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Chief Executive

AGENDA

| | |
|----------------------------|---|
| Committee: | AUDIT |
| Date and Time: | Wednesday 6th January 2016 at 7.30 p.m. |
| Venue: | Committee Room 1 |
| Membership: | Councillors Ladzrie (Chairman), Blackwell, Tucker, Walter and Mrs Wass |
| Officers attending: | Ian Stapleton, Financial Services Manager Craig Watts, Head of Performance and Service Support Linda Everard, Head of Internal Audit Wendy Buck, Head of Housing and Communities Eddie Mosuro, Community Support Manager |
| Also attending | Zoe Thompson, Senior Manager, BDO Martina Lee, Manager, EY Kevin Suter, Executive Director, EY |
| Enquiries: | John Riley, Ext. 2417 |

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 21.9.2015 is attached.
- 4. BDO: Grant Claims and Returns Certification Report for the Year Ended 31 March 2015**
Report of the External Auditor is attached.
- 5. Risk Management Update**
Report of the Head of Performance and Service Support and Head of Internal Audit is attached.

- 6. Monitoring Report – Corporate Governance Arrangements**
Report of the Head of Performance and Service Support is attached.
- 7. BDO Progress Report to Those Charged with Governance**
Report of the External Auditor is attached.
- 8. Treasury Management and Investment Strategy 2016/17**
Report of the Financial Services Manager is attached.
- 9. Internal Audit, Quarterly Performance Report**
Report of the Head of Internal Audit is attached.
- 10. EY: Audit Committee Progress Report**
Report of the External Auditor is attached.
- 11. EY: VFM Code of Audit Practice 2015 Presentation**
Presentation of the External Auditor is attached.
- 12. Audit Committee Terms of Reference and Work Programme**
Report of the Head of Internal Audit is attached.

Current Information Items (standing item)

1. CIPFA Better Governance Forum, Audit Committee Update, Helping Audit Committees to be Effective, Issue 18:
 - Self-assessment and Improving Effectiveness
 - Appointing and Procurement of External Auditors
 - Regular Briefing on Current Issues
2. Regulatory Compliance and Quality Review Programme – Annual Report 2015:

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AGENDA ITEM NO. 3

AUDIT COMMITTEE

21st SEPTEMBER 2015

PRESENT: Councillors Ladzrie (Chairman), Tucker and Mrs Wass.

Head of Performance and Service Support, Craig Watts, Head of Internal Audit, Linda Everard, Head of Resources, Chris Mills, Financial Services Manager, Ian Stapleton and External Auditor Robert Grant were also present.

Apologies for absence were received from Councillors Blackwell and Walter.

9. MEMBERS' INTERESTS

There were no disclosures of interest.

10. MINUTES

The Minutes of the meeting held on 25th June 2015 were taken as read and signed as correct.

11. BDO PROGRESS REPORT TO THOSE CHARGED WITH GOVERNANCE

Robert Grant, BDO, reported on progress in delivering the 2014/15 Annual Audit Plan.

The progress report to those charged with governance was attached as an appendix to the report and showed a Green status for all work areas.

Resolved - That the progress on the 2014/15 Audit Plan is noted.

12. BDO PROGRESS REPORT TO THOSE CHARGED WITH GOVERNANCE

Robert Grant, BDO, presented a report which summarised the results of the work completed to date for the 2014/15 financial year with regard to the opinion of 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.

There were no significant issues arising from the report and there were no risks to highlight. Subject to satisfactory completion of the outstanding work, BDO anticipated issuing an unqualified true and fair opinion on the financial statements for the year.

During the debate, Members noted their concern at a temporary internal borrowing of funds from the Housing Revenue Account (HRA) to the General

Fund (GF). It was confirmed that the loan to the General Fund was legitimate and had been returned to the HRA in the following year's budget.

Resolved - That the External Auditor's Annual Governance Report 2014/15 is accepted.

13. TREASURY MANAGEMENT ACTIVITY MID-YEAR REPORT

The Committee was informed that the mid-year report on treasury management activity was a requirement of the Council's reporting procedures.

The Financial Services Manager reported that this requirement was discharged through the report submitted to the Audit Committee which summarised the Council's treasury management activity for the first five months of the current financial year. Supporting information was provided within Annexes A and B.

There had been no changes in the Council's borrowing position from that reported at the end of the previous financial year. A summary of external borrowing at 31st August 2015 was shown at Annexe A. This showed that interest paid on General Fund borrowings for the year to date was £24 (0%) more than budgeted and interest paid on HRA borrowings was £21 (0.0%) more than budgeted.

Annexe B summarised the Council's temporary investment activities for the year to date. The amount of interest received on investments to date was £38,335 and this exceeded budget by £27,235. It was reported that investment rates earned were slightly lower than budgeted but investment balances were higher than forecast. The average rate was 0.45% which was more than the London Inter Bank Bid Rate (LIBID rate) of 0.37%.

The current three benchmark indicators for 2015/16, explained in the Annual Investment Strategy, were reported as follows:

- Security - The weighted credit-rating score for the year to date of 6.2 exceeded the target of 4.
- Liquidity – Remained at a reasonably liquid level, currently averaging 51 days.
- Yield – Interest received on investments currently exceeded target.

Following discussion it was:-

Resolved – That following scrutiny, the Treasury Management Activity Mid-Year Report for 2015/16 is approved, and submitted to Council.

14. QUARTERLY MONITORING REPORT OF THE COUNCIL'S 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 community engagement were satisfactory. A calendar of planned consultation events over the year had been produced and significant planned consultation activities included consultation for a refreshed corporate plan to be undertaken next year.

There were adequate routine assurance processes for Asset Management, including bi-monthly sessions integrated into programmed meetings of the Operational Management Team.

A corporate risk register continued to be in place, monitored by the Executive Management Team and considered by the Audit Committee at its last meeting.

The business continuity arrangements in place were subject to further development. An emergency planning exercise based on a flooding event was planned to be undertaken in September, the results of which would be reported to the Committee.

With regard to Performance Management it was reported that core processes were operating satisfactorily, including highlight reporting to Corporate Management Team and the production of a corporate scorecard considered quarterly by the Cabinet. Further work would be undertaken during the autumn on performance measures to assist with the development of team and service plans and associated targets.

The complaints system had been subject to further development to revise the complaints process into a two stage process, as attached as an Appendix to the report. Further staff training was planned in the next few months to ensure that complaints were consistently managed and recorded by service departments. The database used to capture complaints data had been redeveloped and launched in June 2015 along with new control processes to help ensure complaints were consistently monitored. This included reports to Executive Management Team setting out some key complaints data. An audit of the complaints system was planned later in the year and would be reported to the Committee.

As to partnerships, assurance processes were subject to further development work, including refreshing the community strategy to develop the ambitions in partnership. An update and clarification of the partnership framework and associated arrangements was also planned. Partnerships was scheduled for an internal audit and progress would be monitored.

Following discussion it was:-

Resolved – 1. That the Quarterly Monitoring Report is noted.

2. That the revised complaints process attached at Appendix A to the report is approved.

15. INTERNAL AUDIT QUARTERLY PERFORMANCE REPORT

The quarterly performance report on progress made in delivery of Internal Audit's Strategy for 2015/16 was presented to the Committee.

The audits outstanding from 2014/15 had been added into the 2015/16 audit plan to form the body of work that would be completed during the year to support the Head of Internal Audit's annual opinion. A copy of the audit plan was attached at Appendix A.

The level of assurance that could be taken from and the key themes arising from the audits completed this quarter were summarised in Appendix B.

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 if the Council's risk management, control and governance arrangement as sickness absence remained low, productivity was high and 23% of planned work had either been delivered or was at draft report stage. The remaining work was been re-profiled so it would be delivered by 31 March 2016

In response to a question from a Member, it was confirmed that a report on regeneration was being finalised for consideration at the January 2016 meeting of the Audit Committee.

Following discussion it was:-

Resolved – That the progress made in delivering the Internal Audit Strategy for 2015/16 is noted.

16. INFORMATION ITEMS

- CIPFA Better Governance Forum Audit Committee Update: Helping Audit Committees to be Effective, Issue 17:
 - The Audit Committee Role in reviewing the Financial Statements
 - Update on Current Developments
- Protecting the English Public Purse 2015, Fighting Fraud against English Councils

Chairman

AUDIT COMMITTEE

6 January 2015

Subject: BDO Grant Claims and Returns Certification Report for the Year Ended 31 March 2015

1. Purpose of Report

To present the External Auditor's Grants Claim and Return Certification Report for the Year Ended 31 March 2015 to the Audit Committee.

2. Background

The Audit Commission issued a "Review of Arrangements for Certifying Claims and Returns" in September 2009. One of the recommendations of the report was to report annually on the results of certification work to those charged with governance to raise the profile of this work. It is mandated that this report will be produced annually by February each year to highlight errors, adjustments and qualifications arising in claims.

A senior representative of BDO (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

3. Corporate Implications

Financial Implications

BDO act as an agent of the Public Sector Audit Appointments Limited (PSAA) in the certification of grant claims and returns work. Fees billed are based on the PSAA scale fee. Variations to the scale fee are discussed with the Head of Resources and are then required to be approved by PSAA.

Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Audit Commission's Code of Audit Practice (the Code). 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

The report includes an Action Plan to address issues identified in the report which will be monitored by Officers.

Recommendation

The Audit Committee accepts the Grant Claim and Return Certification Report for the Year Ended 31 March 2015.

Background Papers

- None

Attachments

- BDO Grant Claims and Returns Certification Report

Report Author: Zoe Thompson, Senior Manager, BDO

CASTLE POINT BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2015

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INTRODUCTION

THE PURPOSE OF THIS REPORT

This report summarises the main issues arising from the certification of grant claims and returns for the financial year ended 31 March 2015.

We undertake grant claim and return certification as an agent of the Audit Commission (from 1 April 2015 Public Sector Audit Appointments Limited (PSAA)), in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

After completion of the tests contained within the CI the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified with the reasons for qualification set out in a letter to the grant paying body. Sample sizes used in the work on the housing benefit subsidy return and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

A summary of the fees charged for certification work included within the PSAA certification regime for the year ended 31 March 2015 is shown to the right.

Appendix I of this report (page 5) shows the Council's progress against the action plan included in our 2013/14 Grant Claims and Returns Certification report.

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

FEES

PLANNED SCALE FEE (£) OUTTURN FEE (£)

Housing benefit subsidy

22,910

27,913¹

The outturn fee for the housing benefit subsidy certification is higher than the planned fee due to the additional work required following the identification of errors in the initial samples and follow-up of prior year issues. Whilst the Council completed the detailed testing relating to this work, the audit team required additional time to select the samples, complete re-performance of the Council's work and document the issues identified.

¹ A fee variation has been requested from PSAA. This is the proposed variation agreed with management but will not be final until it has been approved by PSAA.

KEY FINDINGS

Summary of high level findings

| CLAIM OR RETURN | VALUE (£) | QUALIFIED? | AMENDED? | IMPACT OF AMENDMENTS (£) |
|-------------------------|------------|------------|----------|--------------------------|
| Housing benefit subsidy | 25,204,332 | Yes | Yes | 1,987 increase |

Detailed Findings

Below are details of the housing benefit subsidy return subject to certification by us for the financial year to 31 March 2015. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided. An action plan in respect of these matters is included at Appendix II of this report on page 6.

| Housing benefit subsidy | Findings and impact on return |
|--|--|
| <p>Local authorities responsible for managing housing benefit schemes are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A (the subsidy claim), which is subject to certification.</p> <p>Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on the subsidy claim. The methodology and sample sizes are prescribed by the Audit Commission (from 1 April 2015 PSAA) and the Department for Work and Pensions (DWP). We have no discretion over how this methodology is applied.</p> | <p>We identified a number of errors in our initial sample and the Council's benefits team undertook extended testing of which we re-performed a sample to satisfy ourselves that the correct conclusion had been reached. Other testing was undertaken on small populations where the claim form could be amended.</p> <p>We reported underpayments of benefit, uncertainties and the extrapolated value of other errors in our qualification letter addressed to the DWP following agreement with Council officers. In total, 7 blocks of 40+ testing and 7 blocks of 100% testing (whole population) were completed. We agreed with the Council's conclusions during our re-performance testing in all cases bar two workbooks with 97 and 94 claims where we re-performed all cases.</p> <p>The following are the main issues reported in our qualification letter. Instances of:</p> |

- Inaccurate classification of overpayments for rent rebates and rent allowances: 40+ testing was undertaken to quantify the results and include within the qualification letter.
- Incorrect tax credit information used in the benefit for rent allowances: 40+ testing was undertaken to quantify the results and include within the qualification letter.
- Inaccuracies in income calculations across benefit types, however there was no impact on subsidy. 40+ testing was completed and findings documented within our qualification letter.

Amendments made to the original claim form were as follows:

- Non-HRA split of spend across Board and Lodging and short term leased/self-contained lodging cells.
- Overpayment classification of non-Housing revenue Account rent rebates.

APPENDICES

APPENDIX I: STATUS OF 2013/14 RECOMMENDATIONS

| RECOMMENDATIONS | PRIORITY | MANAGEMENT RESPONSE | RESPONSIBILITY | TIMING | PROGRESS |
|--|----------|--|-----------------------------|----------|---|
| HOUSING AND COUNCIL TAX BENEFIT SUBSIDY | | | | | |
| The Council should review the claims where benefit has been underpaid and ensure relevant data is corrected. | Medium | All incapacity Benefit cases have been reviewed, and corrected where required. The identified claims will be corrected, and, a briefing note will be issued to staff reminding them to make the necessary checks prior to assessing claims. | Benefit Manager (Nick Bale) | Mar 2015 | 100% Testing completed in current year and no errors identified. |
| The Council should undertake a sample check on rent start dates prior to finalising the claim form. | Low | Checks will be made to claims where a rent increase has been applied prior to the completion of the claim form, and a briefing note will be issued to staff reminding them to make the necessary checks prior to assessing claims. | Benefit Manager (Nick Bale) | Mar 2015 | 40% Testing completed on this area and no errors were identified. |
| The Council should review the claims where benefit has been underpaid and overpaid, and ensure relevant data is corrected. | Medium | The identified claims will be corrected, and, a briefing note will be issued to staff reminding them to make the necessary checks prior to assessing claims. | Benefit Manager (Nick Bale) | Mar 2015 | Actions have been taken. |

APPENDIX II: 2014/15 ACTION PLAN

| HOUSING BENEFIT SUBSIDY | | | | | |
|--|--|----------|--|--|------------|
| CONCLUSIONS FROM WORK | RECOMMENDATIONS | PRIORITY | MANAGEMENT RESPONSE | RESPONSIBILITY | TIMING |
| A number of errors were identified in relation to overpayment classification across benefit types. | Issue reminders to staff and practical examples of errors as part of on-going training. Undertake sample checks each quarter to ensure overpayments have been correctly classified. | Medium | Examples of overpayment classification errors identified in the 14/15 Subsidy Audit will be shared with staff. | Benefit Manager (Nick Bale) | Feb 2016 |
| | | | Classification sample checking already in place; 3 random cases each week PLUS 6 high value overpayment cases each month. Management believe that current sampling arrangements are proportionate. | Benefit Manager (Nick Bale) | On going |
| A number of errors were identified in relation to income calculations and tax credit information across the benefit types. | Remind staff of the need to process information accurately and on a timely basis to reduce errors. | Medium | Staff will be reminded quarterly through Team Meetings. | Benefit Manager (Nick Bale) | March 2016 |
| | | | Monthly Subsidy Meetings are already in place. These are used to identify and address any accuracy checking/training issues that impact Subsidy. These will continue. | Eddie Mosuro (Community Support Manager) | On going |

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

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AUDIT COMMITTEE

6th January 2016

Subject: Risk Management Update Report

1. Purpose of Report

To update the Audit Committee on the delivery of the Council's Risk Management Strategy.

2. Risk Management, Corporate Risk Register

A key role for the Audit Committee is to satisfy itself that the Council has appropriate arrangements in place to identify and manage its key risks. Therefore the Corporate Risk Register attached at **Appendix A** is reported to the Audit Committee as part of the assurance provided that this is the case.

The Corporate Risk Register is reviewed quarterly by Executive Management Team.

Committee are invited to consider and comment on the corporate risk register.

3. Counter Fraud & Investigation

The Council's Corporate Fraud team transferred over to the Department for Work and Pensions (DWP) **Single Fraud Investigation Service (SFIS)** from September 2015. Prior to the transfer, careful consideration was given to the responsibilities that would be retained by the Council. As a result:

- Resources now deals with Money Laundering, Whistleblowing and the National Fraud Initiative
- Legal Services has taken responsibility for issues arising under the Regulation of Investigatory Powers Act 2000, Data Protection and Land Registry
- Benefit fraud issues have been passed over to the Department for Work and Pensions.

Further work is still required to understand whether there is a need for any additional counter fraud and investigation resource and the Council is taking this opportunity to re-assess its needs for the future. This review will consider the options in terms of providing some capacity to both:

- maintain an appropriate and proportionate counter fraud and corruption framework which includes policies, awareness raising material, training material etc

- investigate allegations of fraud, corruption, bribery and theft to criminal standards if required.

4. Health & Safety Performance Summary

The Council monitors whether it understands and mitigates its health and safety risks by:

- monitoring reported incidents
- ensuring its risk assessment and procedures are fit for purpose and being applied as expected
- undertaking compliance checks of premises and how services are delivered
- consult with staff on new, revised, and current control measures at Team Meetings
- learning the lessons from any Health & Safety Executive inspections undertaken
- continuing to ensure that the policy framework remains fit for purpose, reflecting any changes in legislation or statutory guidance.

Appendix B summaries the Council's performance against these criteria.

It is possible to conclude from these indicators, that the current approach to health and safety is effectively mitigating this risk and does not require intervention.

5. Insurance

The Council's current arrangement with Basildon Borough Council to provide a managed insurance service is due to end on 31st March 2016. Therefore an exercise has recently been undertaken to:

- review and where necessary, update the expectations from this service
- obtain assurance that the service to be provided from April 2016, continues to provide value for money.

Following this exercise, a further five year Service Level Agreement will be signed with Basildon Borough Council to provide a managed insurance service for the Council.

The focus for the Insurance Group in recent months has been to:

- challenge the insurance renewal documentation, prior to its submission to the insurers
- organise three risk management training sessions to be delivered by March 2016, covering:
 - Health & Safety Awareness for Managers
 - Driving Safely for staff who travel a lot as part of their job
 - Lone Working, to assess whether our current arrangements are still fit for purpose.

Further work is also being done to:

- challenge the insurable values of the Council's property portfolio

- confirm that those inspecting housing related open spaces are adopting the good practice approach adopted elsewhere in the Council.

6. Corporate Implications

Financial Implications

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

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

Proactive fraud and corruption audit work acts as deterrent against financial impropriety and it might identify financial loss.

Legal Implications

The Accounts and Audit Regulations 2015 require that '*...a relevant authority must ensure that it has a sound system of internal control which:*

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

The report contributes to the assurance provided to the Audit Committee that this statutory requirement is being met.

Human Resources and Equality Implications

Human Resources, Equality, IT and Asset Management Implications

Any human resource, equality, IT or asset management implications arising from identifying and managing risk will be considered through the Council's normal business management processes.

Proactive fraud and corruption audit work acts as deterrent against general impropriety and it might identify loss of assets.

7. Links to Council's Priorities and Objectives

Risk management arrangements support the delivery of all the Council's Aims, Priorities and Objectives.

8. 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.

Recommendation

The Audit Committee notes the content of the report.

Background Papers

- The Accounts and Audit Regulations 2015
- Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers publication: Delivering Good Governance in Local Government - Framework.
- Chartered Institute of Public Finance and Accountancy / Association of Local Authority Risk Managers (ALARM) benchmarking survey based upon ALARM's National Performance Model for Risk Management published in 2009.

Appendices

- **Appendix A: Corporate Risk Register**
- **Appendix B: Health & Safety Performance Summary**

Report Authors:

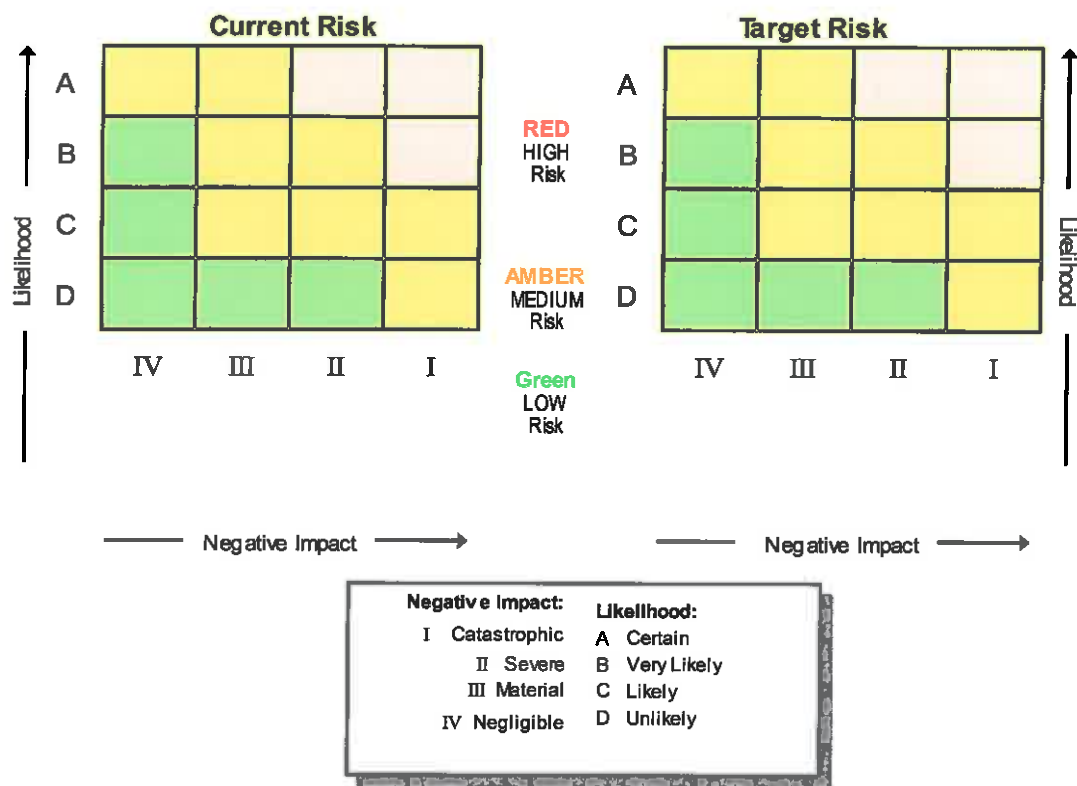
- **Craig Watts, Head of Performance and Service Support**
- **Wendy Buck, Head of Housing and Communities**
- **Jim Hillier, Health & Safety Manager**
- **Linda Everard, Head of Internal Audit**

Appendix A

Corporate Risk Register

Risk Assessment

All risks are assessed as follows:



A summary of the current controls is set out for the current risk and a summary of the further actions planned is set out for the target risk.

Public Health & Wellbeing:

Risk Description: Partnership working does not result in improved efficiency and effectiveness and reduces rather than increases organisational capacity.

Current Risk

| | | | | |
|---|----|-----|----|---|
| A | | X | | |
| B | | | | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

Target Risk

| | | | | |
|---|----|-----|----|---|
| A | | | | |
| B | | X | | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

Summary of Current Controls:

- Key partnership frameworks in place such as the LSP with associated governance
- Other partnerships operate with associated governance arrangements
- Partnership framework document in place

Summary of Actions to further mitigate risks:

- Audit of Partnership Arrangements – June 2015
- Review of Partnership Arrangements - March 2016

Responsibility: Head of Regeneration and Neighbourhoods

Target Risk to be achieved by: March 2016

Transforming Our Community

Risk Description: The Vision for Regeneration is not fully clear and the achievement of outcomes is limited.

| | | | | |
|---------------------|--|--|--|--|
| Current Risk | | | | |
|---------------------|--|--|--|--|

| | | | | |
|---|----|-----|----|---|
| A | | x | | |
| B | | | | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

| | | | | |
|--------------------|--|--|--|--|
| Target Risk | | | | |
|--------------------|--|--|--|--|

| | | | | |
|---|----|-----|----|---|
| A | | | | |
| B | | x | | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

Summary of Current Controls:

- Regeneration priorities in place
- Town centre master plans for Canvey and Hadleigh complete, and in use
- Regeneration team in place
- Regeneration consultation arrangements in place

Summary of Actions to further mitigate risks:

- To revise Regeneration priorities and clarify key milestones by developing a new Regeneration Framework – March 2016
- Further develop the detail and timeline for Hadleigh Regeneration Master planning and report to cabinet – July 2015
- Development of governance process to include reporting, consultation and liaison with Executive Management Team on key projects – July 2015
- Revised objectives and outcomes communicated to members, staff and public – March 2016

Responsibility: Head of Regeneration & Neighbourhoods

Target Risk to be achieved by: March 2016

Appendix A

Risk Description: Local Plan is not progressed resulting in unwanted development and high legal costs.

Current Risk

| | | | | |
|---|----|-----|----|---|
| A | | | | X |
| B | | | | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

Target Risk

| | | | | |
|---|----|-----|----|---|
| A | | | | X |
| B | | | | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

Summary of Current Controls:

- Local Development Scheme and Annual Monitoring Report – reported annually to Cabinet.
- Project plan and programme management and monitoring by officers and Members.

Summary of actions to further mitigate risks:

- Ongoing engagement with elected Members through Task & Finish Group
- Completion of necessary administrative requirements to ensure legal compliance - Ongoing
- Background evidence kept up to date – Ongoing
- Report to cabinet setting out proposals on approach June 2015
- Draft Local Plan to be considered by full Council December 2015
- Submission to DCLG

Target Risk to be achieved by: March 2016

Responsibility: Head of Regeneration & Neighbourhoods

Efficient & Effective Customer Focussed Services

Risk Description: Unable to provide full range of existing services for years 2017/18 and beyond due to reductions in government grant funding.

Current Risk

| | | | | |
|---|----|-----|----|---|
| A | | | X | |
| B | | | | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

Target Risk

| | | | | |
|---|----|-----|----|---|
| A | | | | |
| B | | | | |
| C | | | X | |
| D | | | | |
| | IV | III | II | I |

Summary of Current Controls:

1. Value of efficiencies required identified for each respective financial year.
2. Budget process for 2015/16 in progress and indicates potentially balanced budget for 2015/16 and 2016/17.
3. Budget challenge and assessment exercise has been completed in all service areas.
4. Service review programme

Summary of Actions to further mitigate risks:

- Monitoring and reporting processes established.
- Budget process for 2016/17 in progress.
- Review fees and charges policy – March 2016
- Review all current charges and consider opportunities for new income and revenue generation

Responsibility: Head of Resources

Further actions to be undertaken to mitigate risk:

- Develop Strategy for a Commercial Council – March 2016
- Formulating an ICT Roadmap to extend the use of and improve the ICT infrastructure – December 2015
- Progress service review programme - ongoing

Responsibility: Strategic Director, Transformation and Resources

Target Risk to be achieved by: Implementation of Transformation Programme and associated milestones. Risk is subject to on-going assessment.

Risk Description: Potential for too many priorities and inadequate staff capacity to pursue all priorities / insufficient corporate resources to implement change

Current Risk

| | | | | |
|---|----|-----|----|---|
| A | | | | |
| B | | | X | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

Target Risk

| | | | | |
|---|----|-----|----|---|
| A | | | | |
| B | | | | |
| C | | | X | |
| D | | | | |
| | IV | III | II | I |

Summary of Current Controls:

1. Directorate and Service Planning in place
2. Corporate objectives drafted
3. Corporate aims in corporate plan
4. Corporate training programme in place

Summary of Actions to further mitigate risks:

- Prioritised list of projects from development of service plans
- Development of corporate programme which incorporates key projects that are a priority for achievement – June 2015
- Corporate programme integrated into corporate and service planning arrangements and set out as part of corporate plan considered by full Council – July 2015
- Ongoing monitoring of new initiatives / opportunities which have an impact on staff resources by EMT

Target Risk to be achieved by: 31st March 2016

Responsibility: Executive Management Team

Risk Description: Power Outage (Electricity powercut/surge/spike) only limited coverage by current equipment in Capita Data Centre resulting in Server/Application downtime and potential loss of service to residents

| Current Risk | | | | |
|--------------|----|-----|----|---|
| | IV | III | II | I |
| A | | | | |
| B | | | X | |
| C | | | | |
| D | | | | |

| Target Risk | | | | |
|-------------|----|-----|----|---|
| | IV | III | II | I |
| A | | | | |
| B | | | | |
| C | | | | |
| D | | | X | |

| |
|--|
| <p>Summary of Current Controls:</p> <ol style="list-style-type: none"> 1. UPS in place (Limited battery life) 2. Covered by Capita Contract 3. Replacement items can be sourced (Configuration may take some time) 4. Many servers now virtualised so rebuilt easily. |
|--|

| |
|--|
| <p>Summary of Actions to further mitigate risks:</p> <ul style="list-style-type: none"> Batteries replaced, awaiting configuration of GE JUMP software to schedule controlled shutdown and connection of Telephony equipment to Server room UPS. <p>Responsibility: IT Service Manager/Head of Resources/Capita SDM</p> <p>Target Risk to be achieved by: Jan 2016</p> |
|--|

Risk Description: Rent Reduction Proposals by Central Government will result in a Housing Revenue Account which is unsustainable in future years.

| Current Risk | | | | |
|--------------|--|--|--|--|
|--------------|--|--|--|--|

| | | | | |
|---|----|-----|----|---|
| A | | | | X |
| B | | | | |
| C | | | | |
| D | | | | |
| | IV | III | II | I |

| Target Risk | | | | |
|-------------|--|--|--|--|
|-------------|--|--|--|--|

| | | | | |
|---|----|-----|----|---|
| A | | | | |
| B | | | | |
| C | | | | X |
| D | | | | |
| | IV | III | II | I |

Summary of Current Controls:

1. 30 Year HRA Business Plan in place
2. Capital Programme linked to condition survey
3. Budget monitoring

Summary of Actions to further mitigate risks:

- Analysis of government legislation and timescales
- Project to soft market test and procure Housing services
- Review of capital programming and responsive repairs budgets

Responsibility: Head of Housing & Communities

Target Risk to be achieved by: June 2017

Appendix B: Health & Safety Performance Summary

Reported Incidents

From 1st December 2014 to 30th November 2015 a total of 200 incidents were recorded compared to 217 for the previous 12 month period.

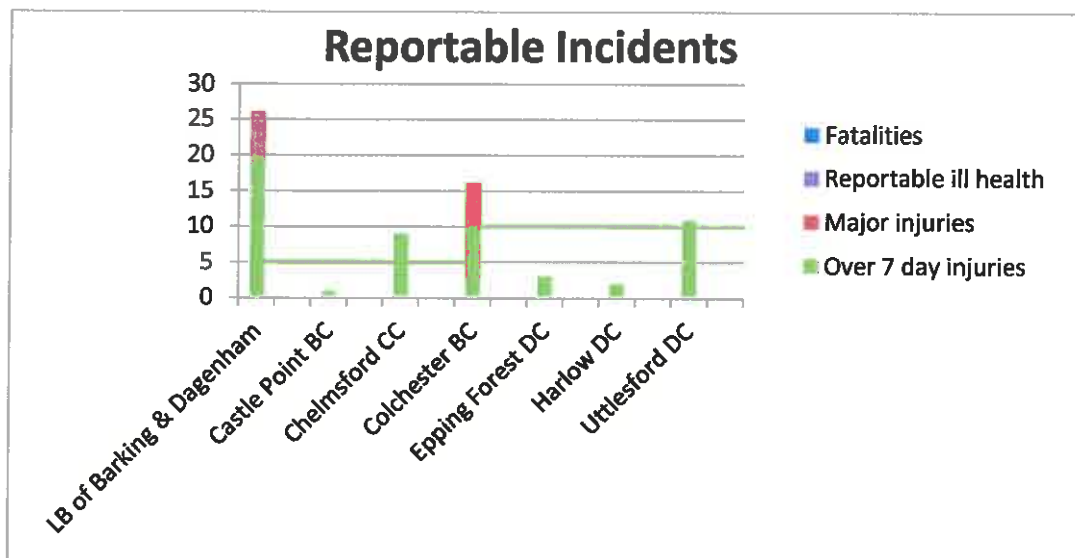
These figures breakdown to:

| Type | Range 2014/15 | Range 2015/16 | % change | Actual change |
|-----------------------|---------------|---------------|---------------------|---------------|
| Employee | 18 | 22 | 18% Increase | +4 |
| Public | 190 | 170 | 11% Reduction | -20 |
| RIDDOR Staff | 2 | 1 | 50% Reduction | -1 |
| RIDDOR Public | 0 | 1 | 100% Increase | +1 |
| Violence & Aggression | 7 | 6 | 16% Reduction | -1 |
| | 217 | 200 | 8% Reduction | -17 |

It should be noted that the type of incident / injury severity for the majority of incidents was classified as minor. In respect of members of the public, the majority relate to sports injuries NOT as a result of the authority's undertakings.

Two RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) were reported to the Health and Safety Executive. One related to a member of public sport injury whilst using our equipment, and one member of staff incident caused more than 7 day absence (note weekends are included).

Although the number and type of incidents are not significant, their continual decrease demonstrates that controls remain effective and that improvements are continuing. When figures are benchmarked against other local authorities (below), it supports the efficacy of our current controls.



Appendix B: Health & Safety Performance Summary

Risk Assessments and Operating Procedures

Review of the authorities risk assessments and methods of work are monitored by the authority's safety compliance system.

The system has been modified and now captures statutory inspections and examinations of corporate premises under the Planned Preventative Maintenance (PPM) programme. All corporate premises are compliant within a 4 week permitted variance.

These and other issues are submitted to Corporate Management Team as a monthly synopsis report indicating performance corporately and non-conformities highlighted at the monthly Operational Management Team meetings for any required actions. Services are also required to submit highlight reports, which are included within the CMT report.

Health & Safety Compliance

Corporate Premise Audits

Compliance audits of statutory requirements are in progress for all occupied corporate buildings with the current cycle finalised in March 2016. To assist services, health and safety non-compliances are highlighted with recommendations to meet the necessary statutory criteria.

There is an annual programme of compliance audits. The next cycle starts in October 2016.

Service Monitoring and Benchmarking

Services assess annually whether they are implementing corporate health and safety requirements in the delivery of operational services. This takes the form of a Manager Assurance Statement and a more detailed Health and Safety service self assessment. Outcomes are utilised for further management development/efficiencies.

Communication and Consultation

Service health and safety consultation utilises the management hierarchy as for all other risk management processes.

Key actions for services are to promote health, safety, and welfare awareness; raise general competency skills; raise the profile of the assessment processes; maintain the profile of incident reporting and investigate ways to mitigate future foreseeable risk and loss.

Enforcement

The Health and Safety Executive (HSE) has not undertaken any enforcement action during this period.

Refuse Services were subject to a monitoring visit in respect of an intervention audit in 2013, which was part of an HSE national scheme. Recommendations were noted and actioned.

Appendix B: Health & Safety Performance Summary

Policy Changes

The annual Health and Safety Strategy is integrated within the overall risk management review programme.

Health and safety management systems are predicated on the principle of the risk assessment of hazards, current management controls, and safe working guidance.

Corporate reviews are undertaken on a rolling annual cycle of all statutory and/or other formal guidance.

Legislation

Changes to the legislative framework are assessed when they arise. A summary of requirements with an assessment of the potential operational and financial impact for the Council is reported regularly to Executive Management Team and Operational Management Team. Action is taken as required to ensure the Council's arrangements remain compliant with statutory health and safety obligations.

Committee: AUDIT COMMITTEE

Date: 6th January 2016

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

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 The report also includes an update on progress against the action plan set out in the Annual Governance Statement and as reported to committee in June 2015.

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. A calendar of planned consultation events over the year has been produced and significant planned consultation activities include consultation for a refreshed corporate plan to be undertaken in the Autumn of 2016.

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 were completed for 2015/16. The corporate plan has been refreshed was agreed by full Council in September 2015. Team and service plans for 2016/17 are currently being developed by services.

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 2015/16 and predict a balanced budget for 2016/17. Full Council agreed the Policy Framework and Budget Setting report in February 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 and the Council is undertaking a number of actions through the efficiency programme and budget challenge exercise.

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 works is in place to address planned repairs and maintenance issues. 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 2015.

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 and was considered by the Audit Committee in June 2015. 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.

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. In September 2015, a multi agency emergency planning exercise based on a pluvial flooding event was held, which also captured business continuity considerations. A post exercise report is to be available soon, the outcomes of which will be considered in the further development of plans. Progress in Business Continuity will continue to be monitored.

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. There was some delay to the reporting of the scorecard in the autumn of last year, which resulted in the scorecard being reported as two quarter periods in November following an internal audit of planning processing performance data.
- 3.8.2 Control arrangements include the production of quarterly reports of performance indicators by all services for consideration by EMT. Further work is currently being undertaken to re-clarify performance measures and targets as part of the development of team and service planning.

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. An internal audit of planning processing performance data undertaken in October last year found the information reported in the cabinet scorecard to be accurate and as required by government performance indicator definitions.

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 taken from the 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 procurement strategy was updated in April this year to take into account legislative requirements. An internal audit of procurement arrangements was held during the summer. Agreed recommendations contained within the audit report are to be incorporated into action plans.

3.12 Partnerships

- 3.12.1 Assurance processes are subject to further development work. The Head of Licensing and Safer Places has undertaken work to refresh the community strategy to develop the ambitions in partnership. Partnership work is also being audited and progress will be monitored.

3.13 Project Management

- 3.13.1 The arrangements are satisfactory. Service for 2015/16 were adjusted to require the prioritisation as well as identification of projects. These were subject to an assessment with the most important projects incorporated into a wider corporate programme. In addition a register of projects is also in place.

3.14 Complaints

- 3.14.1 The complaints system has been subject to further development and the Complaints lead officer has undertaken some work to revise the complaints process. The revised complaints policy and procedure was agreed by Audit Committee in September and since then the Complaints lead officer has undertaken some specific training and briefing sessions for departments. A corporate Access database system is in place and is used to record complaints and compliments, although consistency of use is not clear in all areas. An audit of the complaints system is currently being undertaken and will be reported to Audit Committee in due course.

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. A recent audit of the arrangements found these to be satisfactory with a need to undertake various actions including reporting progress of the governance group to EMT and Audit Committee, updating the Protocol on the use of IT and ensuring the Council is compliant with the Local Government Transparency Code.

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.

3.2 Annual Governance Statement Action Plan

| Number | Issues | Action 2015/16 | Date of implementation & Responsible Officer | RAG |
|--------|---|--|---|--|
| 1. | The need to deal with the future financial challenges facing the Council. The Council needs a longer terms strategy to deal with the continuing financial challenges if it is to remain solvent. | Further develop and implement the approach to securing efficiencies. | March 2016 Strategic Director for Transformation and Resources | Date Changed to June 2016 to ensure integration of various work streams. |
| 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. | Attempt to develop and prepare a local plan for submission. | March 2016 Head of Regeneration and Neighbourhoods | TBC following consideration by full Council. |
| 3. | The Council needs to re-clarify ambitions with partners which take into account recent developments in partnership working. | Re-develop the Community Strategy, action planning and associated governance framework and partnership protocol. | March 2016 Head of Licensing & Safer Paces | Ambitions developed. Further work still to be undertaken to refresh and agree governance framework and partnership protocol. |
| 4. | Ensure revised approach to performance management arrangements are effectively in place. | Various actions including: <ul style="list-style-type: none">• Revise performance measures for some services.• revised targets for some services• Corporate reporting of percentage of staff appraised implemented. | March 2016 Heads of Service Head of Performance & Service Support / Human Resources Manager | Progressing through development of the service and team planning process. |
| 5. | Complaints not consistently monitored in corporate database. | Ensure new database operates effectively and all services are recording complaints information. | March 2016 Head of Performance & Service Support | Complaints database in operation but needs to be further embedded. To await Internal Audit of approach. |

| Number | Issues | Action 2015/16 | Date of implementation & Responsible Officer | RAG |
|--------|---|--|---|---|
| 6. | <p>Risk management arrangements are not fully embedded.</p> <p>The current risk management framework has not been refreshed recently nor does it include guidance on how to apply risk appetite or tolerance.</p> | <p>Revise risk management strategy and re-consider working practices.</p> <p>Implement improvements.</p> | <p>March 2016</p> <p>Head of Internal Audit</p> | Risk Management strategy to be refreshed. |

4. 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.

5. Links to Council's priorities and objectives

All assurance processes and improvement work support the corporate priority of Improving the Council.

6. 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 invited to consider the findings of this report as outlined in section 3 and question officers as appropriate.**

Resolution required.

Background Papers: Local Code of Governance

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

AUDIT COMMITTEE

6 January 2016

Subject: BDO Progress Report to Those Charged with Governance

1. Purpose of Report

To report on progress in delivering the 2014/15 Annual Audit Plan.

2. Background

Attached is BDO's (the appointed External Auditor to the Council) Progress report to Those Charged with Governance.

A senior representative of BDO will present the key matters from this report to the Audit Committee and then respond to any questions of clarification by Members

3. Corporate Implications

Financial Implications

The cost to the Council of external audit for 2014/15 is planned to be £75,020 for the Code audit and £22,910 for the certification work.

Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Audit Commission's Code of Audit Practice (the Code). 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 progress with the 2014/15 Audit Plan.

Background Papers

- None

Attachments

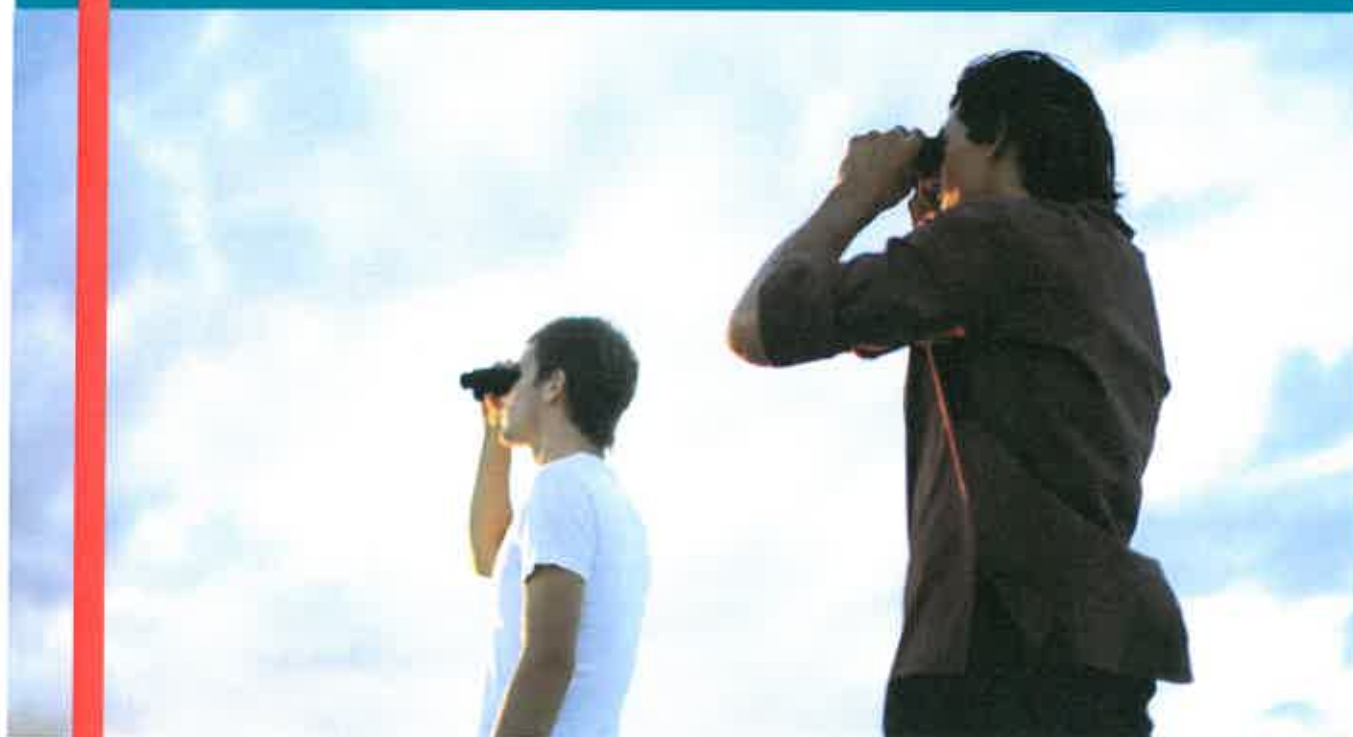
- BDO's Progress Report to Those Charged with Governance

Report Author: Zoe Thompson, Senior Manager, BDO

CASTLE POINT BOROUGH COUNCIL

Progress report to those charged with governance

December 2015



INTRODUCTION

Summary of progress

This report is intended to provide the Audit Committee with an update of the progress in delivering the 2014/15 audit.

Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code of Audit Practice for Local Government, the audited body's:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to certify specified grant claims and returns as directed by the Audit Commission.

We have assessed whether the arrangements put in place by the Council will allow us to complete our work by the expected deadlines and whether there are any issues that are likely to have a significant impact on our ability to provide unmodified audit reports and opinions. This is included as a "RAG" assessment in the report.



RED

Unlikely to be able to meet reporting deadlines or modification of audit report or opinion



AMBER





Some concerns around meeting reporting deadlines or potential risk of modification of audit report or opinion







GREEN

On target to meet deadlines and no current concerns over issue of audit report or opinion

2014/15 Annual Audit Plan - progress summary as at 18 December 2015

| Area of work | Scope / Associated deadlines | Status | Outputs / Date | RAG |
|------------------------------------|---|--|--|---|
| Planning | Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit. | Planning letter issued. Audit Plan issued. Complete. | Planning Letter 2014/15 Reported to the Audit Committee in March 2014. Audit Plan 2014/15 Reported to the Audit Committee in March 2015. |  |
| Financial statements | | | | |
| Interim audit | Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2015. | Complete. | We report to management any deficiencies in internal control identified during the audit. Where we identify significant deficiencies in internal control identified during the audit we also report those in our Final Report to the Audit Committee. |  |
| Financial Statements audit | Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2015. | Complete. | Final Report to the Audit Committee Reported to the Audit Committee on 21 September 2015. Opinion on the financial statements Issued 30 September 2015. |  |
| Whole of government accounts audit | Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion - deadline expected to be 2 October 2015. | Complete. | Opinion on the WGA Consolidation Pack Issued 30 September 2015. |  |

CASTLE POINT BOROUGH COUNCIL

| Area of work | Scope / Associated deadlines | Status | Outputs / Date | RAG |
|-----------------------------|---|------------------------------------|--|---|
| Use of Resources | | | | |
| Use of resources | <p>Review of use of resources based on:</p> <ul style="list-style-type: none"> proper arrangements in place for securing financial resilience proper arrangements for challenging how the Council secures economy, efficiency and effectiveness. <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2015.</p> | Complete. | Final Report to the Audit Committee Included on 21 September 2015 meeting agenda. |  |
| VFM conclusion | <p>Review to support a conclusion on whether the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.</p> <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2015.</p> | Complete. | Final Report to the Audit Committee Reported to the Audit Committee on 21 September 2015. VFM conclusion Issued 30 September 2015. |  |
| Reporting | | | | |
| Annual Audit Letter | Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2015. | Complete. | Annual Audit Letter Issued 14 October 2015. |  |
| Grants certification | | | | |
| Grants and returns | To audit and submit grant claims and returns by the relevant deadlines. | Complete - all deadlines achieved. | All grants claims and returns to be audited in line with an agreed schedule. |  |

CASTLE POINT BOROUGH COUNCIL

| Area of work | Scope / Associated deadlines | Status | Outputs / Date | RAG |
|---------------|---|--------------|---|---|
| Grants Report | Summary of our certification work completed on 31 March 2015 claims, to be issued by February 2016. | In progress. | Grants Report to those charged with governance to be issued by February 2016 (target date December 2015). |  |

BDG UK

1 ^{Offices} **300** Partners
2 ^{Staff} **3,500**

No. 1 for exceptional client service¹

92% of our clients would recommend us² | **76%** already have

1. International Business (IBF) Global Practice (2012-2013) ranked by The IBF Global Practice 200 Client Satisfaction Survey

2. Client Survey (September 2014)

BDG INTERNATIONAL

US\$6.45 ^{bn*} ²⁰¹⁴ ²⁰¹³

14 ^{Countries} **1,250** Offices
56,000 Staff

* FY 2014 US\$ 26.2 bn of revenue from all BDG

AUDIT COMMITTEE

6 January 2016

Subject: Treasury Management and Investment Strategy 2016/17

1. Purpose of Report

The Council must comply with the Treasury Management in the Public Services Code of Practice, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). As part of this Code of Practice the Council is required to set an annual Treasury Management and Investment Strategy for the forthcoming financial year, which must be approved prior to the start of that 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 objective of Improving the Council through sound financial management.

3. Recommendation:

That following scrutiny, the Treasury Management and Investment Strategy for 2016/17 is approved for onward submission to Council in February 2016 as part of the Policy Framework and Budget Setting Report for 2016/17.

Resolution required.

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 Treasury Management in the Public Services: 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 2016/17

- 3 The Strategy has been formulated after considering the advice of the Council's consultants, Sector Treasury Services Ltd trading as Capita Asset Services. All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement. Officers are required to follow policies and procedures.

Balanced budget requirement

- 4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that the associated financing and operational costs arising from new capital projects must be affordable within the projected income of the Council for the foreseeable future.

Prospects for interest rates

- 5 The Bank of England base rate has been 0.5% since March 2009. 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 at least mid-2016. 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 40-50yr Public Works Loan Board (PWLb) long-term rate for maturity loans will be in the range of 3.6% to 4.0% during 2016/17.

Current debt position and requirements for 2016/17

- 6 A summary of external debt that is expected to be outstanding at 31 March 2016 is:-

| Table 6.1 External debt outstanding | |
|---|---|
| Source | Total at 31/03/16 £000's |
| Public Works Loan Board – General Fund | 5,250 |
| Public Works Loan Board – Housing Revenue Account | 36,451 |
| Total | 41,701 |

- 7 All of the Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **3.70%** to **4.10%** per annum. All of 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.
- 8 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 2016 is not at this time anticipated to trigger a requirement for new borrowing in 2016/17. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.
- Borrowing Strategy**
- 9 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.
- 10 Long-term fixed interest rates are at risk of being higher over the medium-term, and short-term rates are unlikely to change significantly. The Head of Resources, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.
- 11 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.
- 12 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt has been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates to **1%** over gilt yields from typically **0.15%**. This has meant that PWLB debt restructuring is now much less attractive than it was before both of these events.
- 13 The PWLB periodically allows 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 use the preferential rate if they do undertake borrowing. Although there are no current plans to borrow the Council will continue to register for the preferential rate in the future when it is offered, so that the Head of Resources may take advantage of the offer if borrowing is needed.
- 14 The weighted average maturity of the Council's General Fund debt is long at **38 years**, and all the debt portfolio is not 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.
- 15 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

- 16 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. Whilst the Head of Resources will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so, borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.
- 17 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.
- 18 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

- 19 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

- 20 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:-

| Table 20.1 Maturity structure of fixed rate borrowing | | | | |
|--|---------------------|--------------------|--------------------------------|--------------------|
| | General Fund | | Housing Revenue Account | |
| Maturity | Upper limit | Lower limit | Upper limit | Lower limit |
| | % | % | % | % |
| 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

- 21 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:-

| Table 21.1 Upper limits of fixed and variable exposures | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| | £'m | £'m | £'m | £'m | £'m |
| Upper limit – fixed rates | 47 | 47 | 47 | 47 | 47 |
| Upper limit – variable rates | -12 | -11 | -7 | -8 | -9 |

Borrowing - interest rate sensitivity

22 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

23 A summary of our borrowing objectives for the year 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 (a) the **security** of capital (protecting the capital sum from loss) and (b) **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 8.1. 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 2016/17 to range between **£16.3m** and **£27.4m**.

New investments

- 6 The following two categories of investment were added for the 2015/16 Strategy, and will continue to be used in 2016/17. There are no changes to the list of Specified Investments for 2016/17:
- 7 Treasury bills (T-bills) are an AAA/AA+ rated short-dated form of Government debt issued by the Debt Management Office (DMO) via a weekly tender. They are normally issued for one, three and six month duration and enable councils to invest in the same counterparty at a better rate than the Debt Management Agency Deposit Facility, currently on the approved list. There is a very active secondary market for T-bills and they may be sold before maturity, so they are a very liquid and flexible investment. However, like Gilts (UK Government bonds) there can be a realised capital loss or gain if sold before maturity, as the capital value may fluctuate as interest rates vary.
- 8 Certificates of Deposit (CD's) are a negotiable form of fixed deposit, ranked equally with ordinary fixed deposits. The primary difference is that you are not obliged to hold the CD to maturity and may realise the cash by selling into an active secondary market. CD's are issued by a number of UK and international banks and building societies. If held to maturity, the coupon interest will be the same whether you buy a fixed deposit or CD. A CD gives you the option to get out of that investment before maturity, if the counterparty is downgraded, unlike a fixed deposit. However if sold before maturity there may be a capital gain or loss.

All "Specified Investments" listed below must be sterling-denominated.

| Table 8.1 Specified Investments for the Financial Year 2016/17 | | | |
|---|---|---|---|
| Investment | Counterparty limit | Security / Minimum Credit Rating | Maximum period of investment |
| Debt Management Agency Deposit Facility (DMADF) (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) |
| Treasury Bills issued by the UK Government | No limit | The Debt Management Office is an agency of the UK Government | 364 days |
| Term deposits 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 |
| Term Deposits 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 |
| Money Market Funds (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) |
| Current accounts, notice accounts or term deposits 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) |
| Forward deals 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 |
| Certificates of Deposit 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 |

All investments are managed in-house. No shares or loan capital is held by the Council and none of the investments is classed 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 8.1 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. The Council will only invest in UK Government or local authority deposits; UK Government treasury bills; UK-regulated banks and building societies; or 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.
- 12 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.

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 Government bailouts (ie. where governments injected monetary support into institutions to keep them solvent) that were prevalent during the financial crisis, bail-in legislation has now been fully implemented in the UK. In future large investors 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 December 2015 the Government released results of stress tests on major UK banks to measure whether they would survive a financial shock. Out of the seven banks tested, RBS and Standard Chartered were found not to have enough capital strength, but both took steps to raise capital. No bank was ordered to come up with a new capital plan. The Bank of England believes that the UK's major banks are in a relatively resilient state and are now handling risk more prudently. However, all banks were told they would have to set aside capital to protect their UK exposures as part of a new measure that the bank is phasing in, called a "countercyclical capital buffer".

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 11, 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 31st 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. This service is subject to regular review.

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

6th January 2016

Subject: Internal Audit Service, Quarterly Performance Report

1. Purpose of Report

To update the Audit Committee on the progress made in delivering the Internal Audit's Strategy for 2015/16.

2. Internal Audit Plan Status

Appendix A sets out the current status of the audit work planned for the year. **Appendix B** summarises the audit opinions given on work completed to date.

Since the last committee, one additional short piece of work has been undertaken. This focused on looking at the quality of data supporting the planning application performance indicators.

The overall work programme has been re-profiled so that the Audit Plan will be substantially completed by the 31 March 2016. The focus for this quarter has been to complete the block of financial systems audit work. The fieldwork for these ten systems was substantially complete by the end of December and draft reports are being produced.

3. Audit Opinions and Themes

Appendix C summarises the results from each audit completed this quarter.

No high assurance reports have been issued during this period. The only minimal assurance report relates to the Right to Buy process.

4. Implementing Action Plans

Appendix D summarises:

- the reports where work is still required to fully implement the actions agreed at the conclusion of the audit
- whether management will sign off the action plan or Internal Audit plan to revisit it.

The Head of Performance and Service Support has designed a database which will be used initially, by services, to record and monitor the implementation of Internal Audit Report Action Plans. Services will then provide short summary reports for the Executive Management Team and Audit Committee once an action plan has been signed off, unless Internal Audit plans to revisit it. In the latter instance, Internal Audit will produce a report summarising the results of the audit, as is normal practice.

5. Internal Audit Performance Targets

The service remains 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 (0.1 days per FTE) and productivity high (84%)
 - 42% of planned work has either been delivered or is at draft report stage.
- remain substantially compliant with professional standards.

6. International Professional Practices Framework (IPPF)

The Global Institute of Internal Auditors updated the International Professional Practices Framework in July 2015. The new IPPF now looks like this:



Internal auditors working in the private sector now have to comply with this. It is very likely that the Public Sector Internal Audit Standards will be amended accordingly over the coming year.

Two key changes are the introduction of:

- a Mission Statement, which now requires internal audit services to *enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*
- core principles, requiring that internal audit:
 - Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)

- Aligns with the strategies, objectives and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive and future-focused
- Promotes organisational improvement.

This will be taken into account when reviewing the Charter and Strategy as part of the 2016/17 audit planning process.

7. 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 will be considered as part of the review.

Equality Implications

The relevance of equality and diversity is 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.

8. Links to Council's Aims, Targets and Objectives

Audit work contributes to the delivery of all of the Council's aims, priorities and objectives.

9. Timescale for Implementation

The Audit Plan is resourced to be delivered by March 2016 at which time the Head of Internal Audit's Annual Report is produced for consideration by the Audit Committee at its June meeting.

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.

10. 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, priorities and objectives. A key mitigating factor is the work of the Good Governance 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 in a timely manner
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards.

Time is built into the Audit Plan for managing this contract.

Recommendations:

The Audit Committee notes the progress made in delivering the Internal Audit Strategy for 2015/16.

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 2015/16

Appendix B Summary of Audit Opinions 2015/16

Appendix C Audit Opinions and Themes

- 1 • Satisfactory Assurance
- 2 • Partial Assurance
- 3 • Minimal Assurance
- 4 • Other Audits and Grant Claims

Appendix D Internal Audit Action Plans Requiring Sign Off

Report Author: Linda Everard, Head of Internal Audit

CPBC Appendix A: Internal Audit Plan 2015/16

| Dept | Council activity and focus of audit work | Work type * | Status as at 17 December 2015 |
|--|---|-----------------------|--|
| Managing the Business | | | |
| Efficient and Effective Customer Focused Services: Ensure the Council is fit for purpose by meeting national and local requirements to agreed timescales and to optimum performance standards | | | |
| All | Complaints, Compliments and Comments To assess whether complaints are effectively managed in line with a clear policy framework. | Core | Work in Progress. |
| All | Procurement To assess compliance with the actions required by Contract Procedure Rules for expenditure between £5,000 and £50,000. | Core Fraud Risk | Report being discussed with officers. |
| All | Quality of Management Information To assess the accuracy and usefulness of information on which management rely to make decisions. | Core | Final report issued July 2015. |
| All | Working With Partners To assess whether for a number of partnerships there are robust governance arrangements. | Core | Work in Progress. |
| Managing Service Delivery Risks | | | |
| Environment: Maintain a good quality refuse and recycling service which ensures over half of all domestic waste is recycled | | | |
| Env | Waste Collection To assess whether: <ul style="list-style-type: none"> commercial and domestic waste collection services are effectively planned and managed waste vehicles are properly maintained, drivers licensed and spare parts are kept to an optimum level. | Core Fraud Risk | Report issued December 2015. |
| Transforming Our Community: Progress development of the Local Plan for the Borough | | | |
| R&N | Regeneration To assess whether the Council through the Regeneration partnership has evidence it has: <ul style="list-style-type: none"> achieved its 2008-13 Regeneration Framework ambitions and key priorities | Core | Report issued November 2015. |

CPBC Appendix A: Internal Audit Plan 2015/16

| Dept | Council activity and focus of audit work | Work type * | Status as at 17 December 2015 |
|--|---|---------------------|---|
| | <ul style="list-style-type: none"> effective arrangements and processes to deliver future regeneration ambitions. | | |
| Efficient and Effective Customer Focused Services: Develop an organisational change programme to transform the Council by March 2017 by using new technology and working practices | | | |
| R&N | Data Quality Spot Check, Planning Applications To assess whether the planning application indicators being reported can be relied upon and comply with the National Planning Guidance 2014. | New In year risk | Work completed November 2015. |
| R&N | Development Control To assess whether the re-engineered business processes are fully embedded, planning applications are effectively and promptly assessed and all income due is received. | Core Fraud Risk | |
| R&N | Building Control To assess whether the re-engineered business processes Building Control cases are robustly managed. | Core Fraud Risk | |
| Efficient and Effective Customer Focused Services: Ensure the Council is fit for purpose by meeting national and local requirements to agreed timescales and to optimum performance standards | | | |
| R&N | Repair and Renew (Flood) Grant To certify approved claims for the flood support scheme as required by the memorandum of understanding between the Department for the Environment, Food and Rural Affairs and the Council. | New In year risk | Grant Claim signed off November 2015. |
| All | Income Collection To assess whether key income streams for the Council are well managed and income received is maximised. | Core Fraud Risk | Terms of Reference being produced / agreed. |
| Res | IT Disaster Recovery 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. | Core | |
| Res | Capita IT Contract Management To assess whether there is robust management of the IT contract. | Core | Report issued December 2015. |

CPBC Appendix A: Internal Audit Plan 2015/16

| Dept | Council activity and focus of audit work | Work type * | Status as at 17 December 2015 |
|------|---|-----------------------|--------------------------------|
| Res | IT Governance To understand and assess whether there is sufficient clarity over roles and responsibilities for key IT-related tasks and outcomes (per Information Technology Infrastructure Library practices). | Core | Report issued December 2015. |
| Env | Disabled Facilities Grants To assess whether applications for Disabled Facilities Grants are assessed accurately and promptly and works are carried out to specification and budget. | Core Fraud Risk | Report issued December 2015. |
| Env | Landlord Management To assess whether: <ul style="list-style-type: none"> licensing of Houses in Multiple Occupation is robust the Council is maximising the opportunities around legal redress schemes and selective licensing of landlords. | Core | |
| H&C | Housing IT System To assess whether the new Housing IT system is effectively specified, procured and implemented. | In year risk | Postponed to 2016/17. |
| H&C | Residential Leaseholder Charging To assess whether all works chargeable to leaseholders are accurately calculated and completely received. | Core Fraud Risk | Report issued September 2015. |
| H&C | Right to Buy To assess whether Right to Buy applications are correctly assessed and all required supporting evidence is obtained. | Core Fraud Risk | Report issued December 2015. |
| H&C | Allocations To assess whether adequate processes and procedures are in place to enable Council housing to be allocated and empty properties re-let, fairly, consistently, promptly and in line with the Allocations Policy. | Core Fraud Risk | Final report issued July 2015. |

CPBC Appendix A: Internal Audit Plan 2015/16

| Dept | Council activity and focus of audit work | Work type * | Status as at 17 December 2015 |
|---|--|-------------------|---|
| Key Financial Systems | | | |
| Efficient and Effective Customer Focused Services: Ensure the Council is fit for purpose by meeting national and local requirements to agreed timescales and to optimum performance standards | | | |
| To assess whether the key controls in each of the key financial systems effectively prevent or detect material errors on a timely basis so that this information can be relied upon when producing the Council's statement of accounts. | | | |
| H&C | Housing Rents(2014/15) | Core Fraud Risk | Final report issued July 2015. |
| Res | Accounts Payable | Annual Fraud Risk | Fieldwork complete. Draft reports being produced. |
| H&C | Accounts Receivable | | |
| H&C | Business Rates | | |
| H&C | Council Tax | | |
| Res | General Ledger | | |
| H&C | Housing Benefit | | |
| H&C | Housing Rents | | |
| H&C | Income Receipting and Banking | | |
| Res | Payroll | | |
| Res | Treasury Management | | |
| Implementing Action Plans | | | |
| Efficient and Effective Customer Focused Services: Ensure the Council is fit for purpose by meeting national and local requirements to agreed timescales and to optimum performance standards | | | |
| All | Audit Reports to be Revisited To check that actions agreed have been implemented, properly, in a timely manner. | Core | |
| | • Safeguarding Arrangements | | Work in Progress. |

| Dept | Council activity and focus of audit work | Work type * | Status as at 17 December 2015 |
|--|--|-------------|-------------------------------|
| Managing Delivery of the Audit Plan | | | |
| | Audit Planning and Resourcing | | |
| | Managing Contractor work | | |
| | Reporting to Management Team and Audit Committee | | |
| | Contingency for In-Year Unplanned Work | | |

Audit Plan Definitions

Departments:

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

***Core work** means those service activities that score as high risk (i.e. risk level 1 or 2 out of 4) from an audit perspective based on the criteria set out in the Internal Audit Strategy.

Appendix B: Summary of Audit Opinions 2015/16

| Audit Areas | Level of Assurance | | | |
|---|--------------------|---|--|---|
| | High | Satisfactory | Partial | Minimal |
| Corporate Governance and Assurance Arrangements | | <ul style="list-style-type: none"> Quality of Management Information (Jul 2015) | | |
| Service Delivery Risks | | <ul style="list-style-type: none"> Capita IT Contract Management (Dec 2015) IT Governance (Dec 2015) Disabled Facilities Grants (Dec 2015) | <ul style="list-style-type: none"> Waste Collection (Dec 2015) Regeneration (Nov 2015) Residential Leaseholder Charging (Sept 2015) Allocations (Jul 2015) | <ul style="list-style-type: none"> Right to Buy (Dec 2015) |
| Key Financial Systems | | | | |

Appendix C1: Audit Opinion and Themes

Assurance



Capita IT Contract Management

Objective

To assess whether there are robust arrangements in place to ensure that the outsourced IT service is being delivered properly in compliance with the specified performance and quality standards, at the correct cost / price.

Themes

The outsourced IT service contract is well managed and there are robust arrangements in place to ensure the service is being delivered in accordance with it. This is demonstrated by:

- the Council collaborating with other councils, in accordance with best practice, in order to jointly procure the contract
- the contract documentation being based on a nationally recognised standard form that fully and clearly describes the services that are to be provided and how performance is to be assessed
- there being clarity around the processes for making monthly contract payments which ensure correct payments are made
- a sound governance and reporting structure being in place
- regular reports being prepared regarding Capita's performance with appropriate action being taken by officer to ensure any concerns identified are addressed.

Going forward there are opportunities to enhance these arrangements by ensuring Capita maintain a comprehensive risk register in line with the Service Description in the contract.

Number of actions agreed: 1

IT Governance

Objective

To assess whether the Council's arrangements governing IT services, including those undertaken on its behalf by third parties, meet the good practice principles of ISO / IEC Standard 38500.

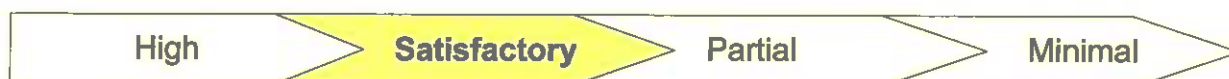
Themes

The IT service governance arrangements largely comply with the good practice principles set out in ISO / IEC Standard 38500. This is reflected by there being:

- clear:

Appendix C1: Audit Opinion and Themes

Assurance



- roles and responsibilities between the Council and Capita, its third party IT supplier
- change management and service planning processes.
- a thorough suite of performance information that is used to monitor the contract.

The IT Strategy document now covers a three year period. Explicit links to the Council's objectives will be made during its next scheduled renewal. The IT Service ensures its activities align with corporate strategy and plans by attending the project boards for upcoming IT projects. This allows the service to challenge the technical aspects of proposals when in development and plan their activities accordingly.

The Council's IT asset register (managed by Capita) contains some errors and omissions. The software licence list is also incomplete. Both of these documents are being updated as a matter of priority.

Number of actions agreed: 2

Disabled Facilities Grants

Objective

To assess whether the applications for Disabled facilities Grants are assessed accurately and promptly and works are carried out to the specification and budget.

Themes

Overall, the processes in place for assessing Disabled Facilities Grant applications and delivering the required adaptations to specification and budget were well managed.

The process for monitoring the progress of these applications is being strengthened by the adoption of a control log, attached to each file that will be signed off as each action is completed. This will help ensure that evidence is always obtained by the service that:

- completed works have been inspected and signed off before payment is made
- land charges have actually been made against adapted properties, so that the Council can re-claim the appropriate percentage of the grant if the property is sold within ten years of the works being completed.

Number of actions agreed: 3

Appendix C2: Audit Opinion and Themes

Assurance



Waste Collection

Objective

To assess whether commercial and domestic waste collection services are effectively planned and managed and waste vehicles are properly maintained.

Themes

Resident surveys undertaken in late 2013 confirm a high level of satisfaction with the waste collection services and the existing waste vehicles have a full service maintenance history. However, the service review that commenced in 2013 now needs to be finalised in order to sustain a good level of service in the future. Once completed, this will enable:

- the local waste collection strategy to be updated
- the vehicle investment approach to be reviewed (more than a third are now fully depreciated and older than the Council's current useful life expectations)
- decisions to be made about staffing structures (40% of the waste collection workforce are temporary staff, because no permanent recruitment has taken place since 2011).

Collection routes have been reviewed in line with the Health & Safety Executive's (HSE's) 'Safe Waste & Recycling Collection Services' standards and signed off by the HSE on 13 November 2015.

With regard to HR records:

- it was noted that the recruitment records reviewed for the permanent staff recruited pre-2012 were incomplete
- it has been agreed that the service will:
 - provide HR with assurance that temporary staff are being recruited in line with current corporate standards and the agencies used continue to provide value for money
 - improve the training records held for temporary staff, particularly those relating to the induction process.

Number of actions agreed: 6

Regeneration

Objective

To assess whether the Regeneration Partnership (the Partnership) has formal evidence it has:

- assessed whether it has achieved its 2008 to 2013 Regeneration Framework ambitions and key priorities

Appendix C2: Audit Opinion and Themes

Assurance



- effective arrangements and processes in place to deliver future regeneration ambitions.

Themes

Whilst officers can describe examples of where the Partnership has positively influenced others, its overall success in doing so and therefore its effectiveness has not formally assessed and reported on. It is therefore unclear, the extent to which the 2008 to 2013 Regeneration Framework:

- has been delivered
- achieved the required regeneration outcomes.

It is, however, now an opportune time to review and refresh both the Partnership's Terms of Reference and Framework. The aim being to make clearer the Partnership's purpose, role and objectives given the current context in which regeneration is possible and most effective in Castle Point.

The revised Terms of Reference could:

- more clearly mirror officers' view of its primary purpose as being an influencer
- make clear, partners are responsible for delivering their regeneration-related works or activities.

The Framework should set out the Partnerships objective's and measurable success factors. These practical actions should be framed around demonstrating how it influences others to undertake additional or otherwise better regeneration activity for the benefit of the borough. It should also set out how officers will:

- maximise "opportunistic" in year funding rounds whilst ensuring the funded activity still aligns with agreed regeneration and service priorities
- ensure future revenue costs of such activities are affordable and budgeted for.

It is clear from attendance at meetings, that the Partnership has a good buy-in from a wide range of partners and therefore has a good basis to influence others as required. The Partnership should collectively review whether those at the meetings have sufficient authority at their own organisation to take the required action to further regeneration in Castle Point.

Number of actions agreed: 9

Residential Leaseholder Charging

Objective

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

Themes

The Council meets its statutory duties to:

Appendix C2: Audit Opinion and Themes

Assurance



- undertake leaseholder consultations for planned repairs and improvements
- issue the five-year estimate of charges to potential leaseholders.

Consulting properly with leaseholders is key to ensuring the Council can recharge them in full for any work completed.

Action is now required to properly secure data contained in the spreadsheet that contains residential leaseholder details. Management have also agreed to evidence the independent checks undertaken to confirm estimated recharges are correct before leaseholders are billed. These arrangements will be strengthened when the Residential Leaseholder Charging Policy is developed. A cost benefit will be undertaken to determine whether to invest in a more secure database that would automate some of these functions.

The Debt Recovery Policy is good and the arrangements for collecting this income are satisfactory (refer Accounts Receivable audit 2014/15). Regular checks will be undertaken, going forward, to ensure that appropriate action is being taken to recover debts.

The Residential Leaseholder Charging Policy will include details of when and how staff should use the additional statutory power to forfeit a lease and repossess a property if a leaseholder fails to pay the service charges.

Number of actions agreed: 5

Appendix C3: Opinion and Themes

Assurance



Right to Buy

Objective

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

Themes

Since April 2014, 28 Right to Buy applications have been made resulting in seven properties being sold. Various services have a role to play in processing Right to Buy applications. To date, there has been a lack of clarity about which service is accountable for the process. As a result, there has been a lack of ownership at both management and operational level. Expectations of staff throughout the whole Right to Buy application process have not been clear. Management have not or not always adequately confirmed that applications have been properly assessed. However, the Head of Housing and Communities has accepted responsibility for the Right to Buy process to move to Housing and Communities going forward.

In order to strengthen the arrangements, action is being taken to:

- direct enquiries and requests for Right to Buy application forms, to the Tenancy Services team
- update procedure notes and key documents within the process to bring them in line with the good practice guidance issued by the Department for Communities and Local Government
- explore the options for holding Right to Buy application information in a more secure environment (e.g. within the main housing management system or an access database)

Further work is required to ensure full compliance with the legislative requirements to inform secure tenants of their right to buy.

Charges are place on properties sold so the Council protects its rights should the owner wish to sell within five years purchase. This is being extended to include the Council's right of first refusal on sales within 10 years of purchase.

Action is being taken to further develop staff understanding of:

- fraud and money laundering risks with respect to Right to Buy applications
- how to identify and deal with these risks effectively.

Going forward, additional information will be requested from applicants to help with this assessment.

Number of actions agreed: 11

Appendix C4: Other Audits and Grant Claims

Data Quality Spot Check, Planning Applications

Objective

To assess whether planning application indicators being reported can be relied upon and comply with the National Planning Practice Guidance 2014.

Summary findings

A random sample of 20 cases were reviewed covering major, minor and other applications. It was possible to conclude from this work that the:

- "valid application" date used was correct, as was the data entered onto IDOX (the planning application IT system) regarding each application
- the system was correctly calculating the performance indicators being reported in the corporate score card
- generally, applications were being validated in a timely manner, however this aspect of the process should improve with the appointment of an additional member of staff.

Repair and Renew (Flood) Grant

Purpose of funding

To financially support homes and businesses within the Borough to establish flood resilience measures that will reduce the risk of and / or minimise the effects of future flooding.

Objective

To provide reasonable assurance that the invoices submitted by the Council for claims and authority costs fairly represent expenditure under the Scheme made in accordance with the terms and conditions attached to the funding.

Opinion: Unqualified.

Appendix D: Internal Audit Action Plans Requiring Sign Off

| Dept | Audit Activity | Year | Status | By |
|--|--|-------|--------------------------|---------------------------------|
| Managing the Business | | | | |
| | Evaluating Risk in Corporate Reporting | 13/14 | Report issued May 2014. | Good Governance Group: Aug 2016 |
| | Ethical Governance | 14/15 | Report issued Jun 2015. | Good Governance Group: Aug 2016 |
| | Quality of Management Information | 15/16 | Report issued Jul 2015. | Good Governance Group: Feb 2016 |
| Managing Service Delivery Risks | | | | |
| Env | Parking Enforcement | 14/15 | Report issued Jun 2015. | Management: Feb 2016 |
| H&C | Homelessness | 14/15 | Report issued Jun 2015. | Internal Audit: May 2016 |
| Env | Street Cleaning Contract Management | 14/15 | Report issued Dec 2014. | Management: Feb 2016 |
| H&C | Welfare Reform | 14/15 | Report issued Jun 2015. | Management: Aug 2016 |
| Env | Waste Collection | 15/16 | Report issued Dec 2015. | Internal Audit: Jul 2016 |
| R&N | Regeneration | 15/16 | Report issued Nov 2015. | Internal Audit: May 2016 |
| Res | Capita IT Contract Management | 15/16 | Report issued Dec 2015. | Management: TBC |
| Res | IT Governance | 15/16 | Report issued Dec 2015. | Management: TBC |
| Env | Disabled Facilities Grants | 15/16 | Report issued Dec 2015. | Management: Aug 2016 |
| H&C | Residential Leaseholder Charing | 15/16 | Report issued Sept 2015. | Internal Audit: Apr 2016 |
| H&C | Right to Buy | 15/16 | Report issued Dec 2015. | Internal Audit: May 2016 |
| H&C | Allocations | 15/16 | Report issued Jul 2015. | Internal Audit: May 2016 |

Appendix D: Internal Audit Action Plans Requiring Sign Off

| Dept | Audit Activity | Year | Status | By |
|---|---|-------|---------------------------|---------------------------------|
| Reports that have been followed up already | | | | |
| | Performance Management | 14/15 | Report issued Sept 2014. | Good Governance Group: Feb 2016 |
| | Service Planning and Appraisals | 14/15 | Report issued March 2015. | Signed off |
| H&C | Property Services Provided by South Essex Homes | 14/15 | Report issued March 2015. | Signed off |
| Env | Waterside Leisure Centre, Cash Management | 14/15 | Report issued June 2015. | Management: Feb 2016 |
| Env | Environmental Health, Interim Review | 14/15 | Report issued May 2015. | Signed off |
| R&N | Licensing | 14/15 | Report issued June 2015. | Internal Audit: Apr 2016 |

AUDIT COMMITTEE

6 January 2016

Subject: EY Audit Committee Progress Report

1. Purpose of Report

To provide the Audit Committee with an overview of the external auditors plans for 2015/16.

2. Background

Attached is EY's (the appointed External Auditor to the Council for 2015/16) Audit Progress Report.

A senior representative of EY will present the key matters from this report to the Audit Committee and then respond to any questions of clarification by Members.

3. Corporate Implications

Financial Implications

The cost to the Council of external audit for 2015/16 is planned to be £56,265 for the Code audit and £21,801 for the certification work.

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 2015/16 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

December 2015





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

17 December 2015

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 2015-16 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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| Appendix 1 – Timetable for the 2015-16 audit | 4 |

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)

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

2015/16 audit

Financial statements audit

We will start our detailed audit planning and risk assessment in the early part of 2016 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 2015 to discuss how we can work together to improve the accounts production and audit process for 2015-16. We will continue to liaise with officers to ensure the 2015-16 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

Where possible we seek to rely on the controls within the Council's financial systems. We have already started the process of liaising with Internal Audit with a view to placing reliance on the testing of controls which they perform in the normal course of their annual plan.

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

Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls is planned to commence in January 2016 and continue in March 2016. We may also 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. We are planning to carry out our post-statements work in July 2015.

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 consulted on the detailed guidance for the 2015-16 Value for Money Conclusion, and the consultation ended on 30 September 2015. The final guidance has been published and we are starting our risk assessment. We will discuss the impact of the guidance and the results of our risk assessment with officers, again aiming to communicate any significant risks within our audit plan at the next committee meeting.

Other Issues

Local appointment of auditors

The Department for Communities and Local Government has recently announced that it has decided to extend the existing external audit contract arrangements by one year, to

the end of 2017-18. From 2018-19 onwards, larger local government bodies, including fire and rescue authorities, police bodies and other local government bodies will be responsible for appointing their own auditors, and directly managing the resulting contract. It is not clear yet whether there will be a sector-led body to carry out procurements and appointments of auditors on behalf of local government bodies. CIPFA has been asked by DCLG to prepare guidance for local government bodies on developing local auditor panels.

Existing external audit arrangements will remain unchanged for the current, 2016-17 and 2017-18, financial years.

Appendix 1 – Timetable for the 2015-16 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 2015-16 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 | Status |
|--|---------------------------|--|-----------------|--|
| High level planning | Ongoing | Audit Fee Letter | January 2016 | Completed, sent to the Council in April 2015 |
| Detailed risk assessment and setting of scope of audit | January – February 2016 | Audit Plan | March 2016 | Not yet started |
| Testing of routine processes and controls | February – March 2016 | Audit Plan | March 2016 | Not yet started |
| Year-end audit | July – August 2015 | 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 2015 | Not yet started |
| Annual Reporting | October 2016 | Annual Audit Letter | October 2016 | Not yet started |
| Grant Claims 2015-16 | September – November 2016 | Annual certification report | February 2017 | Not yet started |

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

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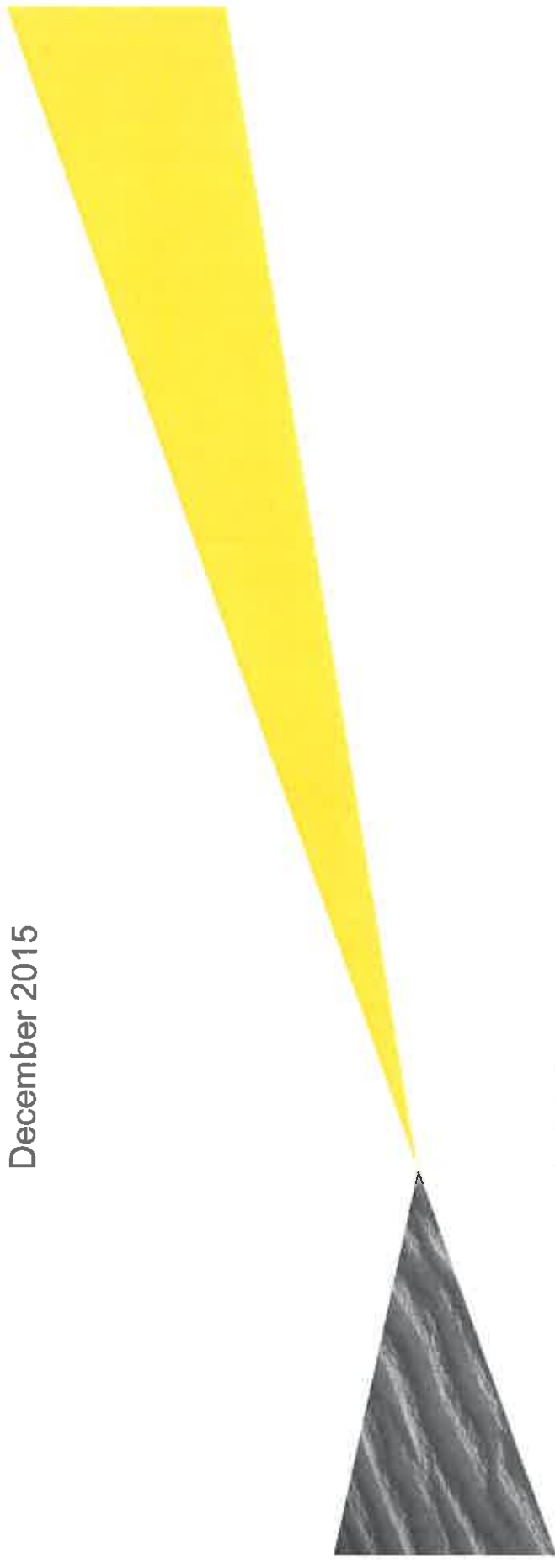
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Value for Money

Code of Audit Practice 2015

Castle Point Borough Council

December 2015



**Building a better
working world**

Background

- ▶ Requirement of Local Audit & Accountability Act 2014 Section 21(1)
- ▶ NAO Code of Audit Practice 2015 implies 'reasonable assurance'
 - ▶ Need to plan and conduct risk assessment
 - ▶ Undertake sufficient work against any identified 'significant' risks

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people

Replaces previous two criteria for audited bodies:

1. securing financial resilience; and
2. challenging how they secure economy, efficiency and effectiveness

Sub-criteria and proper arrangements

| Sub-Criteria Proper Arrangements | |
|---|--|
| Informed decision making | Acting in the public interest, through demonstrating and applying the principles and values of sound governance |
| | Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management |
| | Reliable and timely financial reporting that supports the delivery of strategic priorities |
| | Managing risks effectively and maintaining a sound system of internal control |
| Sustainable resource deployment | Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions |
| | Managing and utilising assets effectively to support the delivery of strategic priorities |
| | Planning, organising and developing the workforce effectively to deliver strategic priorities |
| | Working with third parties effectively to deliver strategic priorities |
| Working with partners and other third parties | Commissioning services effectively to support the delivery of strategic priorities |
| | Procuring supplies and services effectively to support the delivery of strategic priorities |

Auditor's risk assessment

- ▶ Risk that the auditor will reach an incorrect conclusion on the arrangements (as opposed to the risk that *arrangements are inadequate*)
- ▶ Performed to determine nature and extent of any further work
- ▶ Undertaken only on significant risks
 - ▶ *A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects*

Auditor's risk assessment (2)

- ▶ Documented from sources such as:
 - ▶ Cumulative knowledge of the client (brought forward)
 - ▶ Findings from other areas of the audit
 - ▶ Findings of other inspectorates/regulatory bodies
 - ▶ IA reports
 - ▶ AGS / Annual Report
 - ▶ Risk registers
 - ▶ Board/Committee minutes
 - ▶ Key financial information and reports
 - ▶ Wider knowledge of the sector and developments.
 - ▶ NAO illustrative risks

Potential significant risk - examples

▶ **Organisational change and transformation:**

- ▶ reorganisation/merger; major outsourcing; significant capital projects; debt restructuring

▶ **Significant funding gaps in financial planning:**

- ▶ significance of budget gaps will depend both on the size of the funding gap, and at what point it emerges in the body's medium-term financial plans. Where the body has a significant budget gap in terms of funding, and especially where a significant level of as yet unidentified savings are required to deliver a balanced budget, the auditor should consider the issue as a significant risk.

Potential significant risk - examples

▶ **Legislative/policy changes:**

- ▶ taking on a significant new function as a result of changes in legislation or national policy decisions

▶ **Repeated financial difficulties, or persistently poor performance:**

- ▶ a history of financial difficulty, or persistently poor performance in one or more key service areas with little sign of securing any improvements,

▶ **Other sources:**

- ▶ an independent inspectorate or other review agency identifies significant concerns about the quality of services provided.

Audit work to be undertaken

- ▶ Proportionate
- ▶ To a level sufficient to be clear on the conclusion, and reduce the initial audit risk

Reporting

- ▶ Audit Plan – risk assessment
- ▶ ISA260 – completion of fieldwork, results of work and proposed conclusion
- ▶ Auditor's report – conclusion (by exception)
- ▶ Annual Audit Letter –key findings and conclusion
- ▶ Also may need to consider wider reporting arrangements

Qualified Conclusions

Adverse

- ▶ Weakness in arrangements:
- ▶ So significant in impact; or
- ▶ So numerous in aspects of proper arrangements affected

Except for

- ▶ Weaknesses:
- ▶ Sufficiently significant to report
- ▶ Limited to specific issue or area

Reporting: Concise summary of the information leading to that conclusion

NAO supplementary information

General briefing for all sub-sectors

Contains:

- ▶ General background
- ▶ Sector financial positions
- ▶ National changes (developments)
- ▶ (annual) Governance Reporting framework, mapped to the relevant VFM sub-criteria
- ▶ Other resources

Information Sources

| Item | Location |
|---------------------------------------|---|
| Local Audit & Accountability Act 2014 | http://www.legislation.gov.uk/ |
| NAO | http://www.nao.org.uk/ |
| Code of Audit Practice | http://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf |
| Guidance and information for auditors | https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/ |

AUDIT COMMITTEE

6th January 2016

Subject: Audit Committee Terms of Reference and Work Programme

1. Purpose of Report

To present an updated Audit Committee Terms of Reference and Work Programme for consideration.

2. Background

The Accounts and Audit Regulations 2015 require appropriate arrangements to be in place for Council or a nominated committee to provide oversight of its system of internal control. The manner in which this is to be done is set out in the CIPFA good practice guidance document called Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition. Historically, the Council uses the approach set out in CIPFA guidance to inform the development of its own Terms of Reference plus the supporting work programme.

This report sets out the results of the first full review of the Audit Committees current arrangements against the 2013 good practice guidance.

3. Terms of Reference: Appendix A

The Terms of Reference produced sets out the Audit Committee's purpose and a high level summary of the key areas its work programme should cover. It also clarifies, amongst other things:

- whether Executive Councillors can have a role on the Audit Committee
- the expectation that one member should have financial expertise
- its powers to invite officers or councillors to attend to provide assurance in relation to the risk management, governance or control arrangements pertaining to their areas of activity or responsibility.

Although not specifically set out in its Terms of Reference, the Audit Committee reports to and discharges its duties on behalf of Council.

The refreshed version now reflects current CIPFA good practice guidance.

4. Work Programme: Appendix B

An exercise has also been undertaken to assess whether the reports being produced for the Audit Committee still enable it to discharge its role with regards to its core functions as set out in the updated CIPFA guidance. A revised Work Programme has been produced from this which shows the:

- reports to be produced going forward by management, internal and external audit
- meeting in the cycle they will be taken to.

It is also structured so that the Audit Committee can see that it is getting sufficient evidence in each key area to enable it to:

- discharge its role
- recommend adoption of the Annual Governance Statement at its June meeting.

5. Corporate Implications

Financial Implications

None

Legal Implications

There is no statutory requirement to have an Audit Committee however this is now considered to be good practice. However the Account and Audit Regulations 2015 require councils to:

- each financial year, conduct a review of the effectiveness of its system of internal control
- prepare an annual governance statement
- present the findings of this review to a committee or full Council to consider prior to approving the annual governance statement.

This is the role that has been delegated to the Audit Committee by Council.

Human Resources and Equality Implications

None.

IT and Asset Management Implications

None.

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

The work of the Audit Committee helps ensure that all the Council's aims and objectives are delivered.

7. Timescale for Implementation

Throughout the year.

8. Risk Factors

Without an effective Audit Committee, the Council is at risk of not obtaining ongoing assurance as to the robustness of its risk management, governance and control framework. An ineffective system of internal control potentially puts the delivery of Council services at risk.

Recommendations:**The Audit Committee approves:**

- the amended Terms of Reference and recommends its adoption to Council
- the Work Programme proposed for 2016/17.

Background Papers

- The Accounts and Audit Regulations 2015
- Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition.

Appendices

Appendix A Audit Committee's Terms of Reference

Appendix B Audit Committee Work Programme 2016/17

Report Authors: Linda Everard, Head of Internal Audit / Craig Watts, Head of Performance and Service Support

Audit Committee Terms of Reference**7.6 Audit Committee****Membership**

The Audit Committee will comprise of five councillors.

The membership should include:

- a Chairman who is not an Executive Councillor
- at least one member with financial expertise.

The membership should not include:

- more than one councillor who is also a member of the Cabinet
- the councillor who is the Cabinet portfolio holder responsible for Finance and Resources.

In view of the limited number of councillors appointed, substitute Members shall be appointed to assist in ensuring that meetings are quorate.

Proportionality will be applied.

Quorum

Two councillors.

Terms of Reference

The Audit Committee is a key component of the Council's corporate governance arrangements. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

Therefore the purpose of the Audit Committee is to:

- provide the Council with independent:
 - assurance of the adequacy of the risk management framework and the internal control environment
 - review its governance, risk management and control frameworks.
- oversee:
 - the financial reporting and annual governance processes
 - internal audit and external audit, helping to ensure effective relationships exist and efficient and effective assurance arrangements are in place.

The Audit Committee will maintain a work programme that:

- is reviewed at least annually and complies with relevant good practice guidance
- provides the outline audit agenda for each meeting in the annual cycle.

It should demonstrate that the Audit Committee is receiving sufficient and appropriate information to discharge its responsibilities and ultimately recommend adoption of the Annual Governance Statement.

The work programme will cover the Council's:

- assurance statements including the Annual Governance Statement, so it can satisfy itself that they:

Audit Committee Terms of Reference

- properly reflect the risk environment and any actions required to improve it
- demonstrate how governance supports the achievements of the Council's objectives.
- Internal Audit function, with regards to its:
 - independence, objectivity, performance, professionalism and effectiveness
 - use within the Council's overall assurance framework.
- risk management arrangements and control environment so it can:
 - consider its effectiveness
 - review:
 - the organisation's risk profile
 - assurances provided that action is being on risk related issues, including those involving partnerships with other organisations.
- control environment, so it can evaluate its effectiveness, particularly with regard to ensuring:
 - value for money is delivered
 - the exposure to the risks of fraud and corruption are managed.
- reports and recommendations made by external audit and inspection agencies and their implications for governance, risk management or control
- the financial statements, external auditor's opinion and reports to Members and responses by management to issues raised by external audit
- treasury management, so it can effectively scrutinise and monitor delivery of the strategy and policies in accordance with the CIPFA Treasury Management Code of Practice
- the functions and effectiveness of the Audit Committee, including the production of its annual report.

Meeting cycle

The Committee will meet four times per year, with dates included in the Council Calendar. Further meetings can be arranged on an ad hoc basis as the Audit Committee deems appropriate.

Members and officers in attendance

The Head of Performance and Service Support, the Head of Internal Audit, the Financial Services Manager (Deputy Section 151 Officer) and the Council's External Auditors will be invited to attend every Audit Committee meeting.

As well as reviewing documentation, the Audit Committee exercise the right to invite any other officers, Chairs of other Committees or Cabinet Members to attend before it, as and when required. This would be to provide assurance in relation to the adequacy of the governance arrangements pertaining to their area of activity / responsibility.

Audit Committee Terms of Reference

It is the duty of those persons to attend if so required.

Where any Member or officer is required to attend the Audit Committee under this provision, maximum notice will be given.

Where in exceptional circumstances the Member or officer is unable to attend on the required date, an alternative date will be agreed with the Chairman.

Appendix B

Audit Committee Work Programme 2016/17

| Agenda items | June | Sept | Jan | Mar |
|---|-------------|-------------|------------|------------|
| | | | | |
| Governance, Risk and Control | | | | |
| • Good Governance Update and Local Code of Governance | | | | √ |
| • Internal Audit Risk Assessment with Assurances | | | | √ |
| • Quarterly Monitoring Report of the Council's Governance Arrangements | | √ | √ | √ |
| • Reports on individual key business management arrangements as required | √ | √ | √ | √ |
| • Risk Management Policy and Strategy (bi-annual) | | | | √ |
| • Risk Management Performance and Annual Reports | √ | | √ | |
| • Anti Fraud, Corruption, Bribery, Theft, Financial Irregularity and Money Laundering Policy and Strategy (bi-annual) | | | | √ |
| • Counter Fraud & Investigation Performance and Annual Reports | √ | | √ | |
| • Annual Governance Statement Report | √ | | | |
| | | | | |
| Treasury Management | | | | |
| • Treasury Management and Investment Strategy | | | √ | |
| • Treasury Management Activity Mid Year Report | | √ | | |
| • Annual Report on the Treasury Management Service and Actual Prudential Indicators | √ | | | |
| • Internal and External Audit financial system and statement of accounts reports (see below) | | | | |
| | | | | |

Audit Committee Work Programme 2016/17

| Agenda items | June | Sept | Jan | Mar |
|--|------|------|-----|-----|
| Financial Reporting | | | | |
| • External Audit Final Report to the Audit Committee (see below) | | √ | | |
| • Statement of Accounts – Full Council | | √ | | |
| | | | | |
| Internal Audit | | | | |
| • Charter, Strategy and Audit Plan | | | | √ |
| • Quarterly Performance Report | √ | √ | √ | √ |
| • Head of Internal Audit Annual Report | √ | | | |
| • Independent External Performance Assessment required by March 2018 (every 5 years) | | | | |
| | | | | |
| External Audit | | | | |
| • Audit Fee Letter | √ | | | |
| • Quarterly Progress Report to Those Charged with Governance | √ | √ | √ | √ |
| • Audit Results Report to the Audit Committee | | √ | | |
| • Annual Audit Letter | | | √ | |
| • Grant Claims and Returns Certification Report for the Year Ended 31 March 20xx | | | √ | |
| • Audit Plan | | | | √ |
| • Annual regulatory Compliance and Quality Report | | | √ | |
| | | | | |
| Accountability Arrangements | | | | |
| • Periodic reports on aspects of the Audit Committee's operating arrangements | √ | | √ | √ |