



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE **Monday, 28th November, 2016**

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

Council Chamber, Civic Offices, High Street, Epping
on **Monday, 28th November, 2016**
at **7.00 pm** .

Glen Chipp
Chief Executive

**Democratic Services
Officer**

Gary Woodhall
(Governance Directorate)
Tel: 01992 564470
Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors J Knapman (Chairman), L Hughes, R Jennings, A Patel, and J M Whitehouse.

Independent A Jarvis (Vice-Chairman) and N Nanayakkara

WEBCASTING/FILMING NOTICE

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

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

1. WEBCASTING INTRODUCTION

I would like to remind everyone present that this meeting will be recorded for

subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

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

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

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

2. APOLOGIES FOR ABSENCE

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

3. DECLARATIONS OF INTEREST

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

4. MINUTES

(Director of Governance) To confirm the minutes of the last meeting of the Committee held on 19 September 2016 (previously circulated).

5. MATTERS ARISING

(Director of Governance) To consider any matters arising from the previous meeting.

6. AUDIT & GOVERNANCE WORK PROGRAMME 2016/17 (Pages 5 - 6)

(Director of Governance) To consider the attached Work Programme for 2016/17.

7. APPOINTMENT OF EXTERNAL AUDITOR (Pages 7 - 28)

(Director of Resources) To consider the attached report (AGC-010-2016/17).

8. ANNUAL AUDIT LETTER (Pages 29 - 46)

(Director of Resources) To consider the attached report (AGC-011-2016/17).

9. MID-YEAR REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2016/17 (Pages 47 - 68)

(Director of Resources) To consider the attached report (AGC-012-2016/17).

10. REVIEW OF THE EFFECTIVENESS AND THE TERMS OF REFERENCE OF THE AUDIT AND GOVERNANCE COMMITTEE (Pages 69 - 82)

(Director of Governance) To consider the attached report (AGC-013-2016/17).

11. INTERNAL AUDIT MONITORING REPORT - SEPTEMBER TO NOVEMBER 2016 (Pages 83 - 100)

(Director of Governance) To consider the attached report (AGC-014-2016/17).

12. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972 requires that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

13. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

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

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

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

Background Papers:

Article 17 of the Constitution (Access to Information) define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

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

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

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Audit & Governance Committee Work Programme 2016/17

27 June 2016

- Internal Audit Annual Report 2015/16.
- Audit & Governance Committee Annual Report.
- Annual Governance Statement.
- Internal Audit Progress Report.

19 September 2016

- Treasury Management Annual Outturn Report.
- Statutory Statement of Accounts.
- Internal Audit Progress Report.

- ❖ Annual Governance Report 2015/16.

28 November 2016

- Treasury Management Mid-Year Report.
- Internal Audit Progress Report.
- Review of the Internal Audit Charter
- Review of the Audit and Governance Committee Terms of Reference.
- Review of the Audit and Governance Committee Effectiveness.

- ❖ Annual Audit Letter 2015/16.

6 February 2017

- Treasury Management Investment & Strategy Statements.
- Internal Audit Progress Report.

- ❖ Grant Claims Audit Report 2015/16.

27 March 2017

- Effectiveness of Risk Management.
- Internal Audit Progress Report
- Internal Audit Strategy and Audit Plan 2017/18.
- Internal Audit Compliance with the Public Sector Internal Audit Standards
- Corporate Fraud Team Strategy 2017/18

- ❖ Planning Letter 2017/18.

- ❖ Audit Plan 2016/17.

Unallocated Items

- Information Regarding the Whistle Blowing Policy.

Key

- EFDC Officer Report.
- ❖ External Auditor Report.

N.B...In addition, the Committee's annual private meetings with the External (7pm) and Internal (7.15pm) Auditors are scheduled to take place prior to the 27 March 2017 meeting in the Conference Room.

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Report to the Audit & Governance Committee



**Epping Forest
District Council**

Report reference: **AGC-010-2016/17**
Date of meeting: **28 November 2016**

Portfolio: **Governance & Development Management**

Subject: **Appointment of External Auditor**

Responsible Officer: **Bob Palmer** (01992 564279).

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

Recommendations/Decisions Required:

(1) To recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

Executive Summary:

Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.

Reasons for Proposed Decision:

It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

One of the specific functions of this Committee, as set out in the Constitution, is to be responsible for the appointment of the Council's external auditors and ensure it is in line with the requirements of the Local Audit and Accountability Act 2014.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Committee is asked to make the recommendation above to Council.

Other Options for Action:

To establish an auditor panel and conduct our own procurement. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

Report:

1. As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

2. In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.

3. There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

4. An invitation from the PSAA to opt in was received on 27 October and a response is required by 9 March 2017. Subject to the agreement of this Committee, the recommendation to make use of the appointing person arrangements will be considered by Council on 20 December.

5. The main advantages of using PSAA are set out in its prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.

- * Assure timely auditor appointments
- * Manage independence of auditors
- * Secure highly competitive prices
- * Save on procurement costs
- * Save time and effort needed on auditor panels
- * Focus on audit quality
- * Operate on a not for profit basis and distribute any surplus funds to scheme members.

Resource Implications:

If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.

Legal and Governance Implications:

The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

The Director of Resources is the representative of the Society of District Council Treasurers on the PSAA Advisory Board and has consulted widely with other Section 151 Officers.

Background Papers:

PSAA Prospectus

PSAA – Appointing Person – Frequently Asked Questions

Impact Assessments:

Risk Management

As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.

Due Regard Record

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

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

The report deals with the appointment of the Council's external auditors and will not affect any groups of people.



Developing the option of a national scheme for local auditor appointments

www.psa.co.uk

Public Sector
Audit Appointments

“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It aims to be designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at generalenquiries@psaa.co.uk

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

The LGA is supporting PSAA in its application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA wishes to be selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.

“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body’s arrangements for securing value for money, dealing with electors’ enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years, subject, of course, to the terms of specification by DCLG.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,
Fire Finance Network

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of Finance and Resources,
Staffordshire County Council

PSAA Ltd
3rd Floor, Local Government House
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London SW1P 3HZ

www.psaa.co.uk



Public Sector
Audit Appointments

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Appointing person: Frequently asked questions

Question	Response
<p>1. What is an appointing person?</p>	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. Eligible bodies are principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities, national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies.</p> <p>The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>PSAA is a company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission.</p>
<p>2. When will invitations to opt in be issued?</p>	<p>The date by which principal authorities will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline. We anticipate that invitations to opt in will be issued before December 2016 at the latest.</p>

Question	Response
	<p>Authorities will have a minimum period of eight weeks to respond to the invitation.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our provisional timetable suggests that we will need to start preparing tender documentation early in 2017, so we will need to know by then which authorities want to be included.</p>
<p>3. Who can accept the invitation to opt in?</p>	<p>In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.</p>
<p>4. Can we join after it has been set up or do we have to join at the beginning?</p>	<p>The Regulations require that once the invitations to opt in have been issued, there will be a minimum period of eight weeks for you to indicate acceptance of the invitation. One of the main benefits of a an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector-led arrangements in later years, but they will need to make their own arrangements to appoint an auditor in the interim. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe.</p>

Question	Response
5. Will membership be free for existing members of the LGA?	The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.
6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?	We have not yet finalised the governance arrangements and we are considering the options, including how best to obtain stakeholder input. We are considering establishing a stakeholder engagement panel or advisory panel which can comment on our proposals. PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing generalenquiries@psaa.co.uk and via the LGA and their Principal Advisors.
7. Will there be standard contract terms and conditions?	The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).
8. What will be the length of the contracts?	The optimal length of contract between PSAA and firms has not been decided. We would welcome views on what the sector

Question	Response
	considers the optimal length of audit contract. We anticipate that somewhere between three and five years would be appropriate.
9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish.</p>
10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?	PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.
11. Will the price be fixed or will there be a range of prices?	The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating authorities after all costs have been met.
12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?	PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.

Question	Response
	<p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 and in compliance with the Ethical Standards issued by the Financial Reporting Council to ensure that every auditor appointment it makes passes this test. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.</p>
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>The number of firms eligible to undertake local public audit will be regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. The seven firms appointed by PSAA and the Audit Commission generally</p>

Question	Response
	<p>maintain a dedicated public sector practice with staff trained and experienced in public sector work.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> • firms have a regional presence; • greater continuity of staff input; and • a better understanding the local political, economic and social environment.
<p>15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?</p>	<p>PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. The minimum is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.</p>
<p>16. What will be the process to feed in opinions from customers of current auditors if there are issues?</p>	<p>PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.</p>
<p>17. What is the timetable for set up and key decisions?</p>	<p>We expect the key points in the timetable to be broadly:</p>

Question	Response
	<ul style="list-style-type: none"> • establish an overall strategy for procurement - by 31 October 2016; • achieve 'sign-up' of scheme members - by early January 2017; • invite tenders from audit firms - by 31 March 2017; • award contracts - by 30 June 2017; • consult on and make final auditor appointments - by 31 December 2017; and • consult on, propose audit fees and publish fees - by 31 March 2018.
18. What are the terms of reference of the appointing person?	PSAA is wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person rather than a transitional body.
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Question	Response
<p>20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?</p>	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.</p> <p>PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>

Report to the Audit and Governance Committee



Report Reference: AGC-011-2016/17 Epping Forest
Date of meeting: 28 November 2016 District Council

Portfolio: Finance

Subject: Annual Audit Letter

Responsible Officer: Bob Palmer (01992 564279)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

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

Executive Summary:

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

Reasons for Proposed Decisions:

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

Other Options for Action:

There are no other options for action.

Report:

1. The Annual Audit Letter (AAL) confirms that the Financial Statements gave a true and fair view of the Council's financial affairs. It also confirms that the Annual Governance Statement contained in the Financial Statements was not misleading or inconsistent with other information.
2. The external auditors were able to satisfy themselves that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. This enabled them to issue an unqualified value for money conclusion.
3. The AAL confirms that the auditors have not had to exercise their statutory powers and that they have no matters to report. An audit certificate to close the audit for the year ended 31 March 2016 was issued on 30 September 2016.

Resource Implications:

None.

Legal and Governance Implications:

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

Safer, Cleaner, Greener Implications:

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

Consultation Undertaken:

None.

Background Papers:

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

Impact Assessments:Risk Management

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

Due Regard Record

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

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

Date / Name	Summary of equality analysis
14/11/16 Director of Resources	The report is a summary of the work conducted in the year by the external auditor and has no equality implications.

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EPPING FOREST DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 2015/16. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code), and to review and report on:

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

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

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

Audit conclusions

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

We reported our detailed findings to the Audit and Governance Committee on 19 September 2016.

The risks that had the greatest effect on our audit strategy and the associated findings are included on pages 3 to 5 of this report.

USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

EXERCISE OF STATUTORY POWERS

We have not exercised our statutory powers and have no matters to report.

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of 2015/16 grant claims and returns is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

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VALUATION OF LAND AND BUILDINGS	RESPONSE	FINDINGS
<p>Land and buildings (including investment properties) were revalued during the year. Such valuations are based on assumptions that are uncertain by nature. There is a risk of misstatement if inappropriate or inaccurate assumptions are used in the calculation of asset values.</p> <p>We identified a significant increase in the value of land and buildings recognised in the Council's financial statements. We confirmed that this was primarily due to the revaluation undertaken during the year.</p> <p>The extent of these increases was substantially higher than our expectations (which were based on the increases in property prices suggested by published indices). We therefore considered that the valuation of property, plant and equipment (including investment properties) presented a significant risk of misstatement in the Council's accounts.</p>	<p>We responded to this risk by reviewing the significant assumptions used by the external valuers engaged by management for accuracy and reasonableness.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate based on their usage and that the movement in values were explained by wider market factors.</p> <p>We considered the independence, objectivity and competence of the external valuers engaged by management.</p>	<p>Our review of the valuation of council dwellings, other land and buildings and investment properties confirmed that they agreed to the respective valuation reports prepared by the external valuers.</p> <p>We reviewed the assumptions used in the valuations and concluded that they were not unreasonable.</p> <p>For council dwelling valuations, we reviewed property price data and comparable sales data on which the valuations were based and concluded that the two were consistent.</p> <p>We discussed the valuation of investment properties with the external valuer to confirm the nature of the information taken into account when completing the valuation. We were satisfied that the details of the Council's investment property portfolio provided to the valuer were accurate and complete.</p> <p>We assessed the competence, independence and objectivity of the valuers involved in both valuations and have not identified any issues.</p> <p>We have confirmed that the valuations are accurately reflected in the financial statements.</p>

FINANCIAL STATEMENTS

Continued

WRITE OFF OF NON CURRENT ASSETS	RESPONSE	FINDINGS
<p>During the year, the Council reviewed the assets classified within Infrastructure, Community and Assets under Construction. Officers concluded that some of the assets were either transport related (and therefore belonged to the County Council) or were related to a former waste disposal site which is now a park and no longer formed part of the associated asset. In the draft financial statements presented for audit, these assets (which had a value of £8.4m) were written out of the financial statements by restating 2014/15 values, including the recognition of an exceptional item in the Comprehensive Income and Expenditure Statement.</p>	<p>We responded to this risk by reviewing the accounting treatment applied in the draft financial statements to ensure that it was consistent with the requirements of the Code and applicable financial reporting standards.</p>	<p>We identified that the write-off had been incorrectly accounted for. Although it was correct to treat the write-off as a prior period adjustment, this should have been accounted for by restating the opening balances for the 2014/15 financial year (so recognising the correction related to <i>before</i> 2014/15) and not by only restating the 2014/15 Comprehensive Income and Expenditure Account (which would have shown the change occurring <i>during</i> 2014/15).</p> <p>Management amended the financial statements to correctly reflect the write-off of assets which are not owned by the Council. In accordance with the Code and applicable financial reporting standards, a third balance sheet has been prepared showing restated opening balances for the 2014/15 financial year.</p>

FINANCIAL STATEMENTS

Continued

PENSION LIABILITY ASSUMPTIONS	RESPONSE	FINDINGS
<p>The net pension liability comprises the Council’s share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We responded to this risk by agreeing the pension liability recognised in the Council’s financial statements to the information provided by the actuary.</p> <p>We reviewed the assumptions used by the actuary for reasonableness.</p>	<p>We are satisfied that the information used by the actuary regarding membership data was consistent with the Council’s records.</p> <p>The key changes to the financial assumptions related to:</p> <ul style="list-style-type: none"> • an increase in the pension increase rate from 2.20% to 2.30% • an increase in the salary increase rate from 4.00% to 4.10% • an increase in the discount rate from 3.20% to 3.50% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). <p>These changes resulted in a decrease in the present value of the scheme liabilities at 31 March 2016. We compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by an independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.</p>
EXISTENCE OF ASSETS	RESPONSE	FINDINGS
<p>For a sample of property, plant and equipment recorded on the Council’s asset register, we obtained evidence to confirm that the asset exists.</p> <p>Included in our sample were two items relating to works in respect of off street parking areas associated with council dwellings. Due to the age of these assets, officers were unable to confirm the location of these works and we were therefore been unable to confirm that the associated assets exist.</p>	<p>Further work was undertaken to quantify the impact of this issue by examining records relating to assets of the same type.</p>	<p>The further work established that the net book value of affected assets included in the Council’s asset register is £330,000. We were therefore satisfied that the impact on the Council’s financial statements was not material.</p>

FINANCIAL STATEMENTS

Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £1.900 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit and Governance Committee that we would report all individual audit differences in excess of £76,000.

Audit differences

Management corrected all misstatements relating to the current year identified during the course of the audit.

Other matters we report on

Annual governance statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We are satisfied that the information given in the narrative report for the financial year for which the financial statements are prepared is consistent with the financial statements.

FINANCIAL STATEMENTS

Continued

Internal controls

We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.



USE OF RESOURCES

CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting 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.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by our knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

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SUSTAINABLE FINANCES	RESPONSE	FINDINGS
<p>The spending review announced by the Government in November 2015 confirmed that central government funding for local government will continue to fall following significant reductions implemented during the previous Parliament. Existing funding mechanisms, particularly in relation to local taxation, are also likely to be restructured in the medium-term.</p> <p>The likely changes to local government funding, coupled with the need to deliver savings in the medium term, means that the Council will continue to face financial risks. These are, in part, mitigated by the levels of reserves currently held by the Council, which are forecast to remain significantly above the target of 25% of the Council's net budget requirement for the duration of the medium term financial strategy (MTFS).</p>	<p>We have reviewed the Council's MTFS to assess the reasonableness of assumptions used and how the Council is addressing financial pressures.</p> <p>We have considered the progress made by the Council regarding the exploitation of the commercial opportunities it has identified. We have also reviewed the progress it has made with its transformation programme, including any potential efficiency savings arising from the programme.</p>	<p>The most recent version of the Councils MTFS shows that the predicted revenue balance at the end of the period covered by the strategy is expected to be £6.857m, which represents 55% of the Council's net budget requirement for 2019/20. This is significantly above the minimum 25% approved by members.</p> <p>Capital funds are expected to reduce from £3.742m at the start of the MTFS period to nil during 2018/19.</p> <p>Management have recognised that ongoing reductions in central government funding will present significant financial challenges in the medium term. The introduction of the Transformation Programme aims to address this, as well as the need to embrace new technology and meet the changing needs of both internal and external stakeholders.</p>

USE OF RESOURCES

Continued

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SUSTAINABLE FINANCES (continued)	RESPONSE	FINDINGS
		<p>A Head of Transformation was appointed in November 2015 to oversee the programme’s four work streams:</p> <ul style="list-style-type: none"> • Customer experience • Business culture • Resources, accommodation and technology • Major projects <p>The customer experience review commenced during the year. This project continues to progress alongside other aspects of the transformation programme, notably a review of the Council’s current office accommodation.</p> <p>The development of the Langston Road Shopping Centre is expected to provide the Council with a significant source of income once operational. Delays in the tendering process for the construction of the centre have resulted in the opening being postponed until Easter 2017 (the centre was originally intended to open in time for Christmas 2016).</p> <p>As the Transformation Programme is in its early stages, financial benefits (both in terms of savings achieved and additional revenue generated) are yet to be realised. Those elements of the programme which commenced during 2015/16 are progressing well and are on track to deliver the changes envisioned by officers.</p>

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We have not exercised our statutory powers and have no matters to report.

Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2016 on 30 September 2016.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK

Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2014/15 housing benefits subsidy claim found two errors in the initial samples tested. In both instances, the Council's quality control procedures had highlighted and corrected these errors after the subsidy claim was produced but before we completed our testing. Therefore, no additional testing was performed in respect of these errors.

We also undertook testing to establish whether errors identified in the prior year had occurred again during 2014/15. This identified the following:

- One case where ineligible meal costs had been incorrectly included in the calculation of eligible rent (error of £57).
- Two cases where benefit had been overpaid because private pension income had not been correctly calculated (error of £182).

Both of the above were reported to the DWP in our qualification letter.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2016.

Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Departments, for the following return for 2015/16:

- Pooled housing capital receipts (deadline 30 November 2016)

Our work on this return is currently in progress.

APPENDIX

Reports issues

We have issued the following reports since our previous annual audit letter.

REPORT	DATE
Grant claims and certification work 2014/15	26 February 2016
Audit Plan	16 March 2016
Final audit report	7 September 2016
Annual Audit Letter	26 October 2016

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising.. No responsibility to any third party is accepted.

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Report to: Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-012-2016/17
Date of meeting: 28 November 2016

Portfolio: Finance

**Subject: Mid-Year Report on Treasury Management and Prudential
Indicators 2016/17**

Responsible Officer: Simon Alford (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To note how the risks associated with Treasury Management have been dealt with in the first half of 2016/2017; and**
- (2) To make any comments or suggestions that Members feel necessary to the Finance and Performance Management Cabinet Committee.**

Executive Summary:

The mid-year treasury report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the first half of the financial year 2016/17.

During the first half of the year: the Council has continued to finance all capital expenditure from within internal resources; the average net investment position has been approximately £61.9m by coincidence the same figure as last year; and there have been no breaches on any of the prudential indicators.

Reasons for Proposed Decision:

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

To comply with the Committee's role and responsibilities, which include being responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.

Other Options for Action:

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

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the current year. The updated code in November 2011 also recommended that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

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

Capital activity for the year and how it will be financed

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.

4. The Council planned to borrow in 2016/17 to carry out its capital programme. The original estimate, along with spending to month 6 (30 September 2016) is shown below in the table.

Financial Year 2016/17		
Capital Expenditure	Estimated £m	to month 6 £m
Non-HRA capital expenditure	19.47	1.722
HRA capital expenditure	28.127	7.507
Total Capital expenditure	47.597	9.229
Financed by:		
Capital grants	1.015	
Capital receipts	8.192	
Revenue	25.769	
Total resources Applied	47.597	

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

6. There is a financial risk involved in reducing the balance of usable capital receipts over the next five years. This risk has the following potential consequences; loss of interest; loss of cover for contingencies; service reductions required; and Council Tax increases may be required.

7. This prudential indicator assists the Council in controlling and monitoring the level of usable capital receipts that will be available at the end of a five-year period. The original Capital Programme for the three years to 2018/19 totals £102m and was partly funded by £12.6m borrowing. It was predicted that at the end of 2018/19 there would still be £2.99m available in usable Capital Receipts and nil in the Major Repairs Reserve. These figures will be revised as part of the update to the Capital Programme.

The impact on the Council's indebtedness for capital purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. The Council now has an overall positive CFR (HRA and Non-HRA) following the borrowing in relation to the HRA self-financing, but had no underlying need to borrow for capital purpose as highlighted in the previous section.

CFR	Financial year 2016/17		
	Estimated £m	Revised £m	to month 6 £m
Non-HRA	55.0	55.0	29.6
HRA	155.1	155.1	155.1
Total Capital expenditure	210.1	210.1	184.7

9. The Director of Resources confirms that there were no breaches of the Authorised Limit (£240m), the Operational Boundary (£230m) and the Maturity Structure of Fixed Rate Borrowing during the period to 30 September 2016.

10. The risks for Councils are associated with affordability, interest rates and refinancing – the affordability risk is whether the Council can afford to service the loan, this has been evidenced through the Council producing a viable thirty-year financial plan for the HRA. This plan is reviewed quarterly by officers and half yearly reports are presented to the Communities Select Committee. The interest rate risk is whether a change in rates could have an impact on the viability of the financial plan. The Council received advice from our treasury advisors before undertaking the borrowing. Only 17% of the amount borrowed was at a variable rate, the remainder was fixed. Therefore, any upward movement in interest rates would be 'hedged' by a corresponding increase in interest earned. The refinancing risk is that maturing borrowings, capital project or partnership financing cannot be refinanced on suitable terms. Within the original capital programme, it was anticipated that all borrowing would be repaid on maturity and that the capital programme could no longer be financed through internal resources. The Council does intend to borrow later in 2016/17 or 2017/18 in order to finance approved capital projects e.g. Langston Road Retail Development.

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

The Council's overall treasury position

12. During the first half of 2016/17 the average investment position was £61.9m. The table below shows the treasury position as at 30 September 2016.

Treasury position	31/03/2016 £m	30/09/2016 £m
Total external borrowing	(185.456)	(185.456)
Short term investment		
Fixed investment	37.0	33.0
Variable investment	14.6	19.9
Long term investment	0.0	0.0
Total investments	51.6	52.9
(Net Borrowing) / Net Investment Position	(133.856)	(132.556)

13. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.
14. The Director of Resources confirms that there have been no breaches of:
- (a) The Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (75%) on investment during the period. At the end of September 2016 neither upper limit was breached and investments were split 62% fixed and 38% variable.
 - (b) The limit set for investment over 364 days (£30m). The Council made no investments over 364 days. The average length of short term investment for the period is 212 days.
 - (c) The limit set for investment in non UK Country (30%). The Council made one investment (9.5%) to a counterparty outside of the UK.
15. The risks associated to this section are as follows:
- (a) Credit and Counterparty Risk – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury management advisors (Arlingclose).
 - (b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Resources has monthly meetings with treasury staff, to go through the cash flow for the coming month. A number of instant access accounts are used to ensure adequate cash remains available.
 - (c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council has currently around 38% of its investments in variable rates, and the remainder are in fixed rate deposits on average for around 212 days. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates. The view of the Council's treasury advisors is that interest rates are unlikely to change significantly in the short to medium term.
16. The prudential indicators within this section assist the Council to reduce the risk of:
- (a) Counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money.
 - (b) The Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate amounts of money are available immediately through instant access accounts.
 - (c) Potentially losing out on investment income when interest rates start to increase by ensuring that most deposits are kept within one year.

Heritable Bank

17. During this financial year, the Council has received no further dividends from the administrators of the Heritable Bank. Therefore total dividends received so far remain at 98% of the value of deposits. A recent letter from the administrators states that they are seeking to extend the administration for another year to 6th October 2017. This is necessary as the claim on the administration from one of the development sites is still to be settled.

Resource Implications:

The continued low interest rate was reflected in estimated investment income to the Council of £378,000 in 2016/17. The estimate is to be revised shortly, balances will be lower than anticipated and interest rates have reduced and are not expected to rise for some time.

Legal and Governance Implications:

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

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2014/15);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

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

Background Papers:

The report on the Council's Prudential Indicators for 2016/17 to 2018/19 and the Treasury Management Strategy for 2016/17 to 2018/19 went to Council on 18 February 2016.

Risk Management:

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

Due Regard Record

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

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

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

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1. Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). The Council's Treasury Management Strategy for 2016/17 was approved by full Council on 18th February 2016 which can be accessed on :-

<http://rds.eppingforestdc.gov.uk/documents/s67913/C-068%20Report%20to%20Council%20treasury.pdf>

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

2. External Context - Economic Commentary and Outlook

The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

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Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

Market reaction: Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 in Appendix 3.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets. The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%

3. Local Context

At 31/3/2016 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £185m, while usable reserves and working capital which are the underlying resources available for investment were £93m. The Council had £185m of borrowing and £52m of investments. The Council's current strategy is to use internal borrowing (running down the Council's cash balances), subject to holding a minimum investment balance of £10m. The Council has an increasing CFR over the next two years due to the capital programme, but minimal investments and will therefore require to borrow up to £16m over the forecast period.

4. Borrowing Strategy during the quarter

At 30/9/2016 the Council held £185m of loans, (same as at 31/3/2016), as part of its strategy for funding Housing Self-Financing. The Council expects to borrow up to £16m in 2016/17 and in doing so will not exceed the authorised limit for borrowing of £240m. The Council's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

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

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instead. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.

Borrowing Activity in 2016/17

	Balance on 01/04/2016 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 30/09/2016 £m	Avg Rate % and Avg Life (yrs)
CFR						
Short Term Borrowing ¹	0	0	0	0	0	
Long Term Borrowing - PWLB - Local Authorities - Commercial Lenders	185.5	0	0	0	185.5	3% - 21 years
TOTAL BORROWING	185.5	0	0	0	185.5	
Other Long Term Liabilities	2.9	0	0	0	2.9 ²	
TOTAL EXTERNAL DEBT	188.4	0	0	0	188.4	
Increase/ (Decrease) in Borrowing £m					0	

5. Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2016/17 the Council's investment balances would range between £52 and £30 million. The average investment balance was higher due to delays in developments viz. St Johns and Langston Road.

The Department of Communities and Local Government Investment Guidance gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The transposition of European Union directives into UK legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits including certificates of deposit.

Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the Council's aim to further diversify into more secure and/or higher yielding asset classes. However, the demands of the Capital Programme mean that longer-term investments are not being sought at the moment. The majority of the Council's surplus cash is invested in short-term unsecured bank deposits, Local Authorities and money market funds.

¹ Loans with maturities less than 1 year.

² Notional Finance Lease associated with Loan to Waste Contractor. Accounting Standards require the Council to show the substance over form of certain transactions. An asset for the Biffa Vehicles is set up in the Council's balance sheet. This entry is the corresponding liability.

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Investment Activity in 2016/17

Investments	Balance on 01/04/2016 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2016 £m	Avg Rate/Yield (%) and Avg Life (years)
Unsecured Investments (call accounts, deposits and CDs) with financial institutions - rated A- or higher	21.6	27.3	24.0	24.9	0.57% 218days
Investments with other Local Authorities	18.5	16.0	21.5	13	0.66% 200days
Money Market Funds	11.5	32.5	29.0	15	0.36%
TOTAL INVESTMENTS	51.6			52.9	
Increase/ (Decrease) in Investments £m				1.3	

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

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk.

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating	Investments exposed to bail-in risk %
31/03/2016	4.33	AA-	3.80	AA-	64%
30/06/2016	4.53	A+	4.09	AA-	71%
30/09/2016	4.47	AA-	4.33	AA-	75%

Scoring:

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

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

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

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

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Counterparty Update

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

In July Arlingclose completed a review of unrated building societies' annual financial statements. Cumberland, Harpenden and Vernon Building Society were removed from Arlingclose's advised list, following a deterioration in credit indicators. The maximum advised maturity was also lowered for eleven societies from 6 months to 100 days due to the uncertainty facing the UK property market following the EU referendum.

In June Moody's downgraded Finland from Aaa to Aa1 on its view that Finnish economic growth will remain weak over the coming years, reducing the country's ability to absorb economic shocks.

Fitch upgraded the long-term rating of ING Bank from A to A+ based on Fitch's view of the bank's solid and stable financial metrics and its expectation that that the improvement in earnings will be maintained.

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Fitch also upgraded Svenska Handelsbanken's long-term rating from AA- to AA reflecting the agency's view that the bank's earnings and profitability will remain strong, driven by robust income generation, good cost efficiency and low loan impairments.

Budgeted Income and Outturn

The average cash balances were £61.9m during the first half year. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. It is now forecast to fall further towards zero but not to go negative. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). Following the reduction in Bank Rate, rates for very short-dated periods (overnight - 1 month) fell to between 0.1% and 0.2%. Debt Management Account Deposit Facility (DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 - 6 month deposits.

New investments on an unsecured basis with banks and building societies over the 6-month period were made at an average rate of 0.57%. Investments in Money Market Funds generated an average rate of 0.36%.

The Council's budgeted investment income for the year is estimated at £0.378m.

The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates of short-dated money market investments with banks and building societies. As the majority of the Council's surplus cash continues to be invested in short-dated instruments, it will most likely result in a substantial fall in investment income over the year.

6. Compliance with Prudential Indicators

There have been no significant breaches of the Prudential Indicators for 2016/17, which were set on 18th February 2016 as part of the Council's Treasury Management Strategy Statement.

Treasury Management Indicators

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

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

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	100 D/100 I	100 D/100 I	100 D/100 I
Actual	83 D/0 I		
Upper limit on variable interest rate exposure	25 D/75 I	25 D/75 I	25 D/75 I
Actual	17 D/100 I		

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Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

The variable rate Investments are at 100% presently. We are deliberately avoiding longer term investments for reasons connected with the financing of the Council's capital programme. Historically this could have exposed us to short term interest rate fluctuations. However, interest rates have been very stable for several years and there is no significant risk from keeping the investments liquid for the time being.

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

	Upper	Lower	Actual
Under 12 months	100%	0%	0%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	17%
10 years and within 20 years	100%	0%	0%
20 years and within 30 years	100%	0%	83%
30 years and within 40 years	100%	0%	0%
40 years and within 50 years	100%	0%	0%
50 years and above	100%	0%	0%

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

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

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£30m	£30m	£30m
Actual	£0m		

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

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	Target	Actual 30/9/2016
Portfolio average credit rating	A-	AA-

(AA- is higher than A-)

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

	Target	Actual 30/9/2016
Total cash available within 3 months	£20m	£33m

7. Investment Training

Officer attended Investment Workshop on 27th October 2016.

Officer attended Investing in a Low Yield Environment on 22nd June 2016.

8. Outlook for the remainder of 2016/17

The economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.

The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in in December 2016 but only if economic conditions warrant.

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In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Council's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

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Appendix 2

Prudential Indicators 2016/17

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

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

Capital Expenditure and Financing	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
General Fund	23.488	19.47	1.591	0.963
HRA	13.811	28.127	26.561	25.436
Total Expenditure	37.299	47.597	28.152	26.399
Capital Receipts	19.046	8.192	5.048	4.492
Government Grants	3.725	1.015	0.565	0.565
Reserves	6.477	0	0	0
Revenue	8.051	25.769	22.539	21.342
Borrowing	0	12.621	0	0
MRA	0	0	0	0
Total Financing	37.299	47.597	28.152	26.399

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

Capital Financing Requirement	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
General Fund	29.6	55.0	63.9	62.2
HRA	155.1	155.1	155.1	155.1
Total CFR	184.7	210.1	219.0	217.3

The CFR is forecast to rise by £30m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.16 Actual £m	30.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
Borrowing	185.456	200	200	200
Finance leases	0	0	0	0
Total Debt	185.456	200	200	200

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

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

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

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	230	239	237
Total Debt	230	239	237

The Authority confirms that during the first half of 2016/17, the Operational Boundary was not breached.

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

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	240	250	250
Total Debt	240	250	250

Total debt at 30/9/2016 was £185m. The Council confirms that during the first half of 2016/17 the Authorised Limit was not breached at any time.

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Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	-0.83	-1.22	-4.00
HRA	15.03	14.47	14.15

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

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual Band D Council Tax	0.15	-0.06	-1.01
HRA - increase in average weekly rents	0.01	-16.80	-25.91

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

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Appendix 3

Money Market Data and PWLB Rates

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016	0.50	0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016	0.50	0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016	0.50	0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016	0.50	0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
31/7/2016	0.50	0.15	0.45	0.42	0.52	0.64	0.77	0.47	0.47	0.54
31/8/2016	0.25	0.11	0.18	0.18	0.38	0.54	0.69	0.42	0.42	0.48
30/9/2016	0.25	0.10	0.25	0.45	0.51	0.61	0.74	0.43	0.42	0.47
Minimum	0.25	0.02	0.15	0.18	0.30	0.50	0.66	0.38	0.37	0.42
Average	0.43	0.26	0.37	0.42	0.52	0.66	0.83	0.61	0.64	0.75
Maximum	0.50	0.43	0.55	0.61	0.72	0.83	1.04	0.88	0.99	1.20
Spread	0.25	0.41	0.40	0.43	0.42	0.33	0.38	0.51	0.62	0.78

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

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
31/7/2016	292/16	1.07	1.31	1.84	2.57	2.65	2.48	2.44
31/8/2016	336/16	1.09	1.23	1.65	2.22	2.29	2.12	2.08
30/9/2016	380/16	1.02	1.20	1.70	2.34	2.43	2.29	2.27
	Low	1.01	1.15	1.62	2.20	2.27	2.10	2.07
	Average	1.20	1.54	2.12	2.81	2.87	2.70	2.67
	High	1.40	2.00	2.71	3.40	3.46	3.31	3.28

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

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	292/16	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	336/16	1.12	1.25	1.67	2.02	2.23	2.31
30/9/2016	380/16	1.05	1.22	1.72	2.13	2.36	2.44

Semi Annual Treasury Outturn Report 2016/17

	Low	1.03	1.17	1.64	2.00	2.20	2.28
	Average	1.30	1.57	2.15	2.58	2.82	2.89
	High	1.63	2.04	2.73	3.17	3.41	3.48

Table 4: PWLB Variable Rates (standard rate)

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
31/7/2016	0.55	0.48	0.45	1.45	1.38	1.35
31/8/2016	0.38	0.41	0.48	2.18	1.31	1.38
30/9/2016	0.38	0.40	0.48	1.28	1.30	1.38

Please note PWLB rates are standard rates.

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: **AGC-013-2016/17**
Date of meeting: **28 November 2016**

Portfolio: **Governance and Development Management**

Subject: **Review of the Effectiveness and the Terms of Reference of the
Audit Committee**

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

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

Recommendations/Decisions Required:

- (1) The Committee considers the results of the review of its own effectiveness;**
- (2) The Committee approves the self-assessment results which shows that Epping Forest District Council is compliant with recommended best practice for an effective audit committee;**
- (3) The Committee approves the action plan contained within the report; and**
- (4) The Committee endorses its current Terms of Reference.**

Executive Summary:

An effective audit committee brings many benefits to an organisation. To ensure the Council continues to provide an effective Audit and Governance Committee, a review of the Committee's effectiveness and its Terms of Reference has been undertaken by the Chairman of the Audit and Governance Committee in conjunction with the Chief Internal Auditor.

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

Reasons for Proposed Decision:

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

Other Options for Action:

None

Report:

1. Regulation 6 of the Accounts and Audit (England) Regulations 2015 requires a Local Authority to review the effectiveness of its system of internal control at least once a year. Following the review, the Committee is required to approve the Annual Governance Statement (AGS).

2. The effective operation of the Audit Committee forms a key element of the Council's assurance framework. It is considered best practice that an assessment of the effectiveness of the Audit Committee should be scheduled to form part of the AGS process.

Approach to the Effectiveness Review

3. This review was performed by the Chief Internal Auditor in conjunction with Chairman of the Committee based on guidance issued in the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police (2013 edition).

4. The self-assessment checklist (Appendix 1) has been completed and members are requested to discuss the checklist, agree its contents and approve the proposed action plan for improvements.

Results of the Effectiveness Review

5. The results of the self-assessment show that the Council is able to demonstrate compliance with recommended best practice for an effective audit committee, with some areas of minor improvement required.

6. Resulting from the attached checklist (Appendix 1), areas identified for improvement are listed in the Action Plan below:

Area	Description	Actions
Partnerships	Determine the Committee's role regarding the assurances available in helping determine the adequacy of governance and risk management arrangements for partnerships.	As part of the Annual Governance Statement (AGS) the Committee should consider the coverage of assurances that underpin the AGS to make sure partnerships are adequately covered.
Skills and knowledge	The composition of the Committee is a key factor in achieving the characteristics of a good audit committee. As two-thirds of the membership of the Committee is drawn from elected representatives, the depth and knowledge and experience that are desirable may be at times harder to achieve. Audit Committee members should be willing to review their knowledge and skills, for example as part of a self-assessment process or training needs analysis.	With the aid of Democratic Services the Committee could undertake a skills and knowledge analysis, considering alternatives if there are significant deficiencies. Measures could include, for example, additional training or development opportunities.
Approach to Fraud	The Audit Committee should have oversight of the Council's strategy to counter fraud.	On an annual basis review the Council's approach to fraud. This could be achieved by ensuring the adequacy of counter fraud arrangements are evaluated and reported in the AGS or through periodic review

		of the Council's Anti-Fraud Strategy and processes.
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Terms Of Reference Review

7. An effective audit committee brings many benefits to an organisation and to ensure the Council continues to provide an effective Audit and Governance Committee, the Committee's Terms of Reference should be considered on an annual basis, which is in line with good practice. The Committee should ensure the Terms of Reference remains current and up to date and make recommendations for any significant changes to the Council.

8. The Committee last reviewed its Terms of Reference in November 2015 when it considered the benefits and risks of merging with the Standards Committee. The merger did not go ahead and no changes to the current Terms of Reference were made.

9. Audit Committees – Practical Guidance for Local Authorities 2013 represents the latest best practice from CIPFA, and takes account of additional requirements stemming from the introduction of Public Sector Internal Audit Standards (PSIAS).

10. Internal Audit has carried out a comparison of the Committee's current Terms of Reference with the 2013 CIPFA model terms of reference, benchmarking with Broxbourne's and Harlow's Terms of Reference (both of which have a combined Audit and Standards Committee).

11. On this basis, there are no proposed changes to the current Terms of Reference as they remain fit for purpose.

Resource Implications:

None

Legal and Governance Implications:

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

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

Chairman of the Audit and Governance Committee

Corporate Governance Group

Background Papers:

Audit Committees – Practical Guidance for Local Authorities 2013

Audit and Governance Committee Terms of Reference

Risk Management:

An effective Audit Committee has a pivotal role regarding the Annual Governance Statement which explains how the Council delivers good governance and reviews the effectiveness of these arrangements. This effectiveness review helps demonstrate this.

Due Regard Record

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

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

Date / Name	Summary of equality analysis
28/11/16 Chief Internal Auditor	There is no impact on individuals or groups of individuals being a high level review of the Audit and Governance Committee.

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Epping Forest District Council Audit and Governance Committee self-assessment:

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: *Audit Committees in Local Authorities and Police*. Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good Practice Questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?	The Committee meets 5 times a year.		
2	Does the audit committee report directly to full council? (Applicable to local government only)	Council receives all minutes from the Audit and Governance Committee.		
3	Do the terms of reference (ToR) clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	The Audit and Governance Committee has been established for several years and its ToR is embedded within the Constitution. The Committee reviews its ToR on a regular (annual) basis to ensure they remain up to date; the last time being November 2015 when it considered merging with the Standards Committee.		
4	Is the role and purpose of the audit committee understood and accepted across the authority?	The Audit and Governance Committee forms part of the Council's committee structure. Its		

Good Practice Questions		Yes	Partly	No
		role and function is set out in the Council's Constitution.		
5	Does the audit committee provide support to the Authority in meeting the requirements of good governance?	Through its Terms of Reference, reports it receives, member training, review and challenge of the Annual Governance Statement (AGS), annual accounts, representation by members and officers.		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		There are arrangements for holding the Committee to account but these have not had to be tested. CIPFA guidance recommends the Committee reports an assessment of their performance at least annually. It should be noted that the Committee produces an annual report but has not previously undertaken an effectiveness review	
Functions of the committee				
7	Do the committee's terms of reference (ToR) explicitly address all the core areas identified in CIPFA's Position Statement: <ul style="list-style-type: none"> • good governance • assurance framework • internal and external audit • financial reporting • risk management 	These are covered in the Committee's ToR.		

Good Practice Questions		Yes	Partly	No
	<ul style="list-style-type: none"> • value for money or best value • counter fraud and corruption 			
8	<p>Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?</p>			<p>Not previously undertaken. However, this report to the November 2016 committee on its effectiveness has started to address this.</p>
9	<p>Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?</p> <p>Note: CIPFA guidance states that Audit Committees can also support their authorities by undertaking a wider role in other areas including:</p> <ul style="list-style-type: none"> • considering governance, risk or control matters at the request of other committees or statutory officers • working with the local standards committee to support ethical values and reviewing the arrangements to achieve those values • reviewing and monitoring treasury management arrangements in accordance with CIPFA Treasury 	<p>The Committee includes treasury management (unlike neighbouring Councils) as evidenced in their Terms of Reference. The Committee considered merging with Standards but decided to maintain separation subject to review.</p> <p>Other roles as suggested by CIPFA are adequately covered by other committees, Cabinet and the full Council.</p>		

Good Practice Questions		Yes	Partly	No
	<p>Management Code of Practice</p> <ul style="list-style-type: none"> providing oversight of other public reports, such as the annual report. 			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?		<p>Various reports received by the Committee throughout the year ensure the majority of core areas are covered. This includes the Annual Governance Statement (AGS), Internal Audit's annual report and its regular progress reports, External Audit reports (including the Statement of Accounts), and risk management reports.</p> <p>Two areas where enhancements could be made are:</p> <ul style="list-style-type: none"> Partnership Governance - the Committee should consider what assurances it requires in this area (although the Internal Audit Plan includes partnerships as a theme). In line with good practice, the Committee should periodically review the Council's fraud strategy and its approach to anti-fraud. Internal Audit and the Corporate Fraud Team will help facilitate this review during 2016/17 	

Good Practice Questions		Yes	Partly	No
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes		
Membership and support				
12	Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • where independent members are used, that they have been appointed using an appropriate process. 	Five councillors and two Independent Members sit on the Committee, with the main political parties represented. Each brings to the Committee a range of experiences and skills. This is supplemented with periodic member training.		
13	Does the chair of the committee have appropriate knowledge and skills?	Yes		
14	Are arrangements in place to support the committee with briefings and training?	The formal work programme for the Committee is reviewed at each meeting. Periodic training opportunities (internal and external) are made available to members including joint events with Broxbourne Council and Harlow District Council		
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found		Member requirements and core knowledge and skills framework taken into account when developing the training	

Good Practice Questions		Yes	Partly	No
	to be satisfactory?		programme. A formal knowledge and skills analysis should be considered by the Committee.	
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	The Monitoring Officer, Director of Resources (Section 151 Officer), and the Chairman of the Audit and Governance Committee agree that this is the case.		
17	Is adequate secretariat and administrative support to the committee provided?	Yes		
Effectiveness of the committee				
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		Not formally requested. However, the Chairman meets regularly with the Chief Internal Auditor, the Monitoring and S151 Officers with access to External Audit. A more formal process to be considered in line with point 8 above.	
19	Has the committee evaluated whether and how it is adding value to the organisation?	The Committee looks at itself by way of assessing its effectiveness and governance arrangements. An annual report from the Audit and Governance Committee assists with the process.		
20	Does the committee have an action plan to improve any areas of weakness?		The Committee's annual report sets the areas the Committee wants to focus on during the year. An action plan to address	

Good Practice Questions		Yes	Partly	No
			relevant issues regarding its effectiveness has been reported to the Committee as part of this report.	

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-014-2016/17
Date of meeting: 28 November 2016

Portfolio: Governance and Development Management

Subject: Internal Audit Monitoring Report - September to November 2016

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) That the Committee reviews the outcomes of the work of the Internal Audit service and the Corporate Fraud Team and identifies any issues for further consideration.

Executive Summary:

This report provides a summary of the work undertaken by Internal Audit between September and November 2016, progress against the 2016/17 Internal Audit plan and a summary of the work undertaken by the Corporate Fraud Team.

Reasons for Proposed Decision:

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

Other Options for Action:

No other options.

Report:

2016/17 Internal Audit Plan

1. Work on the 2016/17 Audit Plan is progressing well as detailed in Appendix 1. Internal Audit staff are working across all three Councils in the partnership, thereby sharing best practice and expertise, and increasing the resilience of the team.

Internal Audit reports

2. The following four reports have been issued since the Committee received its last update in September 2016:

Substantial assurance:

- **Corporate Procurement** – Overall, the audit found that the Council's Procurement Rules are complied with. Goods and services procured are used for business purposes only, are appropriately authorised with no evidence of fraudulent activity. An improvement to the controls over credit card expenditure was implemented during the

audit, with the Procurement Manager now monitoring all credit card payments. The audit also found a high number of low value (under £10) invoices had been paid, which does not represent value for money. This issue is being addressed through the Procurement Steering Group.

- **Cash and Banking** – The audit found that the cash handling and banking arrangements at the Authority’s satellite offices at Hemnall Street Offices, Debden Broadway Housing Office and Oakwood Hill Depot are well managed and there are robust controls in place to protect cash received. Cash is accurately recorded, banked and reconciled, and any differences in cash income are recorded and promptly investigated. The Authority encourages customers to pay by methods other than cash in order to reduce the inherent risks associated with cash. Where possible, there needs to be a particular emphasis on those payments taken for off-site activities in order to avoid the need for cash payments on the day. A minor weakness relating to the key access at Hemnall Street offices was addressed during the audit.
- **Off-Street Car Parking Income** – There are robust controls surrounding the management of off-street car park income. The Authority receives all the off-street car park income collected on its behalf by the North Essex Parking Partnership (NEPP) and the Partnership’s cash collection contractor, G4S. The new ticket machines, installed during 2015, enable independent verification of the pay and display income, and data is supplied by NEPP in order that Penalty Charge Notice and season ticket income can be checked. Minor accounting issues were noted as income should be reconciled to the general ledger to ensure differences are identified and resolved. Reconciliations of the credit card payments, which are currently being phased in at the Council’s car parks, need to be carried out to ensure all income is received. A process to achieve this is being established.

Internal Audit Memorandum (no assurance level awarded):

- **Human Resources Sickness Absence Performance Indicator** – This exercise examined the corporate performance indicator regarding staff sickness absence, which was an additional piece of audit work requested by management. The review found that that performance data should be subject to more rigorous independent review locally before it is submitted to the Performance Improvement Unit for quality assurance. This requires better understanding of the calculation process from the reviewer. Measures which could assist the reviewer include documentation of local procedures and simplification of the spreadsheet used.

Recommendation Tracker

3. Members are reminded that the new audit recommendation priority ratings approved in March 2016 are being used for all reports from 2016/17. The new priority ratings are set out in table 1 below:

Table 1. New audit recommendation priority ratings

Recommendation priority ratings from 2016/17	Recommendation priority ratings pre 2016/17
High	1
Medium	2
Low	3

4. The Audit and Governance Committee will continue to receive details of all overdue recommendations, plus any high priority recommendations from final reports regardless of

whether they are overdue or not.

5. The current tracker (Appendix 2) contains five medium priority recommendations and three low priority recommendations which have passed their due dates. Regular monitoring of these recommendations demonstrates that, although they have not been completed by the original implementation dates, progress continues to be made on all of these.

6. The high priority recommendation (which is not overdue) relates to the development and implementation of an action plan to address health and safety issues identified at Townmead Depot as reported at the September meeting. An update on the progress of the recommendations following the audit of Health and Safety at Townmead Depot is given below.

Table 2. Summary of tracker as at 15 November 2016

Recommendation type	Number (as at November 2016)
High (Priority 1) not passed its due date	1
High (Priority 1) passed its due date	0
Medium (Priority 2) passed its due date	5
Low (Priority 3) passed its due date	3

Update on the issues identified following Health and Safety at Townmead Depot audit

7. At its September meeting, the Audit and Governance Committee received a summary of the findings from an audit of Health and Safety at Townmead Depot. The audit was given limited assurance based on the identification of a number of significant health and safety issues. The Committee requested an update on the progress made in addressing these issues. The following action has been taken:

- A site inspection at Townmead Depot was carried out on 1 October 2016. This was attended by the Safety Officer, Countrycare Manager and representatives from Facilities Management, in addition to Officers from the Neighbourhoods directorate. From this meeting an action plan was drawn up to of key actions required (both short and longer term). Further site visits have been arranged with the Council's Safety Officer in attendance.
- Since our audit the following actions have been taken:
 - New CCTV has been installed and minor repair works undertaken.
 - Regular sweeping of the site now takes place and items previously dumped on site have been removed.
 - The compound has been made more secure and ownership of the access gates established with Waltham Abbey Town Council.
 - All users/occupiers at the depot have been identified and are being liaised with on Health and Safety matters.
 - Regular site inspections and use of a checklist has been introduced.
 - The energy provider at the depot has been informed of the unsafe state of the electrical substation.
- Cabinet at their 3 November 2016 meeting approved the allocation of £75K for security and safety works at Townmead in 2017/18. Proposed works include new gates, refurbishment of the toilet facilities and improvement of the boundary fencing while a longer term solution for the depot is considered.

Other Internal Audit Activities

8. Internal Audit is represented on a number of business groups and project teams in order to provide advice and guidance. Project teams include:

- **Programme and Project Management** – Internal Audit has attended the monthly project team meetings and the different system demonstrations to advise in the development of appropriate Council-wide project management processes. A number of audits highlighted the need for a consistent methodology to be applied across the Authority, and project management has been identified as an improvement area in the Annual Governance Statement.
- **Corporate and Business Planning** – Internal Audit has attended the project meetings to advise on business planning processes. The Chief Internal Auditor has shared ideas and good practice from the other authorities in the Internal Audit partnership.
- **Electronic invoicing** – Internal Audit has advised on the controls around the implementation of electronic invoicing and the impact on the purchase ordering and accounting systems. Further advice has been given on appropriate methods for rolling out electronic invoicing across the Authority.
- **Customer Self Service Kiosks** – Advice has been provided in relation to cash receipting and income control processes in addition to the impact on petty cash procedures.
- **Information Management** – There is a need for the Authority to introduce a Council-wide Information Asset Register ahead of the EU General Data Protection Regulations which are due to come into force in 2018. Internal Audit is assisting in the design and implementation of the Register and advising on policies and procedures relating to information management.

National Fraud Initiative

9. The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. Internal Audit continues to co-ordinate the extraction and uploading of the Council's data in relation to NFI, in addition to reviewing and co-ordinating the action to be taken on data matches identified. The relevant 2016/17 data has been uploaded to the NFI website and data matches will be received in January 2017.

External Quality Assessment (EQA)

10. The 2016 Public Sector Internal Audit Standards (PSIAS) make it a mandatory requirement that an internal audit function is externally assessed at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. This assessment, known as an External Quality Assessment (EQA), must be completed by 2017/18. It has been decided to bring this forward so that it can help shape the future of the shared internal audit service. An external assessment, covering all three Councils managed by the Chief Internal Auditor, is, therefore, taking place during November 2016 and is being carried out by Gateway Assure Limited. The rationale and approach to the EQA has been agreed with the Chairman of the Audit and Governance Committee and the results of the EQA will be reported to a future meeting of the Audit and Governance Committee. The annual review of the Internal Audit Charter, due to be considered at this meeting, has been deferred pending the outcome of the EQA.

Corporate Fraud Team

11. Since the last update, a further four Right to Buy applications have been stopped or withdrawn following Corporate Fraud Team intervention. The total discount saved as a result of this is approximately £311,600 and the value of retained rent revenue streams is around £183,000. In addition, another property has been recovered as a result of fraud intervention, resulting in a saving of approximately £18,000.

12. A formal caution has been administered to an EFDC tenant for making a false representation on a Right to Buy application, and the Team stopped a housing application due to the discovery of false/misleading information.

13. The Corporate Fraud Team is currently engaged in a number of criminal investigations including active money laundering investigations. Three criminal prosecutions are being prepared for court actions, each involving Proceeds of Crime Act (POCA) proceedings, currently estimated to be around £287,000 if successful.

14. The newly appointed investigator who took up post at the beginning of September is fully operational with their own caseload, and another team member, who is already a qualified auditor, commenced the fraud accreditation training programme at the end of October.

15. The Corporate Fraud Team has recently completed, on a fee income basis, a Standards Investigation.

16. Discussions are underway with another Essex Local Authority with regards to forming a joint working relationship for anti-fraud work and sharing best practice.

Review of significant issues identified in the 2015/16 Annual Governance Statement

17. In June 2016, the Audit and Governance Committee approved the Annual Governance Statement (AGS) which accompanies the Council's Statement of Accounts. The AGS outlines the proposed actions to be taken to deal with significant governance issues identified. The Corporate Governance Group monitors the actions set out in the AGS on a regular basis. The progress made to date on addressing the issues identified for improvement during 2016/17 is shown in table 3.

Table 3. Areas for improvement or monitoring during 2016/17

No.	Issue	Management response	Progress at October 2016
1	<p>Procurement Rules A common theme coming out of 2014/15 internal audit reviews was non-compliance with Contract Standing Orders as these had developed over time and were difficult to follow.</p> <p>On 26 April 2016 Council approved the new Procurement Rules, which replaced the Council's previous Contract Standing Orders. These provide a more flexible approach and are more responsive to the</p>	Staff are currently being trained on the Council's new Procurement Rules and mechanisms are being developed to ensure compliance with these.	Training sessions on the Council's new Procurement Rules have been carried out. The Procurement Rules and supporting guidance have been published on the intranet.

	current and future procurement needs of the Council.		
2	Corporate Policies A need to raise awareness of, and communicate changes to, corporate policies e.g. Whistleblowing Policy and Officer Code of Conduct was a common theme coming out of this years' Service Assurance Statements.	A review of the Council's anti-fraud and corruption framework will be spearheaded by the Corporate Fraud Team this year and will include a review of the Council's Whistleblowing Policy and Officer Code of Conduct; the results of which will be promulgated to staff.	The Corporate Fraud Team is in the process of reviewing and updating anti-fraud policies.
3	Project Management Service Assurance Statements also identified a need to develop project management processes and provide training in this area.	A Project and Programme Management project team has been set up, sponsored by the Chief Executive, and is meeting regularly to address this issue.	The Programme and Project Management project group continues to meet monthly and will shortly be prototyping a potential project management system.

Resource Implications:

Within the report.

Legal and Governance Implications:

None.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

2016/17 Audit and Resource Plan.

Risk Management:

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

Due Regard Record

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

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

Date/Name	Summary of equality analysis
28/11/16 Chief Internal Auditor	The report is a summary of the work carried out by Internal Audit and the Corporate Fraud Team and has no equality implications.

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Appendix 1 - Audit Plan Monitoring 2016-17
November 2016

	Directorate	Plan Days	Status	Fieldwork started	Report issued to Management	Finalised	Opinion: Level of Assurance	High Priority Recs	Medium Priority Recs	Low Priority Recs
Quarter 1 and 2										
Conflicts of interest	Governance	10	Final Report	n	n	n	Satisfactory	0	2	0
Depot Health & Safety	Neighbourhoods	12	Final Report	n	n	n	Limited	1	1	0
PLs - sickness absence (new audit)	Resources	6	Final Report	n	n	n	N/A	0	0	0
Corporate Procurement	Resources	15	Final Report	n	n	n	Satisfactory	0	1	1
Car Parking	Neighbourhoods	10	Draft Report	n	n		Satisfactory	0	2	0
Cash and Banking	Resources	12	Draft Report	n	n		Satisfactory	0	0	1
Housing Health & Safety - Gas Safety	Communities	12	Draft Report	n	n		Satisfactory	0	1	1
E-invoices	Resources	6	In Progress	n						
Waste Management	Neighbourhoods	10	In Progress	n						
Treasury Management	Resources	10	In Progress	n						
Grants to Voluntary Organisations	Communities	8	In Progress	n						
Housing Voids	Communities	10	In Progress	n						
IT Disaster recovery	Resources	10	Scoping							
Joint Working - Community Safety	Neighbourhoods	10	Scoping							
Quarter 3										
Performance Management - Neighbourhoods	Neighbourhoods	12								
Enforcement	Neighbourhoods	10								
Data Retention and Disposals	Corporate	15								
Project - Transformation	Corporate	6								
Energy Management vfm	Corporate	10								
Project - Langston Road	Neighbourhoods	10								
Project - New Homes	Communities	12								
Safeguarding	Communities	12								
Business Rates follow up	Key Financial Control	5								
Council Tax follow up	Key Financial Control	5								
Planning Application Processes	Governance	8								

Equality and Diversity	Governance	12									
Quarter 4											
Recruitment and Selection	Resources	10									
Electoral Registration	Governance	10									
Asset Management Strategy	Neighbourhoods	10									
IT Helpdesk	Resources	8									
Contract Management	Corporate	15									
Payroll	Key Financial Control	12									
Housing Rents	Communities	10									
Mutual Exchanges	Communities	8									
Antisocial Behaviour	Neighbourhoods	12									
									1	7	3

EFDC Internal Audit Recommendation Tracker (Overdue and In Progress)

Last updated: 15 November 2016

Appendix 2

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Assistant Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
Audit Recommendations 2015/16									
Licensing Report No. 765 February 2016	1	A review of all policy, procedural and guidance documentation should be completed to ensure compliance with current Legislation.	3	The update of the fee structure in accordance with the Deregulation Act was undertaken following full consultation in October. The Hackney Carriage and Private Hire Licensing Policy is currently undergoing a full revision which has included a review by a Member/officer working party. Once this review has taken place the revised policy will be subject to a full consultation process prior to Council approval.	Assistant Director Neighbourhood Services	26/04/16	01/07/16 30/09/16 01/12/16	<p>Apr 16: The Member/Officer review is now complete. However the section has been advised to carry out the consultation after the appointment of the new Chairman of the Licensing Committee in June 2016.</p> <p>June 16: The Hackney Carriage and Private Hire Licensing Policy is currently undergoing a full revision and the revised policy will be subject to full consultation process. The process will entail consultation with all Public Hire licence holders (some 600+ people) all the Town and Parish Councils, all Members and a selected group of interested parties such as the Police and Essex County Council etc. The consultation period will be six weeks and we hope to start at the beginning of July.</p> <p>July 16: The consultation hasn't started yet but is due to start in the next couple of weeks.</p> <p>Aug 16: Consultation process has begun. Time frame: 26/07/2016 – 30/09/2016</p> <p>Sept 16: Consultation process ongoing.</p> <p>Oct 16: The consultation is finished, the results will go to licensing committee on the 19th and then go on to Council.</p>	Overdue

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								Nov 16: The Hackney Carriage and Private Hire Licensing Conditions and Guidance were reviewed in the Licensing Committee on 19 th October. Decision to go to Council for approval.	
Rent Assistance Loans Report No. 774 May 2016	2	The new Communities Debt Recovery Officer should carry out a reconciliation of Rent Assistance Loans income and expenditure to the General Ledger on a quarterly basis.	2	Again, we need to be realistic as to the amount of work the new DRO can take on. Furthermore, in terms of this Audit the responsible officers have no line management responsibility for the DRO and will therefore not have control over priorities for the new Post.	Housing Options Manager / Assistant Director (Housing Operations)	31/10/16	09/01/17	<p>Sept 16: The Housing Options Manager has only recently met with the new Debt recovery officer. Her first action will be to deal with outstanding debts on rental loans that are not dealt with by the prevention team.</p> <p>Oct 16: Due to the large volume of work the Debt Recovery Officer, the Housing Options Manager is going to look at the amount of work involved on this. If he can undertake it himself he will do so, if not the work will be allocated to another member of staff.</p> <p>Nov 16: The Housing Options Manager will be undertaking the reconciliation. Work on the reconciliation will commence during this month. Implementation date extended to allow the Housing Options Manager to develop and complete the reconciliation process.</p>	Overdue
Sundry Debtors Audit Report No. 769 June 2016	1	The Sundry Income and Debt Policy should be reviewed and updated to reflect the current debt collection procedures. In addition, the policy/process for refunds should be documented within the Policy.	2	Agreed. The Policy needs updating and expanding to cover refunds.	Risk Management & Insurance Officer	31/10/16	01/04/17	<p>Sept 16: The recommendation will be incorporated together with other amendments previously agreed by Management Board into the policy and submit to the Management Board via the next Corporate Debt Working Group meeting.</p> <p>Oct 16: The next Corporate Debt Working Group meeting will take place in the next couple of weeks</p>	Overdue

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								where the recommendation will be included (as mentioned above). Nov 16: The planned Corporate Debt Working Group meeting was cancelled. The recommendation will be included in the next meeting.	
Housing Repairs Report No. 777 July 2016	2	Effective action should be taken to pursue non-payment of debts. Irrecoverable charges should be written off promptly.	2	Subject to the appointment of a new Customer Repairs Officer and the imminent start of the new Debt Recovery Officer, a review of the Recharge Policy will be undertaken. This will include writing off where the debt recovery agency cannot recover the debt.	Repairs Manager	31/10/16	31/12/16	Sept 16: The new Customer Repairs Manager starts with us on Monday 12th September. The manager will have inductions and will start the project of looking into recharges etc. Oct 16: The new Customer Repairs Manager has commenced a review of the recharges process Nov 16: The Customer Repairs Manager now in post and will form a project team to discuss options.	Overdue

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<p>Housing Repairs Report No. 777 July 2016</p> <p style="text-align: center; font-size: 2em;">Page 96</p>	3	Equipment/tools owned by the Council should be asset registered. A process should be implemented to ensure equipment/tools are returned when Operatives leave the Council's employment.	3	The majority of tools used by Tradesmen are their own. However, certain specialist equipment is supplied by EFDC. The Asst Area Repairs Manager (M&E) is to prepare an asset register, which will be used to log the allocation of equipment. This will be maintained when equipment is issued and then returned by the Operatives.	Housing Repairs Manager	31/10/16	31/03/17	<p>Sept 16: The Electrical Manager has already been keeping a record of EFDC owned equipment and register. This is ongoing as staff take equipment for a job and return it. (spreadsheet in evidence file)</p> <p>Oct 16: Regarding the tracking of equipment, The Electrical Manager is the person who the operatives have to go and see. The Manager keeps control of the record and will they have to return it to the Manager as well. A procedure note will be written.</p> <p>Nov 16: Housing Repairs Manager agreed to change the implementation date because Facilities Management will need to mark the assets, which will take time. The Housing Repairs Manager has provided a copy of the procedure note for issuing equipment to Operatives.</p>	Overdue
	2	Council Health and Safety policies should be reviewed on a regular basis, for example annually, with any notifications of significant revisions communicated to employees via email. Note: The May 2016 Corporate Governance Group meeting agreed that significant changes to H&S policies and procedures should be communicated via an	2	<p>A timetable of policy review will be implemented for the following policies:</p> <ul style="list-style-type: none"> • Accident & Incident Reporting Guidance • Asbestos Policy • Corporate Safety Policy • Risk Assessment • Lone Working Guidance <p>Updated policies will be published on the intranet and advertised via District Lines and all staff email.</p>	Safety Officer / Assistant Director (HR)	31/10/16	30/11/16	<p>Oct 16: Progress as described below:</p> <ul style="list-style-type: none"> * Accident & Incident Reporting Guidance: Completed * Asbestos Policy: Partially completed * Corporate Safety Policy: Partially completed * Risk Assessment: Still to update * Lone Working Guidance: Still to update. This is an ongoing process as in addition to this recommendation there are also changes being made to bring the 	Overdue

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		all staff email, with a caveat for managers to cascade these to staff without email access, as well as putting an article in District Lines.						<p>policy in to align with the Careline lone working documents.</p> <p>Nov 16: In progress – work on the below policies is still ongoing:</p> <ul style="list-style-type: none"> * Asbestos Policy: * Corporate Safety Policy * Risk Assessment * Lone Working Guidance <p>This is currently being priced by Mears as a new key deliverable</p>	
<p>Health and Safety at Epping Depot Report No. 776 July 2016</p>	5	The workshop extractor should be examined and tested by an externally qualified ventilation engineer to ensure it is maintained in accordance with the requirements of the control of Substances Hazardous to Health regulations	2	<p>Housing Repairs Manager to make enquiries to identify a ventilation Engineer that can inspect and certify the extract fans to the workshop.</p> <p>Operatives who use the joinery workshop must wear the correct PPE. In the meantime, the 2 operatives who use the workshop have received advice and guidance from the Council's H&S Officer</p>	Repairs Manager/ Assistant Director Property & Development	31/10/16	31/12/16	<p>Oct 16: 2 companies have attended the workshop. Sedgewick and Wadkins. Both have stated there is limited scope to improve the current extraction unless we lose a quarter of the workshop to install an internal extraction unit, but this has its own flaws, for 2 reasons. 1) still need to extract out, no access at rear, leaving extraction at the front, unable to do due to vehicles and open doors to workshop. 2) by losing such a large section of workshop, would impact on work that can be done in the workshop, this would impact on repair jobs and delivery of the service and KPI's. 2 Operatives are to continue to work to current risk assessment and wearing correct PPE. Workshop visited by the Health and Safety Officer as part of H&S Audit.</p> <p>Nov 16: A specialist firm have attended and have confirmed that the existing extractors cannot be maintained to comply and therefore a new system should be installed. This is impractical due to the short</p>	Overdue

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								timeframe left at the current depot facility. Therefore an Acceptable Use Procedure needs to be agreed to use the facility.	
Health and Safety at Epping Depot Report No. 776 July 2016	7	The Mears Safety Health and Environment policy should be formally accepted by employees at the Depot and evidence of this retained.	3	The forms that are in the handbook must be signed by the individual Tradesmen upon issue. Whilst the Mears H&S Officer has a record of who has been issued with a handbook there will be a one off exercise to obtain signatures of all those who have been issued with a Policy Document. This will be reviewed as part of the annual PDR process.	Repairs Manager/ Assistant Director Property & Development	31/10/16	31/03/17	Oct 16: Forms have been changed to remove any Mears logo's as this appeared to be a stumbling block with operatives signing the handbook. It was agreed that rather than sign for the book, there is a separate form for the RAMS. This has also caused some negative reactions, as the operatives would rather go through the RAMS before signing them. It has been agreed that Mears H&S, will arrange dates in December for a day's training to cover the RAMS and all the operatives attending will sign the forms then. Nov 16: In progress - This is currently being priced by Mears as a new key deliverable. Training dates have been arranged for the operatives in December.	Overdue
Audit Recommendations 2016/17									
Health and Safety - Townmead Depot Report No. 05.16/17 September 2016		An action plan to address H&S failings identified in this audit should be drawn up and implemented. Regular reporting on progress being made with the action plan should be reported to Internal Audit and the Council's H&S Officer.	High	This is a cross directorate piece of work which will be coordinated and project managed by the Assistant Director (Technical Services) and require the support of the Safety Officer and Facilities Management for repairs and maintenance.	Director of Neighbourhoods Assistant Director (Technical Services)	31/12/16		Nov 16: Several site visits have taken place, including officers from Facilities Management and the Safety Officer, and discussions have taken place with Waltham Abbey Town Council on a way forward. Remedial work has taken place including putting in CCTV, minor repairs, tidying up and making secure the compound and introducing regular site visits Under Facilities' Management 5 year planned preventative	In progress

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								<p>maintenance programme £75K has been allocated for security and safety works at the depot in 2017/18 including new gates, refurbishment of the toilet facilities and improvement of the boundary fencing.</p> <p>Internal Audit note: If significant progress continues to be made to improve H&S at the depot then this recommendation will be removed from the tracker by the time of the next Audit and Governance Committee in February 2017.</p>	

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