud Strategy
- CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption
- Association of Local Authority Risk Managers (ALARM) Publication: Managing the Risk of Fraud
- Audit Commission: Protecting the Public Purse: Fighting Fraud Against Local Government.

#### **Appendices**

- Appendix 1: Proactive Work Programme as of December 2016
- Appendix 2: Counter Fraud & Investigation Strategy 2016/17

**Report Author: Michael Dineen, Counter Fraud & Investigation Directorate**

## Appendix 1: Proactive Work Programme as of December 2016

Risk Area	Tasks	Planned for Completion	Current Status
<b>Housing Tenancy</b>	Conduct a Fraud awareness training package to the Housing Tenancy Team at CPBC, including presentation, statement writing skills, interview techniques as well as proactive operational visits.	Partial Completion – Remaining aspects to be completed by End of January 2017	The fraud awareness presentation was delivered to the team in November. It was well received although a training week has been delayed due to staff unavailability. This is planned for the immediate future.
<b>Right to Buy</b>	Evaluate whether application processes can be strengthened to minimise the risk of fraud.	Completed with the ratification of the supplementary forms by the Legal Department.	Further documentation to be sent with Right to Buy applications so that further information can be gained regarding the applicant. Directorate wide priority.
<b>Business Rates</b>	Visit all 'empty exemptions' registered with Castle Point Borough Council to ensure exemptions are justified.	1 <sup>st</sup> July 2017	This is an ongoing proactive program that the on-site fraud specialist is responsible for.
<b>Business Rates</b>	Identify possible misuse of exemptions claimed for commercial property, including 'Phoenix Companies'.	1 <sup>st</sup> July 2017	This is running in conjunction with the 'empty visits' programme. Joint working with Business Rates Team and Legal Team with regards to furthering the councils objectives
<b>Council Tax</b>	Evaluate whether Council Tax Discount and Exemption processes can be strengthened to	Completed	Working policies were reviewed and all matters are currently being dealt with by best practice

## Appendix 1: Proactive Work Programme as of December 2016

	minimise the risk of fraud		
<b>Fraud Awareness</b>	Introduce a formal, detailed intelligence alert system across all Council departments to inform services of immediate fraud risks.	Partly completed (await design of new website)	This is in place and referrals have been made to the Counter Fraud & Investigation team. The 'new' website that is currently being tested by the IT department will have a formal link to the fraud page.
<b>Fraud Awareness</b>	Conduct organisational wide training packages tailored to the business area to include insider threat awareness	Completed with regards to High Risk areas.	Completed with regards to High Risk areas.  Further training to be spread to other lower risk departments by March 2017
<b>National Fraud Initiative, Data Matching Exercise</b>	Investigate high level recommended data matches until the 2016 exercise is complete.	Completed	The council completed the NFI data exercise and submitted all relevant material to the database in time.



# 2016/17 Corporate Counter Fraud and Investigation Strategy

*Subject to annual review by Group Manager, Counter Fraud & Investigation  
and Head of Internal Audit*

*Reported to Corporate Management Team and Audit Committee*



# **2016/17 Corporate Counter Fraud and Investigation Strategy**

## **National Framework**

Leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong financial management.

In 2012, when it was published, the vision outlined in the Fighting Fraud Locally, The Local Government Fraud Strategy was that by 2015, local government will be better able to protect itself from fraud and have in place a more effective fraud response. The updated version by CIPFA's Counter Fraud Centre and Cabinet Office was published in May 2015. This is now being assessed by the Counter Fraud & Investigation Directorate.

On a more operational level, the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014) set out five principles for organisations to adopt, which are to:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.

Finally Protecting the Public Purse, Fighting Fraud Against Local Government 2014 reported on detected fraud in the sector, looking at year on year trends. It highlights the main fraud areas and the issues faced by local authorities in tackling this risk effectively.

There is a lot of duplication and overlap in terms of the actions each of these documents recommend local authorities take in order to achieve the vision set out in Fighting Fraud Locally. Nevertheless, the aim of this Strategy is to deliver this vision.

In November 2015, responsibility for investigating housing benefit fraud transferred to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). The council no longer has responsibility for investigating benefit fraud.

## **Objective**

*To work effectively with Council services to develop arrangements that keep fraud, corruption, bribery, theft and misappropriation under control whilst:*

- *exploring opportunities to reduce it to an absolute minimum, maximising the opportunity to recover losses incurred*
- *putting arrangements in place to maintain it at that level so the maximum resources are available to provide services to the local community.*

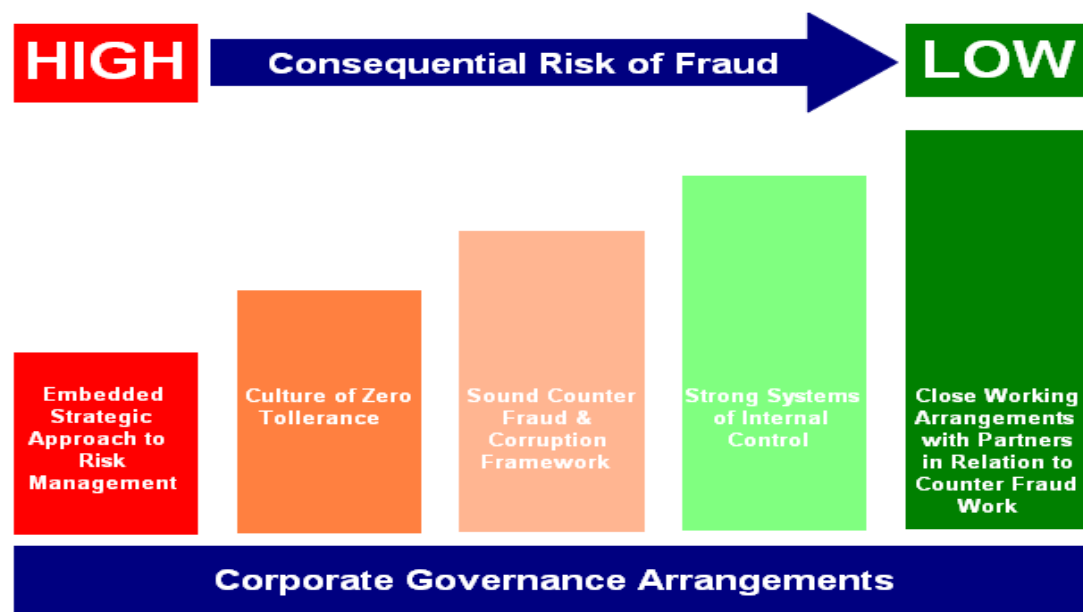
# 2016/17 Corporate Counter Fraud and Investigation Strategy

## Approach

The Counter Fraud and Investigation Directorate (the Directorate) will help the Council minimise financial loss from fraud, corruption, bribery, theft and misappropriation by:

- working with services to set the right culture
- focusing on deterrence and prevention
- having robust arrangements in place to detect potential fraudulent activity
- where necessary, investigating cases thoroughly, taking robust action to apply sanctions, obtain redress and recover financial losses incurred.

The approach adopted will also help the Council operate a sound anti fraud governance framework designed to minimise this risk as set out below:



Source: *ALARM Managing the Risk of Fraud*

It will do this by:

- assessing the Directorate's compliance with good practice guidance relevant to local government, that sets out how a modern and professional counter fraud and investigation service should operate
- producing an annual report on the delivery of this strategy and compliance with good practice guidance
- maintaining an Anti Fraud & Corruption Policy and Strategy and the Anti Money Laundering Policy and Strategy (including Terrorise Financing requirements) as well as helping ensure staff are aware of the Whistleblowing Policy
- undertaking a programme of preventative and detective work targeted on key fraud risk areas

## 2016/17 Corporate Counter Fraud and Investigation Strategy

- adopting a modern, comprehensive approach to undertaking investigations which maximises the use of tools such as surveillance, computer forensics and financial investigation, taking every opportunity, once an offence is proven in court, to recover losses incurred by seeking:
  - **Compensation Orders** for the amount the Court considers appropriate where it can be proved that the Council has suffered distress, personal injury or financial loss, which may also include a sum by way of interest
  - **Confiscation Orders** requiring a convicted defendant to pay the amount he/she has benefited from the crime (under the Home Office Asset Recovery Incentivisation Scheme, the Directorate would receive 37.5% of this order to reinvest in the prevention and detection of fraud)
  - **Profit Orders** for the recovery from defendants of profits made from unlawful sub-letting either following conviction or in separate civil proceedings.

In delivering this, the Directorate will:

- develop work streams in fraud risk areas other than housing benefits
- look for opportunities to develop beneficial collaborative working arrangements with other organisations and relevant agencies
- work closely with internal audit to provide an effective and integrated service to the Council.

### Code of Ethics

All counter fraud and investigation staff working for the Directorate will comply with Standards of Public Life's *Seven Principles of Public Life* as defined in the Local Code of Governance.

The four key principles they will adopt are as follows:

- The **integrity** of Counter Fraud and Investigation staff establishes trust and this provides the basis for reliance on their judgement.
- Counter Fraud and Investigation staff:
  - exhibit the highest level of professional **objectivity** in gathering, evaluating and communicating information about the activity or process being examined
  - make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Counter Fraud and Investigation staff respect the value and ownership of information they receive and do not disclose information (**confidentiality**) without appropriate authority unless there is a legal or professional obligation to do so.
- Counter Fraud and Investigation staff apply the knowledge, skills and experience (**competency**) needed in the performance of counter fraud and investigation services.

Inappropriate disclosure of information or breaches of the Code of Ethics by Counter Fraud and Investigation staff could be a disciplinary offence.

## 2016/17 Corporate Counter Fraud and Investigation Strategy

All staff working for the Directorate will be required to sign an Ethical Governance Statement and declare any interests prior to starting an investigation and to formally update their statement as part of their six monthly appraisal meeting.

### Risk Assessment

Fraud within local government is diverse and, based on research and intelligence, likely to be committed against all types of expenditure including payroll, goods and services, as well as against the taxes and benefits or services administered at a local level.

The National Fraud Authority (NFA) estimated in 2013 that fraud in local government amounted to £2.1bn representing 10% of total public sector fraud as outlined below:

Category	Annual Loss	Fraud Level%
Procurement Fraud	£876m	1% of spend
Housing Tenancy Fraud	£845m	2% of housing stock
Payroll Fraud	£154m	Not disclosed by NFA
Council Tax Discount	£133m	4% on discounts and reliefs claimed
Blue Badge Scheme Abuse	£46m	20% of badges misused
Grant Fraud	£35m	1% of spend
Pension Fraud	£7.1m	N/A based on NFA detection levels

All of these identified risks with the exception of the pension fund are relevant to the Council and a source of potential financial loss.

The Audit Commission's report, Protecting the Public Purse 2014 concluded that local authorities detected fewer cases in 2013/14 but their value increased by 6%. It identified detected fraud in the following areas:

Category	Value
Council Tax Discount	16.9m
Right to Buy	12.3m
Social Care (Direct Payments)	6.2m

## 2016/17 Corporate Counter Fraud and Investigation Strategy

Category	Value
False Insurance Claims	4.8m
Abuse of Position	4.5m
Procurement	4.5m
Schools (maintained)	2.3m
Business Rates	1.2m

The Directorate will:

- take account of these nationally identified risks in developing its annual work programme
- work with the Internal Audit Service to develop the fraud risk aspect of the internal audit risk assessment which covers all Council activities. This will help joint working, particularly where proactive exercises are being planned.

### Work Plan

The Directorate's Corporate Counter Fraud and Investigation Plan for 2016/17 is split into three areas which include:

- assessing compliance with national frameworks (e.g. Fighting Fraud Locally and Protecting the Public Purse etc) to ensure the Council's governance arrangements in this area are fit for purpose
- investigating allegations of fraud, theft, bribery, corruption and money laundering.
- delivering a programme of proactive work, including data matching exercises

All allegations reported to the Directorate will be recorded and then risk assessed to determine the work priorities for the team.

Progress in delivering the work programme will be reported upon quarterly to Corporate Management Team and the Audit Committee.

The work undertaken by the Directorate will inform:

- the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements
- the Section 151 Officer's opinion when certifying the annual financial statements
- the view given by the Chief Executive and Leader on behalf of the Council in the Annual Governance Statement
- external audit's work when auditing the financial statements.

## **2016/17 Corporate Counter Fraud and Investigation Strategy**

### **Resourcing**

The directorate provides 1 FTE to fulfil the position of an onsite fraud specialist. This FTE has taken up post on 1<sup>st</sup> July 2016.

The allocation of work between proactive and reactive investigations will be reviewed regularly and adjusted accordingly to ensure an appropriate balance is maintained.

The service will be provided by Thurrock Council via a Service Level Agreement which came into effect on 1<sup>st</sup> July 2016. The Strategic Director (Transformation & Resources) is to be the councils contact with regards to the Service Level Agreement.

### **Service Performance**

The service will measure the impact of its work:

- through its contribution to ensuring the Council's governance arrangements in this area comply with good practice guidance
- by an increase in:
  - the identification and reporting of fraud incidents
  - housing properties recovered
  - the financial loss identified through targeted and effective proactive anti-fraud work
  - losses recovered via Confiscation, Compensation and Profit Orders awarded to the Council.

Quarterly performance reports will be produced for senior management and the Audit Committee.

### **Service Risk Register**

The Directorate will create a service risk register that supports the delivery of this Strategy. This will be reviewed and reported upon periodically in the quarterly performance reports to management.

### **Undertaking Investigations**

An investigations manual will be maintained that guides staff in the performance of their duties. It will be reviewed regularly to reflect changes in working practices and standards. This will ensure that investigators obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations.

The Directorate will make recommendations for improving any services, systems or processes should control weaknesses be highlighted by an investigation. It will work with Internal Audit, where necessary, to ensure:

- action plans are produced in a consistent format
- appropriate arrangements are made for checking that actions agreed are implemented, properly, in a timely manner.

## **2016/17 Corporate Counter Fraud and Investigation Strategy**

Investigation files will be retained in accordance with the Council's file retention and disposal policy.

### **External Audit**

The Directorate will maintain an appropriate working relationship with the Council's external auditors, sharing documentation and reports as required to support the audit of the financial statements and any other work undertaken.

**AUDIT COMMITTEE**

**4th January 2017**

**Subject: EY Annual Audit Letter for the year ended 31 March 2016**

---

**1. Purpose of Report**

To present the External Auditor's Annual Audit Letter for 2015/16 to the Audit Committee.

**2. Background**

This Annual Audit Letter summarises the key issues arising from the work EY has carried out during the year as the Council's auditors, and highlights the key findings that should be considered by the Council.

It is intended to be a short document, aimed at the public, to inform them about the results of the audit. It should be posted onto the Council's website and will also be posted on the Public Sector Audit Appointments (PSAA) website.

A senior representative of EY (the Council's appointed external auditors) will present this report to the Audit Committee and then respond to any questions of clarification by Members.

**3. Corporate Implications**

**(a) Financial Implications**

The final audit fee for 2015/16 was £56,265

**(b) Legal Implications**

The Council is required to have an external audit of its activities that complies with the requirements of the National Audit Offices (NAO) Code of Audit Practice (the Code). By considering this report, the Audit Committee can satisfy itself that this requirement is being discharged.

**(c) Human Resources and Equality Implications**

**Human Resources**

None

**Equality Implications**

None.

**(d) IT and Asset Management Implications**

None

**4. Links to Council's Priorities and Objectives**



This audit work contributes to the delivery of all the Council's Aims and Objectives.

**5. Timescale for Implementation and Risk Factors**

The Accounts & Audit Regulations 2015 require this report to be considered by a committee of the authority as soon as reasonably practicable, following which it must be published on the website.

There are no significant issues arising from this report therefore there are no risks to highlight.

**6. Conclusion**

None

**Recommendation**

**The Audit Committee approves the EY Annual Audit Letter for the year ended 31 March 2016.**

**Background Papers**

- None

**Attachments**

- EY Annual Audit Letter for the year ended 31 March 2016

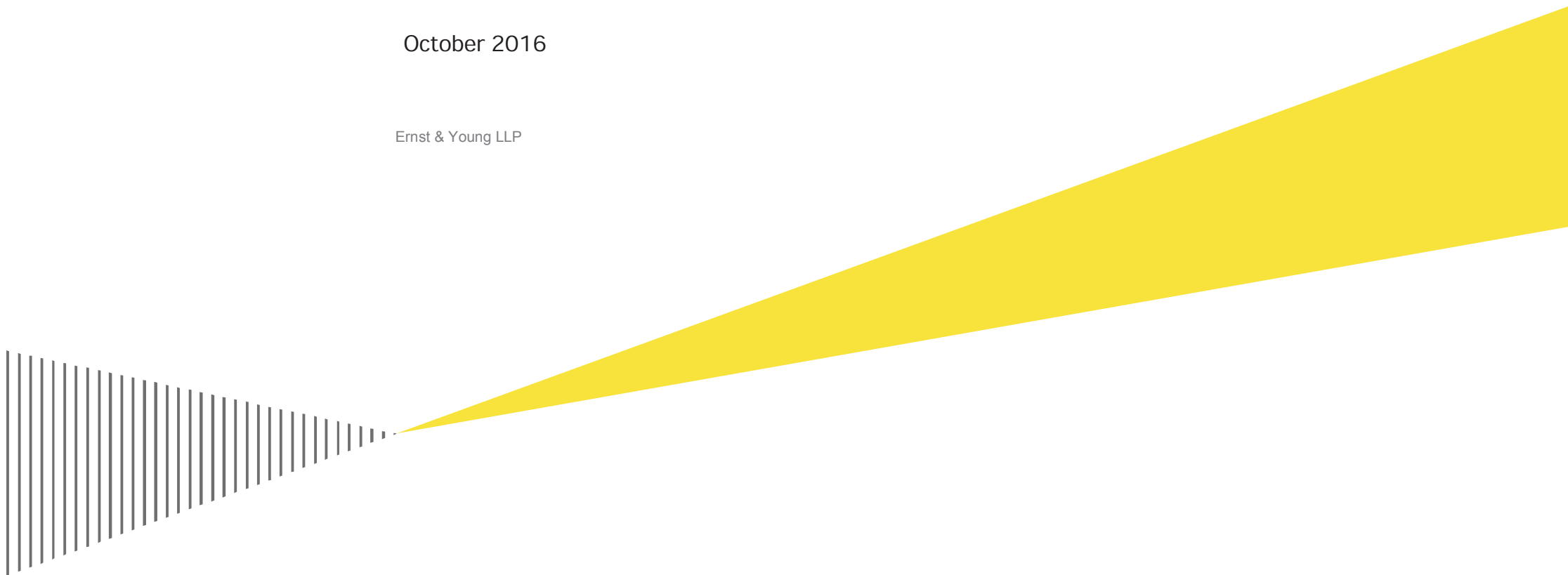
**Report Author: Kevin Suter, Executive Director, EY**

# Castle Point Borough Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued 'Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Castle Point Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 5 September 2016
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 29 September 2016

In December 2016 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter

Executive Director  
For and on behalf of Ernst & Young LLP

Work



Ownership

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 19 September 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.





# Responsibilities

## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 9 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2015/16 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays some data. To the left, there are some papers and a pen. The overall lighting is bright and natural, suggesting a window nearby.

## Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 September 2016.

Our detailed findings were reported to the 19 September 2016 Audit Committee.

The Council met the key statutory deadlines, with a good quality set of accounts and supporting working papers.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We carried out testing on journals processed during the year, including testing for:</p> <ul style="list-style-type: none"><li>- references to senior staff in the description;</li><li>- references to Council members in the description;</li><li>- unusual account combinations; and</li><li>- trends and patterns in postings.</li></ul> <p>We consider the key accounting estimates to be the valuation of property, plant and equipment assets, and your pension liability. We considered the estimations to be reasonable.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>

---

#### Revenue and expenditure recognition

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.

We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

---

Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.

Our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.

Our work on expenditure testing, accounting estimates and capital expenditure did not identify any further issues or matters for reporting.



Value for Money

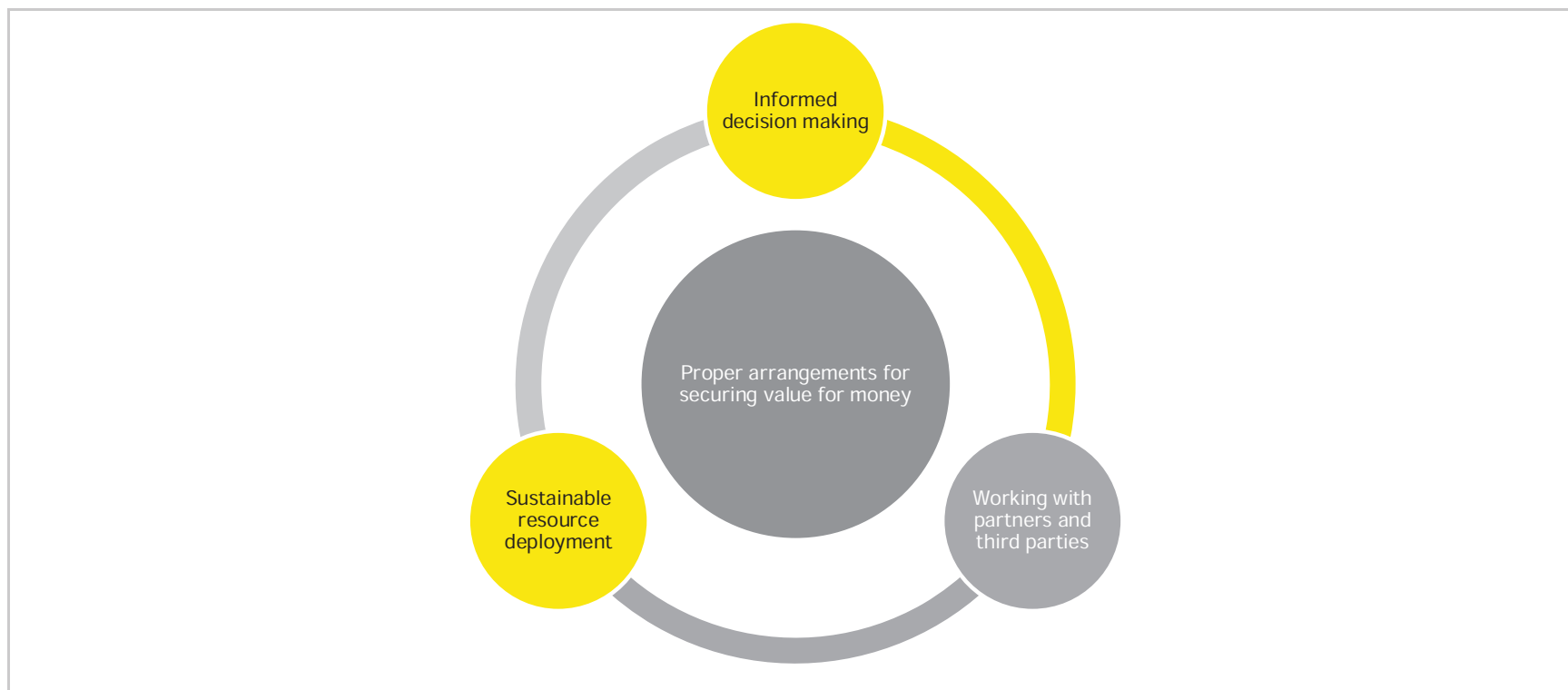


## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.





We issued an unqualified value for money conclusion on 29 September 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements. We based our conclusions on the following key findings.

#### Key Findings

- The Council's financial forecast currently indicates that its budgets are balanced for 2016/17 and largely balanced for 2017/18 (forecast budget gap of £6,000). However, significant budget gaps of £1.1m and £1.9m are forecast for 2018/19 and 2019/20 respectively.
- A core no-growth base budget for 2016/17, 2017/18 and provisional budget for 2018/19 is driven by current service plans and a review of 2015/16 outturn estimates. This includes reasonable estimates and assumptions, including increases for inflation, pay awards, employer's pension fund contributions, contracts, rates, utilities and insurances. Controllable service costs have been carried forward at existing levels except in cases of unavoidable increases.
- The medium term financial forecast assumes the continuation of a number of revenue streams from external organisations or third parties. It is noted that many of these organisations are themselves seeking to make efficiencies and reduce costs. The Council has acknowledged that it is possible that these revenue streams may be lost. In addition, where revenue streams are sensitive to changes in market conditions, the Council has identified there is a risk that budgets may not met due to the fluctuating economy.
- For 2017/18 onwards, the medium term financial forecast indicates the use of general reserves to support revenue expenditure. However, it is the Council's intention to identify sufficient efficiencies through cost reductions and additional income opportunities to bridge the budget gap without the use of reserves.
- In order to ensure that the Council can remain sustainable throughout this period, the minimum level of general fund reserves has been increased in 2016/17 from £2.4 million to £2.7 million and additional funds are being allocated to earmarked reserves.
- The Council recognises that they are dependent on New Homes Bonus (NHB) to support spending plans and balance the budget. The Council has assessed the impact of the proposed changes to the NHB scheme and this has been factored into the budget and its medium term financial forecast. The financial forecast reflects the worst case scenario and shows a reduction in NHB from 2016/17 to 2019/20 of £1.172 million in 2016/17, £0.774 million in 2017/18, £0.485 million in 18/19 and £0.351 million in 2019/20.
- The Council has already identified savings which will impact throughout the financial forecast. For example, the funding gap for 2017/18 which was identified in the medium term financial forecast in 2016/17 has reduced since the financial forecast for 2015/16 from £1.7 million to £6,000. This has been predominantly through an established programme of work that has been used to improve efficiency and reduce costs. This programme has included seeking procurements that maximise efficiencies and opportunities, reviewing service delivery methods and cost sharing with partners.
- The Council recognises the challenge it faces to balance the budget in future years. Higher costs and increasing demands from the public mean the Council is seeking new ways of service delivery. However, further savings will need to be identified in order to balance the budget from 2017/18 onwards, and its existing programme of work in reviewing efficiencies in services is coming to an end. The Council may need to take some significant and difficult decisions in the near future to ensure that it can balance its 2018/19 budget and beyond.



## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit & Risk Committee on 28 July 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We had no such matters to bring to your attention.

A close-up, shallow depth-of-field photograph of a person's face as they look through a pair of black binoculars. The person's eyes are visible through the eyepieces, and their hands are holding the binoculars. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&amp;P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>



Appendix A

## Audit Fees



## Appendix A      Audit Fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	56,265	56,265	56,265
Total Audit Fee – Certification of claims and returns	21,801	21,801	21,801

Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA. Our actual fee will be determined on completion of the Housing Benefit subsidy claim, due by 30 November 2016

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.



EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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ED None

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**AUDIT COMMITTEE**

**4<sup>th</sup> January 2017**

**Subject: EY Audit Committee Progress Report**

---

**1. Purpose of Report**

To provide the Audit Committee with an overview of the external auditors plans for 2016/17.

**2. Background**

Attached is EY's (the appointed External Auditor to the Council) Audit Progress Report for information.

**3. Corporate Implications**

**Financial Implications**

None. The annual fee for the audit is yet to be determined.

**Legal Implications**

The Council is required to have an external audit of its activities that complies with the requirements of:

- the Local Audit and Accountability Act 2014
- the National Audit Office's 2015 Code of Audit Practice
- the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd
- Auditing Standards and other professional requirements.

By considering this report, the Committee can satisfy itself that this requirement is being discharged.

**Human Resources and Equality Implications**

**Human Resources**

None

**Equality Implications**

None.

**IT and Asset Management Implications**

None

#### **4. Links to Council's Priorities and Objectives**

Audit work contributes to the delivery of all the Council's Priorities and Objectives.

#### **5. Timescale for Implementation and Risk Factors**

Timescales for delivering elements of the Audit Plan are set out in the progress report.

#### **Recommendation**

**The Audit Committee notes the plans for delivering the 2016/17 Audit Plan.**

#### **Background Papers**

- None

#### **Attachments**

- EY's Audit Committee Progress Report

**Report Author: Kevin Suter, Executive Director, EY**

# Castle Point Borough Council

## Audit Committee Progress Report

January 2017



Building a better  
working world



The Members  
Audit Committee  
Castle Point Borough Council  
Kiln Road  
Thundersley  
Benfleet  
Essex SS7 1TF

15 December 2016

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of our plans for the 2016/17 audit to ensure they are aligned with your service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

Kevin Suter  
Executive Director  
For and on behalf of Ernst & Young LLP  
Enc.

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psaa.co.uk) (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Progress Report is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# Work plan

## 2016/17 audit

### Financial statements audit

We have commenced our audit planning and risk assessment with the aim of issuing our Audit Plan to the next meeting of the Committee.

We adopt a risk based approach to the audit and, as part of our ongoing planning, we held a meeting with key officers in November 2016 for an update on the strategic issues facing the Council.

We also met with key officers of the finance team in December 2016 to discuss our work programme for the 2016/17 financial statements audit.

We have also discussed how we can work together to improve the accounts production and audit process for 2016/17, building on our 2015/16 audit. We will continue to liaise with officers to ensure the 2016/17 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

Where possible we continue to seek to rely on the controls within the Council's financial systems.

We have set out an outline timetable for the audit in Appendix 1.

### Initial risk assessment:

Our planning to date has identified the following risks or areas of audit emphasis:

- Risk of Management Override
- Risk of revenue recognition
- Changes to the CIPFA Code of Accounting Practice, and presentation of the Comprehensive Income & Expenditure Statement.

### Planning visit

Our work to walk through the Council's systems and controls is planned to commence in February 2017 into March 2017.

We will also aim to undertake some early substantive testing during this period.

### Post Statements audit

We will discuss the timing of our post statements audit with officers and agree a timetable for the receipt of the draft financial statements and working papers.

As a firm, we have set a strategic aim to complete all our LG clients by 31 August 2017 for our 2016/17 audits, to prepare for the faster close in the subsequent year.

We will use computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries. We have started the process of liaising with the finance team in requesting the general ledger transaction data and payroll data, which will form part of our testing.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.



### **Value for money conclusion**

The National Audit Office has made no significant changes to the guidance for the value for money conclusion for 2016/17.

Due to the continuing pressures on local government finance, we expect that we will continue to identify the Council's financial position as a VFM significant risk.

## **Other Issues**

### **Housing Benefit Certification**

We completed the 2015/16 Housing Benefit Certification to the 30 November deadline.

## Appendix 1 – Timetable for the 2016-17 audit

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016-17 Audit Committee cycle. We will provide formal reports to the Audit Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Audit Committee
High level planning	<b>Ongoing</b>	Audit Fee Letter	
Detailed risk assessment and setting of scope of audit	<b>February 2017</b>	Audit Plan	March 2017
Testing of routine processes and controls	<b>March 2017</b>	Audit Plan	March 2017
Year-end audit	<b>July – August 2017 (tbc)</b>	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2017
Annual Reporting	<b>September 2017</b>	Annual Audit Letter	
Grant Claims 2016-17	<b>September – November 2017</b>	Annual certification report	January 2018

In addition to the above formal reporting and deliverables we provide a progress update to each meeting and practical business insights and updates on regulatory matters.

EY | Assurance | Tax | Transactions | Advisory

## Ernst & Young LLP

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**AUDIT COMMITTEE**

**4 January 2017**

Subject:

**Treasury Management and Investment Strategy 2017/18**

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**1. Purpose of Report**

The Council must comply with the Code of Practice - Treasury Management in the Public Services, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). As part of this Code the Council is required to approve an annual Treasury Management and Investment Strategy for the forthcoming financial year.

**2. Links to Council's priorities and objectives**

The scrutiny and approval of the Council's Treasury Management and Investment Strategy is linked to the Council's priority of Efficient and Effective Customer Focused Services. Sound and strategic financial management is essential in order to ensure that resources are available to support the Council's priorities and maintain or improve services.

**3. Recommendation**

That following scrutiny, the Treasury Management and Investment Strategy for 2017/18 is approved for onward submission to Council in February 2017 as part of the budget setting process for 2017/18.

**Resolution required.**

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# Treasury management Strategy

## Definition of treasury management

- 1 Treasury management is:-  
*“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 2 The Council includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

The Council:

- Will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
  - Suitable treasury management practices (TMP’s) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP’s.
- Delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Head of Resources, who will act in accordance with the Council's policy statement and TMP’s and CIPFA's Standard of Professional Practice on Treasury Management.
- Nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

## Treasury Management Strategy for 2017/18

- 3 The Strategy has been formulated after considering the advice of the Council’s consultants, Capita Treasury Solutions Ltd. trading as Capita Asset Services. All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement.

## Balanced budget requirement

- 4 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. This means that the Council is required to ensure the affordability of existing and new projects, both revenue and capital, within the projected income of the Council for the foreseeable future.

## Brexit & Economic Uncertainty

- 5 In June the UK voted to leave the EU and in August the Monetary Policy Committee (MPC) cut base rates from **0.50%** to **0.25%**. There is now long-term uncertainty and the UK Government and some banks have been placed on negative outlook by the major ratings agencies. Consequently the Council will earn lower rates of interests on its temporary investments, and may be further restricted in where it can invest funds.
- 6 The Council will continue to adhere to strict investment criteria. It is anticipated that investments will continue to have a short-term average maturity (less than 2 months) and earn very low rates of interest. Officers will continue to seek the best return possible whilst complying with the Councils policies and procedures, without compromising security and liquidity.

### Prospects for interest rates

- 7 The Bank of England base rate had been at **0.50%** since March 2009 until it dropped to **0.25%** in August. Growth in the UK economy is expected to continue to be at best weak and Capita, the Council's Treasury Management Advisor, does not expect the base rate to increase until 2019. Therefore it remains difficult to predict longer-term rates with any certainty and as such the interest rates used to forecast investment income will continue to be very prudent. It is expected that the 50-year Public Works Loan Board (PWLB) long-term rate for maturity loans will be in the range of **2.7%** to **2.8%** during 2017/18.

### Current debt position and requirements for 2017/18

- 8 A summary of external debt that is expected to be outstanding at 31 March 2017 is:-

<b>Table 8.1 External debt outstanding</b>	
<b>Source</b>	<b>Total at 31/03/17 £000's</b>
Public Works Loan Board – General Fund	5,250
Public Works Loan Board – Housing Revenue Account	36,451
<b>Total</b>	<b>41,701</b>

- 9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **3.70%** to **4.10%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and also the unexpired period at the time of repayment.
- 10 External borrowing can arise as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The proposed programme of capital expenditure due to be approved by Council in February 2017 is not anticipated to trigger a requirement for new borrowing in 2017/18. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.

### Borrowing Strategy

- 11 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its Treasury Strategy.
- 12 If a need to borrow arose, the Head of Resources, under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.
- 13 With the likelihood of long-term rates increasing, debt restructuring is likely to focus on switching from longer-term fixed rates to cheaper shorter term debt, although the Head of Resources and treasury consultants will monitor prevailing rates for any opportunities during the year. However, changes by the PWLB in 2007, compounded since October 2010, has meant that PWLB debt restructuring is now much less attractive than it was previously.
- 14 The PWLB periodically allow local authorities to register for a preferential "certainty rate" for borrowing, which is below the standard rate. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows them to access the preferential rate should the need arise. Although there are no current plans to borrow the Council routinely registers for the preferential rate.
- 15 The weighted average maturity of the Council's General Fund debt is long at **37 years**, and none of the debt portfolio is due to mature before 2052 so there is no refinancing risk in the foreseeable future. Subject to any future changes in borrowing or planned capital projects the General Fund will not be affected by increased borrowing margins in the short or medium term.

- 16 The Housing Revenue Account debt taken out in March 2012 is set to mature at different times between 2021/22 and 2041/42.

### **Borrowing in advance of need**

- 17 The Council has some flexibility to borrow funds this year for use in future years. The Head of Resources may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so.
- 18 CLG guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Head of Resources does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:-
- It will be limited to no more than **£2m** of the expected increase in borrowing need (CFR) over the three year planning period; and
  - The Council would not look to borrow more than 18 months in advance of need.
- 19 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus funds arising from borrowing in advance of need will be invested in accordance with the Council's Investment Strategy.

### **Treasury management indicators**

- 20 The Council is required to calculate a number of Treasury Management Indicators as part of the Treasury Management Code of Practice. Draft indicators are reported in the following paragraphs and final calculations will be included when this report is submitted to Council in February.

### **Borrowing maturity structure**

- 21 The Prudential Code for Capital Finance in Local Authorities requires the Council to set upper and lower limits for the maturity structure of fixed rate borrowing. These limits are designed to help the Council minimise its exposure to large fixed rate sums falling due for refinancing. The proposed limits, expressed as percentages of total projected fixed rate borrowing, are as follows:-

<b>Table 21.1 Maturity structure of fixed rate borrowing</b>				
	<b>General Fund</b>		<b>Housing Revenue Account</b>	
<b>Maturity</b>	<b>Upper limit</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>Lower limit</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
within 1 year	50	0	50	0
within 2 years	50	0	50	0
within 5 years	60	0	60	0
within 10 years	80	0	80	0
after 10 years	100	0	100	0

### **Borrowing – limits of fixed and variable rate exposure**

- 22 The Prudential Code requires the Council to set upper limits for fixed and variable interest rate exposure. These indicators identify the maximum limits for both fixed and variable interest rates based upon the Council's debt position net of investments. The proposed limits are as follows:-

<b>Table 22.1 Upper limits of fixed and variable exposures</b>						
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
Upper limit – fixed rates	47	47	47	47	47	47
Upper limit – variable rates	-16	-14	-16	-15	-15	-10

**Borrowing - interest rate sensitivity**

23 Any borrowing decisions will need to take account of any sudden changes in interest rates. There are two possible scenarios:-

- a sudden sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low;
- a sudden sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

**Borrowing objectives**

24 A summary of the Council's borrowing objectives for 2017/18 is therefore as follows:-

- to borrow if necessary in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code;
- to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption;
- to manage the debt maturity profile in order to avoid a high level of repayments in any one year;
- to borrow at the best interest rates achievable in relation to estimated future rates;
- to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements;
- if possible, to reschedule debt in order to take advantage of potential savings as interest rates change;
- to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison;
- to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.



# Investment Strategy

## Investment guidance

- 1 This Council has regard to the CLG's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

## Investment principles

- 2 All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are:
  - Firstly – the **security** of capital (protecting the capital sum invested from loss) and
  - Secondly – the **liquidity** of its investments (keeping the money readily available for expenditure when needed).

Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities.

- 3 The Guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

## Specified and Non-specified Investments

- 4 Specified Investments are high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year. Specified Investment instruments identified for use in the financial year are listed in table 4.1 on the following page. Non-specified Investments are any other type of investment, i.e. not defined as Specified above, however the Council will have no Non-specified Investments in the foreseeable future.

## Liquidity

- 5 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2017/18 to range between **£20m** and **£35m**.

## New Investments

- 6 The Head of Resources recommends adding two new types of specified investment to the approved list of counterparties for 2017/18. The Council has consulted with its treasury adviser, Capita, and believes it can achieve good security and more diversification. Covered bonds and reverse repurchase agreements are regularly used by other local authorities.

## Covered bonds

- 7 These are a type of bond created from public sector or mortgage loans, which are used by local authorities due to their high credit quality and security, and have low exposure to risk of default.

## Reverse Repurchase Agreements ("repos")

- 8 These are a form of secured lending, for any fixed period up to 1 year, with a minimum amount of £1m. They provide enhanced security of capital, mitigated risk and diverse counterparty exposure whilst still obtaining a market rate of return.

**Table 4.1 Specified Investments for the Financial Year 2017/18**

<b>Investment</b>	<b>Counterparty limit</b>	<b>Security / Minimum Credit Rating</b>	<b>Maximum period of investment</b>
<b>Debt Management Agency Deposit Facility (DMADF)</b> (this facility is at present available for investments up to 6 months)	No limit	The Debt Management Office is an agency of the UK Government	6 months (DMO imposed time limit)
<b>Treasury Bills</b> issued by the UK Government	No limit	The Debt Management Office is an agency of the UK Government	364 days
<b>Term deposits</b> with the UK government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 33% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	364 days
<b>Term Deposits</b> with institutions, part nationalised by the UK Government	The lesser of £5m or 33% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Money Market Funds</b> (i.e. a collective investment scheme as defined in SI 2004 No 534) These funds do not have a maturity date	The lesser of £5m or 33% of total investments	Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings)	n/a (repayable on demand)
<b>Current accounts, notice accounts or term deposits</b> with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days (Call deposits repayable on demand)
<b>Forward deals</b> with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Certificates of Deposit</b> issued by UK institutions	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Covered bonds</b>	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Reverse repurchase agreements "repos"</b>	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

- All Specified Investments listed above must be sterling-denominated.
- All investments are managed in-house.
- No shares or loan capital is held by the Council
- None of the investments are classified as capital expenditure.

**Investment risk and creditworthiness**

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Table 4.1 sets out the Council's minimum credit ratings that it considers appropriate for each category of investment. All funds are invested in institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

**10 Monitoring of credit ratings**

All credit ratings will be monitored on a regular basis, including when investments are made. The Council's external adviser, Capita, also alerts the Council to changes in ratings as they occur.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

**Country, group and sector limits**

- 11 The Council selects counterparties according to credit quality as well as the additional information in paragraph 13 below. Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 16.

**Money Market Funds**

- 12 The Council invests in funds which adopt the Institutional Money Market Funds Association (a trade body for European fund managers) Code of Conduct for triple-A rated funds. A Money Market Fund is a pooled source of funds invested in a wide range of short term investments, and managed by an independent fund management company, as defined in SI 2004 No 534. Frequently these are well known banks or investment houses. The funds are domiciled in the United Kingdom, Ireland or Luxembourg. The Council will only invest in jurisdictions and institutions where the financial sector is, in the opinion of the s151 Officer, thought to be well regulated and relatively secure. Over the next couple of years, the EU will be working on proposals which may require the valuation method for Money Market Funds to change, with the result that the principal value could slightly increase or decrease. These reforms are unlikely to be implemented before 2018/19 and the Council will assess any potential impact on its investments before they are implemented.

**Use of additional information other than credit ratings**

- 13 Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example equity prices, Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

**Bail-in legislation**

- 14 To avoid a government bailout (ie. where governments inject monetary support into institutions to keep them solvent) that occurred during the financial crisis, bail-in legislation has now been fully implemented in the UK. In future large investors or creditors may contribute to the rescue of failing banks rather than taxpayers, as some or all of their deposits are converted into equity which could be worth less than the original investment. Consequently the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

### **Bank stress tests**

- 15 In November 2016 the Government released results of stress tests on seven major UK banks to measure whether they would survive a financial shock. RBS is still short of the money it needs to survive another financial crisis. Barclays and Standard Chartered performed poorly in the test, but the Bank of England said it was happy with their exiting plans to raise additional capital. Lloyds Banking Group, Nationwide and Santander UK remained well above their hurdle rates throughout the stress tests. At December 2016 the Council did not have deposits with RBS, Barclays, Standard Chartered nor Nationwide.

### **Internal stricter guidance**

- 16 Due to the ongoing, relatively weak economic situation, with resulting uncertainty in the money markets and lack of confidence in counterparties, the Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. The situation is reviewed regularly, taking into account information and advice supplied by Capita, the Council's treasury adviser. Changes to the guidance are decided by the Head of Resources. These measures will remain in place for as long as they are required.

### **Use of derivative instruments**

- 17 Local authorities have the ability to use any hedging tools such as derivatives, but only for the management of risk and the prudent management of financial affairs. When an authority intends to use derivative instruments the policy for their use must be clearly detailed in the annual Treasury Management Strategy. The Council does not currently intend to use derivatives, but should this change then the Treasury Management Strategy will be amended prior to their use. The Council will seek proper advice when entering into arrangements to use such products to ensure that it fully understands those products.

### **Investments defined as capital expenditure**

- 18 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as Non-specified Investments. As already stated, the Council does not currently intend to invest in Non-specified Investments.
- 19 Investments in Money Market Funds, as defined in paragraph 12, will not be treated as capital expenditure.
- 20 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure.

### **Provisions for credit-related losses**

- 21 If any of the Council's investments appeared at risk of loss due to default (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

### **Investment strategy to be followed in-house**

- 22 The Council's in-house managed funds are mainly cash flow derived. Due to the level of these funds and uncertainty in the current climate, the Council has no proposals to invest for periods over 364 days. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

### **The Council's banking arrangements**

- 23 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31<sup>st</sup> March 2018 with the option of a two-year extension to 2020.

### **Risk benchmarking**

- 24 The most recent version of the CIPFA TM Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.
- 25 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the Mid-Year or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.
- 26 **Security** – The Council's maximum security risk benchmark for the current portfolio is:-
- A credit-rating score of **4.0** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.
- 27 **Liquidity** – In respect of this area the Council seeks to maintain:-
- Bank overdraft - **£200,000**. Higher overdraft facilities are available on request.
  - Liquid short term deposits of at least **£1.0m** available with a day's notice.
  - Weighted Average Life benchmark is expected to be up to 4 months, with a maximum of one year.
- 28 **Yield** – Local measures of yield benchmarks are:-
- Investments – returns above the 7-day LIBID rate.

### **Treasury management adviser**

- 29 Capita, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets.
- 30 Whilst Capita provides support to the internal treasury function, under current market rules and the CIPFA TM Code, the final decision on treasury matters remains with the Council.

### **Member and officer training**

- 31 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Capita both to maintain and improve their knowledge and expertise.

### **Investment activity reporting and publication**

- 32 Officers prepare a mid-year monitoring report on investment activity each autumn and an end of year report as part of its Annual Treasury Report after the close of each financial year. This does not preclude more frequent reporting should changes or circumstances dictate, including changes to the Treasury Management and Investment Strategy if required. The Investment Strategy is published annually on the Council's website.

**AUDIT COMMITTEE****4th January 2017****Subject: Internal Audit Service, Quarterly Performance Report**

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**1. Purpose of Report**

To update the Audit Committee on progress made in delivering the Internal Audit Strategy for 2016/17.

**2. Internal Audit Plan Status**

**Appendix A** sets out the current status of the audit work planned for the year as at 9<sup>th</sup> December 2016. The only amendment made to the Audit Plan since the last report to the Audit Committee in September 2016, is the deletion of the Housing Maintenance Contracts review. Therefore, the contingency now stands at 16 days. This is unlikely to be fully utilised this year.

The number of days contained in the Audit Plan for this year has changed from 330 as approved by the Audit Committee in March 2016, to 304. This reflects the higher cost of specialists used to undertake some of the audits, therefore reducing the overall number of days that can be bought in.

A revised split of coverage over the different audit categories and departments is also contained at the end of the Audit Plan, for information.

**3. Audit Opinions and Themes**

**Appendix B** summarises the results of and where appropriate, the audit opinions given on work completed to date.

The only minimal audit opinion was given on the arrangements for approving planning applications. Some progress had been made in addressing the issues arising from the original Right to Buy audit but further work is still required to strengthen these arrangements.

**4. Performance Targets**

As at 9th December 2016, the service is on target to deliver sufficient work to enable the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements as:

- sickness absence remains low at 0.31 days per FTE compared to a target of under five days per FTE
- 51% of reports are at draft report stage (i.e. the work is substantially complete).

Given the high level of contracted out work this year, the productivity indicator is no longer a useful performance indicator for the team. Therefore, this won't be reported upon for the remainder of 2016/17.

## *Resourcing*

The combined service will be going out to recruit to an Audit Manager and Part Qualified Auditor / Auditor post in January 2017. A further recruitment exercise will then be undertaken later in the year. Discussions will also be held between Southend-on-Sea Borough Council and Castle Point Borough Council on the most appropriate way to restructure and organise the combined service going forward.

## **5. Corporate Implications**

### **Financial Implications**

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

### **Legal Implications**

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

### **Human Resources and Equality Implications**

#### **Human Resources**

People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

Regular updates will be provided to the Audit Committee on how the service is being resourced (as required by the Standards).

#### **Equality Implications**

The relevance of equality and diversity will be considered during the initial planning stage of each audit before the Terms of Reference are agreed.

#### **IT and Asset Management Implications**

People or asset management issues that are relevant to an audit will be considered as part of the review.

## **6. Links to Council's Aims, Targets and Objectives**

Audit work contributes to the delivery of all of the Council's Aims, Targets and Objectives.

## **7. Timescale for Implementation**

The Audit Plan relates to the 2016/17 financial year.

This is a key piece of evidence available to the Audit Committee when reviewing the Annual Governance Statement, which is also presented to the June Audit Committee.

## 8. Risk Factors

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact on the Council's ability to deliver its Corporate Aims, Targets and Objectives. A key mitigating factor is the work of the Good Governance Group (the Group). Assurance provided by this Group is summarised in the Quarterly Monitoring Report of the Council's Governance Arrangements.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource at all or in a timely manner
- lack of management capacity to support and process work in a timely manner and provide strategic leadership to the team
- possibility that the external supplier won't deliver contracted out work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners until the service has been rebuilt.

### **Recommendations:**

**The Audit Committee notes the assurance provided by the audit work completed this quarter.**

## **Background Papers**

- The Accounts and Audit Regulations 2015
- UK Public Service Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

## **Appendices**

Appendix A Internal Audit Plan 2016/17

Appendix B Audit Opinions and Themes

- 1 • Satisfactory Assurance
- 2 • Minimal Assurance
- 3 • Audits Revisited
- 4 • Other Audits and Grants Claims

**Report Author: Linda Everard, Head of Internal Audit**



## Appendix A: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 9 <sup>th</sup> December 2016
<b>Managing the Business</b>				
<b>All Aims</b>				
All	<b>Risk Management</b> To assess whether departments are accurately identifying and taking appropriate action to manage risks effectively.			Draft report produced.
All	<b>Working With Partners</b> To assess whether for a number of partnerships there are robust governance arrangements.			Draft report being discussed with clients.
<i>Implementing Action Plans</i>				
All	<b>Complaints, Compliments and Comments</b> For the focus of the work, see below* <i>Original report issued April 2016</i>			To be completed between Jan to Mar 2017.
All	<b>Procurement</b> For the focus of the work, see below* <i>Original report issued December 2015</i>		√	Report issued December 2016.
<b>Managing Service Delivery Risks</b>				
<b>Aim: Public Health and Wellbeing</b>				
Env	<b>Leisure Services</b> To assess whether the bookings, memberships and other income generating processes are fit for purpose.		√	Fieldwork completed. Draft report being produced.

## Appendix A: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 9 <sup>th</sup> December 2016
<b>Aim: Environment</b>				
<i>Implementing Action Plans</i>				
Env	<b>Waste Collection Service</b> For the focus of the work, see below* <i>Original report issued December 2015</i>			<b>Terms of Reference issued.</b> <b>Work to start in January 2017.</b>
<b>Aim: Transforming Our Community</b>				
<i>Implementing Action Plans</i>				
R&N	<b>Regeneration</b> For the focus of the work, see below* <i>Original report issued November 2015</i>			<b>Draft report being discussed with clients.</b>
<b>Aim: Efficient and Effective Customer Focused Services</b>				
Res	<b>Accounts Payable</b> To assess whether the Accounts Payable system operates efficiently and effectively.		√	To be completed between Jan to Mar 2017.
Res	<b>Cyber Security</b> To assess the effectiveness of arrangements in place to protect the Council from cyber-attacks and other online vulnerabilities.		√	<b>Terms of Reference being agreed.</b> To be completed between Jan to Mar 2017.
L&G	<b>Debt Collection</b> To assess whether there are robust processes in place to ensure all debt due is cost effectively collected.		√	<b>Report issued December 2016.</b>
H&C	<b>Health and Safety</b> To assess whether actions are addressed when issues arise from health and safety inspections undertaken by South Essex Homes.			Terms of Reference agreed. To be completed between Jan to Mar 2017.

## Appendix A: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 9 <sup>th</sup> December 2016
H&C	<b>Housing Maintenance Contracts</b> To assess whether a contract is being effectively managed.		√	<b>Deleted. This risk will be reassessed in 2017/18.</b>
L&G	<b>Income Collection</b> For a sample of income streams, assess whether all income due is raised in accordance Council policies / fees and charges framework.		√	<b>Work in progress.</b>
L&G	<b>Leases and Licences</b> To assess whether lease and license records are complete, reviewed in a timely manner and all income due is collected.		√	Terms of Reference agreed. To be completed between Jan to Mar 2017.
R&N	<b>Planning</b> To assess whether decisions on planning applications are being made at the most appropriate level, in line with Council Policy as well as statutory and recognised good practice standards.		√	<b>Report issued December 2016.</b>
<i>Implementing Action Plans</i>				
Res	<b>IT Disaster Recovery</b> To assess whether there are robust plans, systems and processes to ensure the Council's IT systems and data are recoverable following a disaster incident and follow-up on whether the actions agreed have been implemented.			<b>Report issued December 2016.</b>
H&C	<b>Housing Allocations</b> For the focus of the work, see below* <i>Original report issued July 2015</i>		√	<b>Terms of Reference issued. Work to start in January 2017.</b>
H&C	<b>Homelessness</b> For the focus of the work, see below* <i>Original report issued June 2015</i>		√	<b>Terms of Reference issued. Work to start in January 2017.</b>
R&N	<b>Licensing</b> For the focus of the work, see below* <i>Original report issued November 2013, 1<sup>st</sup> follow up June 2015</i>		√	<b>Draft report being discussed with clients.</b>

## Appendix A: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 9 <sup>th</sup> December 2016
H&C	<b>Residential Leaseholder Charging</b> For the focus of the work, see below* <i>Original report issued September 2015</i>		√	<b>Report issued September 2016.</b>
H&C	<b>Right to Buy</b> For the focus of the work, see below* <i>Original report issued December 2015</i>		√	<b>Report issued December 2016.</b>
R&N	<b>Safeguarding Arrangements</b> For the focus of the work, see below* <i>Original report issued</i>			<b>Draft report produced.</b>

### Key Financial Systems

#### Aim: Efficient and Effective Customer Focused Services

To assess whether the key controls in each of the key financial systems effectively prevent or detect material errors on a timely basis to ensure that the financial statements are not materially incorrect.

	Outstanding financial systems reports from 2015/16			
	• Council Tax		√	Report issued Aug 2016.
	• Business Rates		√	Report issued Aug 2016.
	• Housing Benefits		√	Report issued Aug 2016.
	• Accounts Receivable		√	Report issued Sept 2016.
	• Housing Rents		√	Report issued Sept 2016.
	• Accounts Payable		√	Report issued Sept 2016.
Res	Accounts Payable		√	<b>Work in progress</b>
H&C	Accounts Receivable		√	<b>Work in progress</b>
H&C	Business Rates		√	<b>Work in progress</b>
H&C	Council Tax		√	<b>Work in progress</b>
Res	General Ledger			<b>Work in progress</b>

## Appendix A: Internal Audit Plan 2016/17

Dept	Council activity and focus of audit work	Est spend / income	Fraud risk	Status as at 9 <sup>th</sup> December 2016
H&C	Housing Benefit		√	Work in progress
H&C	Housing Rents		√	Work in progress
H&C	Income Receipting and Banking		√	Work in progress
Res	Payroll		√	Work in progress
Res	Treasury Management		√	Not auditing as assurance going to be carried forward this year.
<b>Grant Claims</b>				
Env	Disabled Facilities Capital Grant Determination (New audit)			Unqualified audit opinion given.
<b>Advice and Support Work</b>				
Res	<b>Allowances</b> (New audit in year) To establish whether services are consistently applying the Council's Allowances Policy.		√	Internal management report produced and issued, August 2016.
H&C	<b>Revenues and Benefits Restructure</b> (New audit in year) To provide critical friend support as systems are being re-designed.		√	First interim memo issued August 2016. Second review in progress.
	Contingency			Is now 16 days.
<b>Managing Delivery of the Audit Plan</b>				
This includes audit planning, resourcing, managing contractor work, reporting to Executive Management Team and Audit Committee.				

- \* The objective of the work when **revisiting audit reports** is to confirm that action agreed have been effectively implemented and embedded into the day to day operation of the service.

<b>Resource Allocation</b>		
<b>Audit Activities</b>	<b>% of total resources available</b>	
	<b>Original</b>	<b>Revised</b>
<b>Managing the Business*</b>	3%	5%
<b>Managing Service Delivery Risks*</b>	52%	54%
<b>Key Financial Systems*</b>	24%	31%
<b>General Contingency</b>	16%	5%
<b>Managing Delivery of the Audit Plan</b>	5%	5%
<b>Total Council Audit Plan (estimate)</b>	330	304

\*Include any work to revisit and retest action plans from previous reports.

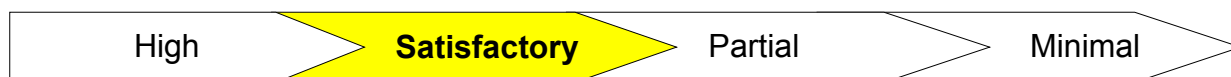
<b>Analysis Over Departments</b>			
		Original	Revised
<b>H&amp;C</b>	Housing and Communities	44%	40%
<b>Env</b>	Environmental Services	7%	9%
<b>R&amp;N</b>	Regeneration and Neighbourhoods	5%	9%
<b>Res</b>	Resources	20%	25%
<b>L&amp;G</b>	Legal and Governance	10%	11%
<b>All</b>	Cross cutting	14%	6%

**Departments:**

- H&C: Housing and Communities
- Env: Environmental Services
- R&N: Regeneration and Neighbourhoods
- Res: Resources
- L&G: Legal and Governance

## Appendix B1: Audit Opinion and Themes

### Assurance



### Debt Collection

#### Objective

To assess whether there are robust processes in place to ensure all debt due is cost effectively collected.

#### Themes

Overall, the Council has good debt collection arrangements in place that comply with relevant legislation and sector good practice guidance. Comprehensive and clear debt management policies and local procedure notes are in place and cover all aspects of the debt collection process in sufficient detail. They are available to staff on a shared drive. However some information on fees and charges provided on the Council's website was out of date.

Action taken by the Council to recover debts is in accordance with legislation, Council policies and procedures.

Debts outstanding after 28 days are referred to Revenues Service for action. The Council's debt recovery process was seen to be effective, with legal remedies being utilised appropriately and proportionately.

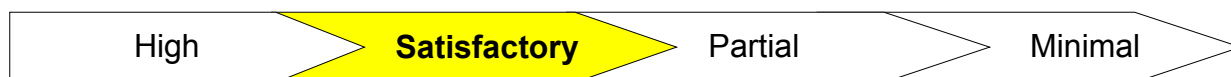
Aged debtor reports are produced each month. All cases are checked to confirm the expected income is being received and payment arrangements are being complied with. Ten percent of cases are checked to confirm the most appropriate debt collection method is being used. Housing Benefit overpayment reports are also run each month. They are monitored to ensure collection arrangements appropriate to the claimant's circumstances, have been put in place.

The Revenues Service issues timely reminders for outstanding debts every month, using text, emails and letters. After two reminders, a pre-litigation letter is issued and or it will be referred to Legal Services if appropriate. A payment arrangement will be agreed with the debtor whenever possible. Summons and liability orders will be sought if necessary. Enforcement agents, attachment of earnings, deductions from benefits or charging orders will be used if appropriate depending on the circumstances of each case. Once all other methods have been exhausted, the Council can apply to courts for a committal to prison and where it is appropriate to do so, it has taken this course of action.

The Council has a large debt balance of £780,233.92 that relates to housing benefit overpayments recorded as fraudulent and so can't be written off unless extenuating circumstances exist. It was noted that 23 of 101 accounts, each had debts in excess of £10,000 equating to £584,389.38 (or 75% of the entire outstanding amount). The Counter Fraud & Investigation Directorate is reviewing the evidence on file for each of these cases. This will enable a determination to be made as to whether the classification is correct and what course of action is required to deal with the debt e.g. Prosecution, Civil Recovery or write off. A view will then be taken as to what action is required to deal with the remaining, outstanding debt.

## Appendix B1: Audit Opinion and Themes

### Assurance



Overall the arrangements for writing off debt are fit for purpose and applied consistently.

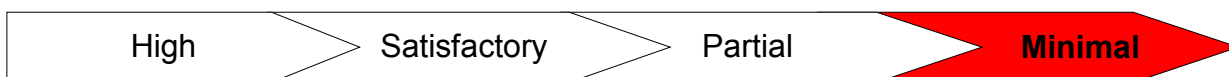
Reporting on outstanding debt is generally timely and to an appropriate level of management. More regular reporting is being developed to all levels of management, of the level of outstanding debt across all types of debt and stages of the recovery process.

Number of actions agreed: 3



## Appendix B2: Opinion and Themes

### Assurance



### Approval of Planning Applications

#### Objective

To assess whether decisions on planning applications are being made at the most appropriate level, in line with Council Policy as well as statutory and recognised good practice standards.

#### Themes

Decisions on planning applications are made by officers acting under delegated powers or by the Members of the Development Control Committee (the Committee).

The Constitution details the types of applications that are required to be referred to the Committee which includes, amongst others, applications:

- where the officer recommendation would be contrary to Council policy or which raise significant policy issues
- made on Council owned land
- involving a Section 106 obligation
- where a Member, officer or close relative has made the application
- where a Member requests that an item be brought to Committee (call-in).

Members can "call-in" items to the Committee, but they must refer to the planning grounds on which the request is made. The Planning Code of Good Practice can be found in the Constitution and reflects industry good practice guidance. Therefore, guidance is available that sets out what acceptable planning grounds are and members receive regular training on this. However, neither the Constitution or Code sets out the process to be followed when a "call-in" request is made.

Procedures need to be developed outlining the process for Councillor call-ins. The Constitution should be amended to make reference to these Councillor Call-in Procedures. Action is being taken to strengthen the existing arrangements and this will include requiring:

- "call-in" requests to be:
  - formally documented at the time they are raised
  - include details on any referral from the public
  - include details of any potential conflict of interest for the Member requesting the call-in
  - made public through the Planning Portal with other documentation already posted that supports the planning application.
- the reasons stated for requesting a "call-in" to provide sufficient background information regarding the reason for it.

## Appendix B2: Opinion and Themes

### Assurance



There is a risk with the current process that a Member could be accused of having pre-determined views prior to the case going before the Committee. As a result the Committee's decisions could be open to legal challenge and to allegations of maladministration.

The grounds for the officer decisions were clearly set out and where refusal was recommended, this was clearly linked to a failure to comply with:

- policies and guidance
- the requirements of the Council's Local Plan, the National Planning Policy Framework, and / or
- the Residential Design Guidance.

The Committee discussed 45 different applications during the 2015/16 year. Of these:

- 25 applications (55.5%) had been called-in to the Committee
- the Committee went against the officer recommendation on 12 occasions (27%). In nine of the cases the officer was recommending refusal and in three cases approval
- 75% of overturned decisions were on 'call-in' cases
- 36% of call-ins are overturned against 15% of non-called in cases therefore, more than double the amount of called in cases are overturned.

The material planning grounds for overturning an officer recommendation were not always clear. It was also noted that more than double the amount of "call-in" case decisions were overturned compared to those which would normally fall within the Committee's remit.

Under the current process, officers are not given the time to prepare a response to Members, where they are considering a motion against the officer recommendation. Good practice suggests the decision should be held over to the next meeting, when a report setting out the implications of the proposed motion would be presented.

The Protocol and Code of Conduct for Planning Matters sets out how Members' should declare their interests. In compliance with this, Members interests are a standing agenda item at Committee and any interests raised are minuted. However, in order to strengthen the existing processes, potential conflicts of interest should be documented and made public via the call in referral process.

The framework in place to guide Members in this area is being fundamentally reviewed and updated. Training will then be provided, to ensure it is clearly understood and then adhered to.

Number of actions agreed: 5

## Appendix B3: Audits Revisited

### Purpose of these audits

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the service.

### Procurement

#### Original Objective

To assess compliance with the actions required by Contract Procedure Rules for medium-value contracts that total between £10,001 and £50,000.

#### Summary findings

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
1	3	0	0	0

Good progress had been made in updating the Procurement Framework to set out expectations when staff make purchases valued between £10,001 and £50,000. So the:

- Procurement Checklist for this level of contract spend had been appropriately updated. It now requires evidence to be provided that the regular market testing was completed and a central file created within which to save it
- annual spend analysis exercise had highlighted the areas of spend where the Contract Procedure Rules had not been complied with and appropriate action had been taken to deal with this
- Operational Management Team had been briefed on areas where procurement practices at this level of spend, needed to be improved, although evidence was still required that this message had been given to all staff by their service managers
- formal sign off process had been strengthened where services wanted to request an exemption from complying with Contract Procedure Rules.

The focus now needs to be on ensuring staff consistently comply with the revised requirements and provide the evidence that this is the case. Initially there needs to be a one off exercise to confirm that the contracts register is complete, Legal Services has a signed copy of the all the contracts or formal contracts are produced where they don't currently exist.

A few minor amendments still need to be made to the Contract Procedure Rules to ensure they reflect the updated arrangements.

## Appendix B3: Audits Revisited

### Purpose of these audits

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the service.

### IT Disaster Recovery

#### Original Objective

To assess whether there are robust plans, systems and processes in place to ensure that Castle Point Borough Council's (the Council) IT systems and data are recoverable following a significant incident.

*(Note: This audit was undertaken and then followed up within the same review)*

#### Summary findings

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
4	0	0	0	0

The Council had an agreement with its IT contractor, Capita, to develop a comprehensive IT Business Continuity Disaster Recovery (BCDR) Plan. This set out all the requirements that would be expected within a good practice IT BCDR Plan. As at March 2016, the Council had a draft IT BCDR Plan but it was not due to be completed and signed off until June 2016.

During the initial audit, it was noted that several disaster recovery (DR) components such as documented lists, processes and procedures existed which should have been consolidated, to form a comprehensive IT BCDR Plan. These related to:

- critical business functions
- an IT Risk Assessment
- recovery procedures
- temporary DR arrangements
- insurance arrangements.

To further strengthen the IT BCDR Plan, it was identified that:

- Recovery Time Objectives (RTO) were required for all critical systems and services detailing the minimum acceptable time by which the services should be up and running after being recovered from as disaster situation
- there was a need to produce a list of all the DR team members, clearly stating their roles and objectives, along with a list containing updated contacts for the individuals
- disaster escalation and IT BCDR Plan invocation procedures were needed, clearly identifying the parties who are authorised to invoke it and carry out an initial disaster assessment.

## Appendix B3: Audits Revisited

### Purpose of these audits

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the service.

Subsequent to the audit, all the issues identified were addressed. Additional information was provided to demonstrate that the amendments to the IT BCDR Plan fully met the requirements. The Council accepted the revised IT BCDR Plan in November 2016.

### Residential Leaseholder Charging

#### Original Objective

To assess whether all works chargeable to Residential Leaseholders are accurately calculated and billed and all income due is received.

#### Summary findings

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
3	0	2	0	0

A Leaseholder Management Policy has been developed and documented. It now needs to be amended to include, as a minimum, the remaining aspects of the process set out in the original report that are currently missing from it, e.g.:

- how to recharge Leaseholders for their proportion of the cost for work on their property
- the need to refer to the terms of the original lease when calculating the recharge costs.

In addition, it would benefit from version control, details of ownership and timescales for review.

The primary record for Residential Leaseholder details is now password protected with amendment access restricted to appropriate staff. New implementation dates have been agreed for officers to:

- lock down key cells in the spreadsheet to protect them against amendment or deletion
- complete the reconciliation between the mailing list (housing's primary record of Residential Leaseholders) and Legal Services records to identify whether information is accurate, complete and up-to-date.

Management now evidence checks undertaken to independently confirm that recharge estimates are correct before they are billed, and this is clearly recorded and evidenced.

The template for the five-year estimate of service charges has been updated to include details on Leaseholders' right to loans in order to pay for recharges in relation to major works completed.

## Appendix B3: Audits Revisited

### Purpose of these audits

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the service.

It has been concluded that it would not be cost effective to develop a new database to support this process. Action has been taken to better protect existing primary records regarding Leaseholders.

### Right to Buy

#### Original Objective

To assess whether Right to Buy applications are correctly assessed and all required supporting evidence is obtained.

#### Summary findings

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
4	0	7	0	0

Some progress had been made in implementing the actions contained in the original Right to Buy report. As a result:

- current and new tenants are properly informed of their right to buy as all relevant documentation had been updated to include the necessary statutory information
- previous landlords are now asked for details of any right to buy sales completed with them including discounts awarded, which is now embedded into the process for calculating any current entitlement
- the process for notifying people of the sale, has been strengthened
- the legal charges form submitted the Land Registry now requires previous tenants to first offer the property back to the Council at market value if sold within 10 years.

The Right to Buy procedures have been updated in a number of areas but need further enhancement to cover the complete operational process. Therefore, amendments are still required to:

- reflect current good practice guidance, such as giving consideration to cost floor calculations on the sale price or discount available
- detail who concerns about fraudulent applications should be escalated to
- document the next review date on the procedure notes and the name of the officer responsible for keeping them up to date
- assign officer responsibility for monitoring the progress of applications
- set out the steps to be taken to obtain new title documents from the Land Registry after sale so that it can be confirmed that the charge has been placed in full and is correct.

## **Appendix B3: Audits Revisited**

### **Purpose of these audits**

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the service.

Additionally, the need to independently confirm that the correct checks have been undertaken by the people assessing and processing applications needs to be embedded throughout the Right to Buy process. Decisions also need to be made on what information is required by the Departmental Management Team to monitor the progress of applications.

Although new processes have been introduced, staff do not appear to be alert to Anti-Money Laundering 'red flags' or the possible impact of Anti-Social Behaviour on the sale process. There is therefore, a need to raise awareness in these areas and provide clear guidance on escalation routes.

A cost-benefit analysis was completed regarding the possibility of integrating Right to Buy application information into the property records held on the main Northgate Housing IT system. It was concluded that this would not be cost effective. So the primary record for residential leaseholder details (which is an excel spreadsheet) is now password protected with amendment access restricted to appropriate staff. However, key cells within the spreadsheet still need to be locked down to protect them against amendment or deletion.

## **Appendix B4: Other Audits and Grant Claims**

### **Disabled Facilities Capital Grant Determination**

#### **Purpose of funding**

To assist with providing facilities including fixtures and fittings to properties, to help disabled people to live at home.

#### **Objective**

To carry out appropriate investigations and checks in order to certify, in all significant respects, that the grant was used to fund capital expenditure on items covered by the terms and conditions of this grant.

**Opinion: Unqualified.**